

September 28, 1993

TO: Mary Jo
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FROM: Ann

Attached are two draft papers that will be discussed at the meeting on Wednesday.

The meeting will take place from 2:00 to 6:00 p.m. at the Howard Johnson National Airport Hotel, 2650 Jefferson Davis Highway, in Arlington, in the Admiral Rickover room.

If anyone is interested, the hotel is accessible by Metro. The closest stop is Crystal City, which is four blocks from the hotel. The telephone number at the hotel is (703) 684-7200.

WELFARE REFORM: A MINIMAL LEGISLATION APPROACH

There are good policy and political reasons for thinking about an approach to welfare reform that relies a lot on working within current law, supplemented by discrete pieces of legislation to deal with specific problems.

The operational justification for this approach is that we are nowhere near reaping the benefits from legislation that already exists, most notably the JOBS and child support provisions of the Family Support Act, and the new child support provisions of the recent reconciliation law. FSA certainly permits, and many believe requires, a dramatic cultural change in the welfare system. One of the biggest barriers to making anything work at the street level, let alone bringing about serious cultural change, is that welfare policies change all the time. People put all their energy into understanding and "implementing" policy changes, without ever doing the hard work of actually making them work. I am convinced that we could get enormous benefits from actually making the Family Support Act work, if we put our efforts into applying the lessons that we have already learned, and investing some resources in systems and effective technical assistance.

The other major policy tool which we already have but are not using very effectively is the 1115 waiver authority. I believe that there are ways to shape state demonstrations so that all the important variations of time limited welfare and of approaches to making work pay could be tested. The advantage of doing this through the waiver authority is that we could do it fast, and thus take some leadership on the welfare reform efforts that the states are already engaging in anyway.

The political advantage vis a vis Congress of this approach is that we would not be perceived as trying to replace the program that the chair of senate finance is so fond of, but could instead engage him in a conversation about how to fulfill its promise. Similarly, we could engage those members of Congress who have deep interests in child support in shaping that legislation without requiring them to wait for or take a stand on a resolution of the debate on time limits.

The political advantage for the president is that he could announce a bold new approach to welfare, the major elements of which he was directing the secretary of health and human services to put into effect immediately. The real political advantage might come if we actually had some operational results to talk about in by the summer of 1996.

The major political disadvantage of the approach is that Congress doesn't get to vote on a big visible package that the president submits, and may instead feel compelled to vote on something

else. But I don't think they're going to want to vote on the house republican alternative because of its cost. I doubt that most of them would want to vote on a cold turkey time limit once they actually faced the implications of what they were doing. They might prefer not to vote on a state flexibility approach, but might well consent to our doing it through waivers. If we allowed members of Congress to sign on to and vote on discrete legislative pieces, we might be able to put together different coalitions for different pieces, which ought to be easier than building the coalition for the package. So I'm not sure I'm convinced that not having one big vote is a disadvantage actually, but we have to think this part through very carefully.

A minimal legislation approach to welfare reform might have the following elements:

Make the JOBS program work.

The JOBS program is good legislation which is nowhere near reaching its potential. A lot could be done without legislation; a minimal package of legislation could be developed to enhance its operation and place more emphasis on employment.

The basic idea would be to genuinely change the culture of the welfare system by taking the lessons of Riverside nationwide. We could do this through a leadership and technical assistance campaign, and through developing some of the tools--like tracking systems--that will aid states in running good programs. A major component of this would be the development of performance standards which would come into effect in 1996, to supplement or replace the participation rate requirements which currently apply through 1995.

To really make JOBS work, I think we've going to have to change the matching rates to make them more attractive for states. I don't think this would involve heavy duty spending, I think we'd have lots of support, and we can do it quickly.

We, or the chair of senate finance, may want to put together a package of legislative amendments to JOBS that put more emphasis on employment. It would be helpful, I think, to change some of the rules on work experience programs to make them easier to use, if it were possible to get such changes. I don't think any legislative changes are crucial to reorienting the program, but it might make some people happy if we made them. If we did a minimal package, it wouldn't have to be in conflict with the overall goal of making the current program work better.

Make child care programs work. We can go a long way toward a "seamless" system through regulation. We could also try to do some consolidations through the budget process.

IV-A child care is an uncapped entitlement whose use could be

increased by aggressive marketing and perhaps an enhanced match rate. This should be the basic day care program for folks in the welfare system. We may want to change the matching rate to the JOBS matching rate if we can find some savings to finance that.

Child care for low income working families is most appropriately funded through the block grant. That legislation will be reauthorized this year, and we should work hard to make it supportive of making work pay. Funding for the block grant needs to be increased, which we should do as the discretionary appropriations caps allow.

Simplify program administration.

Changing the culture of the welfare system means getting rid of some of the obsession with the details of eligibility determination and some of the punishment of work, if only to free up some time and energy that workers could then put into JOBS activities. We can do a lot through regulation. We could also invest in some technology and systems development that we could offer to states, which would be a lot easier to do if we weren't changing the whole program at the same time.

We would need some legislative changes to make AFDC Food Stamps and housing consistent in several respects: the filing unit, assets rules and so on. Again, though, this could be a discrete, relatively modest package of changes which shouldn't be too controversial.

Use the waiver authority to shape state demonstrations of time-limited systems.

It's clear that a good number of states want to do demos of time limits. If we worked closely on developing them and were willing to put some resources in, I feel sure we could get more thoughtful and productive demos that we're currently getting.

One of the deterrents to states doing experiments with time limits followed by the providing of jobs or community services slots is our requirement that projects be cost-neutral to the federal government. My guess is that if we made some funding available or at least shared the risks, we could get some good demonstrations of sensible time limit proposals. And if we had some guidelines and time to work with states, we might be able to avoid some of the policy inconsistency that so many of the proposals show.

I bet we could have ten good state demos, including some big states, within a couple of years. That's certainly enough to claim as stage one of a phased in end-to-welfare-as-we-know-it. If they work, we'll encourage more states to come in, or pass legislation requiring it, having learned, or not, what we ought to require.

Use the waiver authority and 1115 demonstration money to shape state demonstrations of approaches to making work pay.

We're just in the process of funding four state demos of case management approaches to making work work. Lots of states want to experiment with incentive approaches, which we could try to shape. We could also try to get more states to try CAP approaches. These might not necessarily be the same states that were experimenting with time limits, but they could be. Perhaps we could put together a package of funding that would let some states test the work support agency concept.

In addition, for both these demos and demos of time limited approaches, I'd like to make the approval of waivers conditional on good performance in the JOBS program. At least, I'd like to make any enhanced funding for demos conditional on good performance. That would send the message that the JOBS program is the base, and that any new state programs should build on it.

Make the child support system work.

As with JOBS, there's a big job to do within the confines of the current system. In this system, too, we need culture change, which takes a lot of work and is best done when you're not simultaneously adding lots of new activities and requirements. We simply must get the automated systems working, and develop the system that will simplify interstate collections by tying the state automated systems together. I'm a little worried that we've overloaded the system with all the legislative changes we've made over the last few years, and that if we make a lot more changes the whole thing may fall apart. Since I don't think the option of starting over with a whole new system is real, I think this would be a bad thing.

Alternatively, we could put together a legislative package on child support, perhaps including some demonstrations of child support insurance, that I suspect would pass in a minute.

HYPOTHETICAL WELFARE REFORM PROPOSAL

The following describes a proposal for reforming the current welfare system based on themes and ideas emerging from the process underway. The proposal includes measures to make work pay, improved paternity establishment and child support enforcement, child support assurance, amendments to the current AFDC program to assist intact families, time-limited transitional assistance and post-transitional work.

The charge to "end welfare as we know it" involves changing the culture of welfare as a way of life to welfare as a temporary "hand up" to families in need. It involves giving parents the tools they need to provide for their children and escape poverty. The proposal described below encourages work and self-sufficiency, it provides services and opportunities for those who need assistance to reenter the labor force, it institutionalizes parental responsibility, and it strengthens families.

Rationale for Reform

While opinions diverge about how best to reform welfare, there is near universal consensus that the current system simply does not work. Conservatives believe that it destroys initiative and fosters perverse incentives which discourage both work and marriage. Liberals contend that it offers modest benefits while robbing individuals of their dignity and self-esteem. Recipients feel degraded and trapped by a system that offers no reward for their efforts to be self-sufficient and gives them no control over their lives. Taxpayers decry spending seeming innumerable dollars on a program for which they see little positive result. And most importantly, millions of children and their parents languish in poverty within a system that offers little hope for the future.

While the task of truly reforming our current welfare system looms large, the consequences of inaction are even more extreme. Recent decades have witnessed a sharp rise in single-parent families, which characteristically have a much higher poverty rate than two-parent families; in 1991, 47 percent of single-parent families headed by women were poor. Real wages have declined, particularly during the 1980s, such that finding a job that pays better than welfare is extremely difficult. And, for too long we have accepted a system whose main requirements are of mothers, not fathers.

The whole culture of welfare needs to be changed based on the philosophy of mutual obligation: the Government needs to

commit to providing the opportunities, support services and incentives to allow individuals to move toward self-sufficiency; the recipient needs to accept responsibility for working toward that end. Welfare should be viewed as a "hand up"---temporary assistance to families in need---rather than a "hand out". Instead of punishing the poor or preaching to them, we need to empower Americans and give them dignity and a sense of control over their own lives. We need to "end welfare as we know it" by placing a time limit on idleness and by providing the necessary means to engender productivity. We need to make work a more attractive option than welfare by ensuring that those who work full-time are able to support their families and not be poor, and that those who work at least part-time are rewarded for their efforts.

Further, we need to change the biased nature of our current system which expects one parent to do the work two. Through universal paternity establishment and dramatically improved child support enforcement, we can ensure that both parents share the responsibility of supporting their children. Only one-third of single parents currently receive any court-ordered child support. By strengthening the child support enforcement system, we can improve the well-being of all children---regardless of whether or not they are on welfare---by ensuring that they receive the support they deserve.

In addition, we must eliminate the requirement that AFDC recipients remain single and remove the so-called "marriage penalty" that exists in the current system. The data are clear that children benefit from interaction with two parents, and we need to remove the rules within the welfare system which discriminate against two-parent families. By giving priority to intact families in the public sector work slots and by providing support for married-couple families to work toward self-sufficiency, we can encourage families to remain together and escape poverty.

Summary

The proposal is broad-ranging in scope and includes both major and minor revisions to the existing system. The child support enforcement program would be significantly strengthened, and a child support assurance system (whether as a multi-State demonstration or a national program) would be implemented. The programs providing cash or near-cash assistance would be simplified, disregards standardized, and asset rules liberalized. Transitional payments and self-sufficiency payments would be provided for a limited period of time to parents in the process of preparing themselves to enter the labor force. At the end of the time limit, work opportunities would be available for persons who were unable to obtain employment in the private sector.

The major components of the proposal are listed below:

Make Work Pay

- o Emergency assistance program
- o Advance payment of the EITC
- o Work support activities
- o Demonstration of work support agency
- o Consolidation of child care programs and more generous funding

Child Support Enforcement and Assurance

- o Universal paternity establishment program
- o Multiple opportunities for consent
- o In-hospital paternity establishment
- o Improved efforts to locate absent parents
- o Denial of government benefits across income strata if paternity is not established

- o Administrative State process to establish orders based on uniform, national guidelines
- o Regular updating of awards
- o Mandated universal central registries

- o State enforcement with IRS as Federal backup
- o New hire reporting and mandating of other enforcement tools
- o Establishment of child support assurance program if State meets certain enforcement criteria

AFDC

- o Rules simplified and coordinated with other assistance programs, including definition of filing unit and asset limits
- o Incentives to work increased through additional State flexibility
- o Disincentives to remain as intact families eliminated
- o Benefits paid to recipients who marry

Education and Training

- o One hundred percent participation required for teen parents
- o \$3 billion of additional JOBS funding
- o Consolidation of food stamp and housing self-sufficiency programs into JOBS
- o Counter-cyclical matching rates in JOBS
- o JOBS made available to non-custodial parents, so they can meet child support obligations

Time Limits

- o Expectation of productivity and strict time limits on idleness
- o Intensive efforts to improve ability to acquire and hold private sector jobs
- o Work opportunities if transitional benefits expire

Making Work Pay

Numerous policy options could be considered to make work pay, including lowering marginal tax rates through fill-the-gap or AFDC earnings disregard policies adopted by the States, providing similar health insurance benefits for those working and not working, expanding the Targeted Jobs Tax Credit (TJTC), and providing child care and transportation services. Of primary importance is changing the culture within the welfare system to emphasize that assistance is transitional and that attaining self-sufficiency through work is the overriding objective. Caseworkers must perceive their role as not only managing client cases but also advocating work and empowering clients to gain the necessary skills and abilities to obtain permanent employment.

Emergency Assistance Program

States would have the option to provide a short-term emergency assistance program to persons who temporarily lose their jobs in order to encourage such individuals to reenter the labor force immediately. Assistance would be granted for 2-3 months (at State option), and this assistance would be given outside of the time-limited, transitional assistance structure. This could be modelled after a program in Utah wherein if a family actually goes on AFDC, these payments are counted as AFDC.

Advance Payment of the Earned Income Tax Credit

An important element of making work pay is distributing the Earned Income Tax Credit (EITC) on a periodic basis, instead of in a lump sum several months after the end of the tax year. Under the proposal, certain low-income custodial parents who are eligible for the EITC could request to receive payment of the credit more regularly. To prevent overpayments, approximately 60 percent of the credit would be available on an advanced basis.

Individuals who are receiving the credit on an advanced basis and whose total family income is less than \$20,000 per year would not be required to pay the employee's portion of the Social Security payroll tax.

There are four options for distributing the advanced payments:

- (1) The preferred option would be for the food stamp office to administer the credit and give an accounting to the

IRS of payments made at the end of each year. Recipients would receive both the EITC and food stamps. These benefits would be administered through an electronic benefits transfer (EBT) card which could be utilized at most grocery stores and financial institutions. Recipients could use the card as a savings account and could draw down or save benefits as needed;

- (2) The IRS could administer the credit quarterly based on information from the previous year's tax returns and information received from the beneficiary on a postcard verifying earnings information;
- (3) The social service office could administer the credit to those who voluntarily submitted a form similar to the IRS W-5 form to the welfare office. Recipients would receive a monthly advanced EITC check separate from their regular assistance check, between 2-6 weeks after they report income. Annually, social services would provide a statement of the total amount of the advanced EITC received to each recipient and to the IRS;
- (4) The employer would add the EITC payment to the employee's paycheck bi-weekly, monthly or quarterly;
- (5) The unemployment office would make quarterly payments based on quarterly reports from employers.

To encourage full utilization of the EITC, the IRS would reinstitute the practice of routinely calculating eligibility for the EITC for apparently eligible tax filers who do not request a refund and automatically send them a refund.

As a means to reduce fraud and abuse, unemployment insurance records would be used to verify EITC claims.

Work Support Activities

States would be permitted and encouraged to provide transitional supportive services (through JOBS) in addition to other authorized transitional services to those who leave the welfare rolls, when necessary to help them stay off the rolls. HHS will develop tools and procedures for tracking recidivism, which will be made available to the States. HHS will report to Congress and the States on State progress in reducing the number of people who return to AFDC after leaving, and States would be encouraged to set goals for reducing returns.

Work Support Agency Demonstration

HHS will assess the success of work support demonstrations currently in progress under Section 1115 and will establish several new small-scale demonstrations in up to six States to examine the effectiveness of a comprehensive work support agency. Such an agency would serve as a resource center for clients to obtain information on available jobs, would offer classes on resume-writing and other job-related skills, would supervise job search activities, and would provide the necessary supports (on-site as much as possible) to enable recipients to successfully attach themselves to the labor force.

Child Care

Under current law, there are three programs under which child care is provided to welfare recipients: Child care under AFDC, Transitional Child Care assistance, and At-risk Child Care. Under the proposal, these three programs would be consolidated into one open-ended entitlement with a Federal match at the Medicaid rate. Eligibility rules would be simplified. This program would be for recipients of welfare, JOBS participants, or for those making a transition to the private sector. In addition, outside of this welfare proposal, the Federally-funded Child Care and Development Block Grant would be expanded to serve the non-welfare, low- and middle-income population. This program, for the most part, could not be used to fund individuals eligible under the former program. As much as possible, other rules governing these two programs would be standardized. This strategy will need to be reexplored if sufficient dollars cannot be added to CCDBG since otherwise this would reduce available funding for non-welfare families. Efforts to address the quality of child care would include a focus on Head Start for eligible children, linkages between child care and Head Start, consumer education, and technical assistance and training activities. In the public sector work program, efforts would be made to train welfare recipients as child care providers.

Paternity Establishment

Federal funding would be made available to States to implement a paternity establishment program that expands the scope and improves the effectiveness of current State procedures. States would be required to meet new Federal requirements to ensure that paternity is established for as many children born out of wedlock as possible, regardless of the parents' welfare or income status and as soon as possible following birth. To facilitate this process, States would be required to implement changes based on the successes of other States, including the use of in-hospital paternity establishment and civil procedures that offer multiple opportunities for voluntary consent.

Performance and Measurement Standards

State performance would be measured based upon all cases where children are born to an unmarried mother--not only upon cases within the IV-D (child support) system. Each State would be required, as a condition of receipt of Federal funding for the child support enforcement program, to calculate a State paternity establishment percentage based on annual data for all out-of-wedlock births and all paternities established for new births, during the same year. The paternity status of all children born out of wedlock would be tracked throughout the child's first 18 years of life, improving significantly each State's ability to determine precisely how long it takes to establish paternity on each birth.

Each State would be required to meet certain minimal standards of performance for establishing paternity in all cases, based on the percentage of paternities established by the State for children within the IV-D system. Old cases presently in the system in which paternity has not been established would not be counted in the State's paternity establishment percentage, but incentives would be provided for States to work old cases until they are eventually phased out of the system; States would be allowed to double-count old cases (cases at least one year old on the date of enactment) for purposes of meeting both Federal performance standards and funding incentives. In addition, States must, as a condition for receipt of Federal funding, show maintenance of effort in working old paternity cases.

Funding and Incentives

The Federal government would reimburse States for the costs of operating the paternity establishment program, both through Federal funding for State child support enforcement programs (at a rate yet to be determined) and through incentive payments to States based on performance. In addition, Federal funding would be provided at an increased matching rate of 90 percent to support specific paternity establishment functions, including the following:

- (1) staff training for both caseworkers, and hospital and vital records staff;
- (2) laboratory testing for establishing paternity; and
- (3) outreach programs promoting voluntary acknowledgement of paternity.

States would be required to reimburse hospitals and other providers who offer paternity establishment procedures by providing a fee for each paternity established. Federal reimbursement would be capped at \$20 per paternity established.

At State option, States could experiment with programs that provide financial incentives for parents to establish paternity, and such programs, upon approval of the Secretary, would be eligible for Federal funding.

Voluntary Acknowledgement

Each State would be required to have in effect laws for the use of a simple, administrative process for the voluntary acknowledgement of paternity, including the establishment of a hospital-based program for acknowledging paternity as soon as possible following a child's birth. Voluntary consent procedures would include:

- (1) requiring health-related facilities to inform unwed parents about the benefits and the opportunities from establishing legal paternity for their children;
- (2) making blood tests available, if requested by the parents, at the time of the child's birth;
- (3) requiring full participation by hospitals in paternity establishment procedures as a condition for reimbursement for Medicare and Medicaid.

Timeframes for establishing paternity through administrative procedures shall be determined by the Secretary.

Outreach

Outreach efforts at the Federal and State levels would be undertaken, emphasizing that the establishment of paternity is both a parental responsibility and a child's right. The Department of Health and Human Services would take the lead in developing a comprehensive media campaign designed to reinforce both the importance of paternity establishment and the message that child support is a "two-parent" responsibility.

States would be required to implement outreach programs (within Federal guidelines) promoting voluntary acknowledgement of paternity, which would be eligible, if approved, for an enhanced matching rate of 90 percent. In addition, States would be required to follow up with all individuals who do not establish paternity in the hospital, providing them with information on the benefits of and procedures for establishing paternity.

Cooperation and Good Cause Exceptions

All mothers with children born out of wedlock would be provided the opportunity to establish paternity for their children. As a condition of eligibility for benefits under AFDC,

Federal housing assistance, the dependent care tax credit, child support assurance and for receipt of the tax exemption for children, a mother must cooperate in establishing paternity for her child, provided that she does not meet the good cause exception rules for non-cooperation.

State IV-D workers would be required, within 10 days, to determine whether a mother who wishes to receive Federal benefits has provided sufficient information to locate the putative (alleged) father. Once a determination of cooperation is made, the IV-D worker would inform both the mother and the relevant programs. Applicants could not be denied program eligibility if the determination of cooperation was not made within the 10-day time period, or while an appeal to a determination of non-cooperation is pending. IV-D agencies would be subject to sanctions if they failed to comply with paternity establishment requirements established by the Secretary.

Good cause exceptions would be granted for non-cooperation on an individual case basis using strict application of the existing good cause exceptions for the AFDC program. State IV-D workers must inform each applicant of the good cause exceptions available under current law and assist the mother in determining if she meets the definition. New standards for cooperation would be established, which would apply to all applications for assistance for women with children born on or after 10 months following the date of enactment.

Applicants for public assistance would be referred immediately to the IV-D office to provide the necessary information before eligibility for AFDC is determined. Those individuals qualifying for emergency assistance, however, could begin receiving benefits before a determination is made. Applicants for AFDC who do not meet the definition of cooperation would lose the mother's portion of the AFDC benefits, but the children's benefits would not be affected. If a mother fails to cooperate and is determined ineligible for benefits, but subsequently chooses to cooperate, Federal benefits would be reinstated.

Contested Paternity Cases

Each State would be required to establish a civil procedure to adjudicate contested paternity cases through an administrative process. The process must be based on one of several models determined by the Secretary, or the State must seek approval from the Secretary for a plan designed by the State. Under the administrative process, each State must refer all contested paternity cases to an administrative law judge (ALJ) through the State agency and allow for the use of courts in paternity cases only in rare instances. Timeframes for paternity establishment for contested cases shall be determined by the Secretary.

Parent Locate Efforts

In addition, each State would be required to improve efforts to locate absent parents by ensuring that the parent locate service has access to requisite State and private records, and that other States have direct access to the State data bases in order to process interstate cases.

Establishment of Child Support Orders

At the time paternity is acknowledged, States must have in place procedures to collect the information necessary to establish a child support order. Such procedures must be used for all cases in which paternity is established through the child support agency. Parents who establish paternity outside the child support agency must, at a minimum, be provided subsequently with information on the requirements to, benefits of and procedures for establishing a child support order.

States would establish all initial orders through an administrative procedure according to uniform, national guidelines indexed annually for inflation. Orders would be established on all noncustodial parents regardless of current ability to pay. Timeframes for the establishment of child support orders shall be determined by the Secretary.

The Federal government would establish and maintain a national, universal database of all existing orders with current information from the Federal income tax returns of all custodial and noncustodial parents including addresses, and States would be required to use this information to update orders every two years.

Collection and Enforcement of Child Support Orders

Wage Withholding

Under the proposal, States would assume primary responsibility for the collection, disbursement and enforcement of child support payments. Employers would withhold support from wages based on information from a revised W-4 form and would forward all withholdings to the State office. The State office would forward child support payments to custodial parents on a monthly basis, and would include separately any child support assurance amounts.

In addition, all new employees would be required to notify their employer of their child support obligations by filing the Federal W-4 form, which would be revised to collect information regarding child support orders and health insurance benefits. Employers would forward this information to the Federal government to be verified against the national database of

orders. The system would be fully automated, and noncustodial parents would be required to keep the child support office fully informed of any change in address or employer.

Any child support owed by a noncustodial parent at the end of the year in excess of that withheld during the year would be due to the State office and collected via the annual income tax form. Child support payments would have precedent over Federal tax liabilities. The non-custodial parent would have various choices on how to pay his child support such as automatic withdrawal from a checking account, predated checks, wage withholding or other methods. The choice employed might dictate the necessity of one or two months of advance payments.

Arrearages

The State office, through its administrative law judges (ALJs), would have the discretion to reduce child support arrearages on a case-by-case basis, if the office determined that such a reduction would promote the payment of current child support obligations by the noncustodial parent. This would apply if the noncustodial parent were making regular child support payments or were regularly providing in-kind support, such as child care, to the custodial parent. An ALJ could also reduce arrearages by reducing the present value of Social Security retirement benefits based upon changes in the earnings records of noncustodial parents.

The existing rules for distribution of arrearages would be simplified. The Federal government would retain any arrearages which resulted in the payment of the assured benefit, and no monies would be distributed to States as a result of any change in welfare benefits. Arrearages would be cancelled working backwards from the date of the arrearage payment on an annual basis.

Living Arrangements of Unmarried Parents

Unmarried parents of a child born out-of-wedlock who choose to cohabitate could notify the State of their living status and thereby preclude the establishment of a child support order. Paternity would presumably have been established at birth, as it would be for all children born out-of-wedlock. As long as the parents continue to live together, the State would assume that resources were being sufficiently supplied by both parents for the child(ren) and would in effect treat the couple as married. If one parent moves out of the home, he or she would then be considered the noncustodial parent, and a child support order would be established.

If an AFDC mother lives with a new male (not the father of her child), States would have flexibility over how much of the new male's income to disregard in benefit calculations.

Payment of Child Support

Because it is important that the custodial parent be aware of what the noncustodial parent is paying toward the child support obligation, separate checks would be administered for any welfare benefits, the child support payment by the noncustodial parent and the child support assurance amount.

Assured Child Support Benefit

Under the proposal, the Federal government would fund an annual assured child support benefit on behalf of any child who has been awarded support, but whose noncustodial parent failed to pay. The benefit would be administered by the State and would be determined according to the following schedule indexed to inflation:

The amount shown in the schedule below, less any private child support collected:

<u>Number of Children</u>	<u>Benefit</u>
1	\$1,500
2	2,100
3	2,700
4 or more	3,300

States whose AFDC payment level was less than or equal to 30 percent of the Federal poverty level (approximately \$12,000 per year for a family of three) would be required to disregard child support and assured benefit payments (up to \$1,800 annually) before calculating the AFDC payment such that the State's AFDC minimum payment was equal to at least 30 percent of poverty. This would raise AFDC benefits in approximately 13 low-benefit States to \$300 per month for a family of three. In all other cases, the assured benefit would reduce AFDC dollar for dollar.

Child support payments and the assured benefit would be treated as income to the custodial parent for determining AFDC eligibility and benefit levels and for tax purposes. Child support payments would be disregarded from earnings of the noncustodial parent for tax purposes.

Child support assurance would be phased in slowly, State by State. Before being allowed to pay the assured benefit, States would be required to meet certain criteria. These criteria (to be specified in greater detail) would include having a strong child support enforcement system in place, a fully automated data system, a universal central registry, and meeting certain targets

in establishing paternity. Also, as each State implements child support assurance, cost expectations must not be exceeded.

As an alternative to a national program, child support assurance could be implemented as an intensive State-wide demonstration in 8-10 States not limited to, but including, the following forms:

- (1) Universal child support assurance at the levels in the table above or at levels set by applying child support guidelines to the minimum wage or to median earnings in the State;
- (2) Pure child support guarantees, wherein the State would guarantee the actual amount of the child support order;
- (3) Child support assurance or child support guarantees contingent on good faith efforts of the non-custodial payments, as shown by payments or by participation in a Parents' Fair Share or other work program for noncustodial parents; and
- (4) Child support assurance paid as a percentage of the child support order, plus a bonus based on payments made by the noncustodial parent.

After a reasonable time, the Department would assess the demonstrations and report to Congress on whether one or another form of child support assurance should be implemented nationwide.

States who wish to conduct demonstrations with tougher sanctions or time limits than those specified under the Administration plan could be required to offer child support assurance. This premise could be justified on the basis that child support assurance is a necessary safety net before such drastic measures could be implemented.

Social Insurance Programs

Social insurance program benefits based on a noncustodial parent's work history (i.e. disability and survivors' benefits) and received by his or her children, would be deducted from the child support owed by the noncustodial parent. In addition, the child support assurance payment would be reduced dollar-for-dollar. In the Social Security program, the rules governing the calculation of payments among children (particularly if the individual has children in more than one family) would not be altered.

Amendments to the Assistance Program

Under the proposal, changes would be made to means-tested assistance programs as follows:

- (1) The definition of the filing unit would be standardized for AFDC, food stamps and housing such that all persons living within a household and the earnings thereof would be counted for eligibility purposes. This would prevent a teenage parent who is living with her own parents from receiving AFDC if the parents have ample means to support the teenage mother and her child(ren). In addition, all parents with a child who is a teenage parent and who moves out of the home would be required to support her until the age of 18 (up to age 21 at State option);
- (2) Asset rules under AFDC, food stamps and housing would be significantly simplified and liberalized. Asset rules would be completely eliminated for life insurance, burial plots and pension plans. Under AFDC and food stamps, the asset limit for automobiles would be raised to \$10,000 of net equity. All other asset rules would be standardized to the existing rules under the food stamp program;
- (3) States would be given the option, when calculating countable resources, to disregard up to \$10,000 in savings designated for the purchase of a home or for education. States could also disregard up to \$10,000 in assets associated with a microenterprise owned by the recipient or her family;
- (4) Under current law, when food stamps are calculated, AFDC benefits are taken into account. The AFDC benefit is assumed to be 50 percent for housing and 50 percent for other needs, and housing benefits are calculated assuming one-half of the AFDC check as income. The other one-half reduces the housing subsidy dollar for dollar. Unlike current rules, under the proposal, food stamps would be treated as income for housing subsidy purposes. Calculation of the food stamp benefit would not count the amount of housing assistance received. As an additional option, the fair market rent for section 8 housing vouchers and certificates could be set at 30 percentile;
- (5) The 100-hour rule (which specifies that a parent must work fewer than 100 hours in a month to be classified as unemployed) would be eliminated;
- (6) The quarters of work rule (which specifies that to be eligible for AFDC-UP the principal earner must have

worked 6 or more quarters prior to one year before application) would be eliminated;

- (7) In place of the current \$50 per month passthrough of child support, States would be required to increase AFDC benefit levels by \$70 per month for families with a child support order;
- (8) The standard disregard in AFDC would be raised from \$90 to \$100 per month (with State option to increase up to \$250), and an additional disregard of 20 percent of subsequent earnings (with State flexibility up to 50 percent) would be added. The child care disregard would remain the same as under current law (20 percent of earnings to a maximum of \$200 per month per child).
- (9) All benefits (including AFDC, housing, food stamps and the assured benefit, as well as child support payments) would be taxable to the custodial parent; and
- (10) Treatment of children in the welfare system would be made consistent with treatment of children in the tax system.

Transitional Assistance

This section describes how the time limit would be administered and what happens if the time limit is exceeded. This is an extremely complicated problem, given cost and capacity constraints. Other options and how the time limit could be phased in are described later in the paper.

Conceptually, the current AFDC program would be divided into three parts:

- (1) Emergency Assistance

States would have the option to establish an emergency assistance program--a one- to two-month initial payment for those families desiring only limited assistance. This program would only be for families who have had recent job experience and would probably be accompanied by a job search component;

- (2) Transitional payments

The recipient would receive transitional payments for 24 months initially (and 6-12 months when fully implemented) during which she would be expected to participate in job search activities and pursue self-sufficiency. States would be given flexibility on how rapidly these limits would be phased and whether the

transitional limit could vary by family type. During this period, there would be no specific requirements to begin education and training activities, but assuming available program resources, recipients could choose to begin at any point during the transitional period. States would have the option to reduce this time period for certain groups, specifically for teen parents for whom it would be advantageous to remain in school to complete their high school education. There would be some limited ability for recipients to earn back months of credit after being off of assistance for a period of time;

(3) Self-sufficiency payments

Self-sufficiency payments would be made to all persons who do not meet the exemption criteria listed below and who are participating satisfactorily in an approved activity, including but not limited to the following:

- a) job search;
- b) job-readiness;
- c) educational activity;
- d) high school or GED;
- e) Classes on parenting, life and money management, and self-esteem;
- f) training (including on-the-job training); and
- g) community service or family development activity.

Receipt of these payments would be limited to 18 months (with State option to increase to 24 months).

Transitional and self-sufficiency checks would be equal to the current AFDC check less child support payments. The combination of transitional payments and self-sufficiency payments could not exceed 30 months initially, and 24 months after full implementation. Under certain circumstances, States would have the option to extend the benefit period for 6 or 12 months, if it was deemed to be in the best interest of the individual.

Under the proposal, transitional payments would be limited to 12 months initially (eventually 6 months), after which (adult) recipients would be expected to participate in some activity leading to employment while receiving self-sufficiency payments. Recipients would be expected to use the entire time period productively and intensively to either build attachment to the labor force or increase their human capital, with the overall goal of increasing their long-term self-sufficiency.

Each new applicant to the system would be assigned to a caseworker with whom she would jointly decide on an individual

service strategy. All applicants would be told about the time limitation and about the various education, training, work experience and job search options available to them. The State would have considerable discretion in how these services are delivered, including determining the definition of satisfactory participation and placing time limits on certain education and training opportunities.

Services would be provided through expanded State JOBS programs. States would be given considerable flexibility, as under current law, as to how recipients move through the system. States would be required to properly inform all recipients of opportunities available to them and of the implications of the time limit.

Child Support Payments under AFDC

Child support payments (as described in the earlier child support assurance schedule) would be made for a limited period of time under the transitional assistance program for each child with a child support order in place or in the process of being established. This would be a temporary program designed to give AFDC children a safety net and would only be available in States where a full-fledged child support assurance payment was not available. These payments would not be in any way conditioned upon the behavior of the parent. Actual child support payments would reduce these payments dollar for dollar, and these payments would not be affected by earnings of the custodial parent. The proposal to exempt a portion of child support in low-benefit States (as described earlier) would be applied to these payments.

Consolidation of Education and Training Programs

Under the proposal, States will be given the option to consolidate all education and training programs under the expanded JOBS program. Specifically, States would be allowed to combine funding for JOBS and the food stamp employment and training program and to operate them as a single program. The advantage of such a combination would be to reduce the administrative structure needed to run two separate, but essentially similar, programs. In addition, administrators would be encouraged to use some or all of their funding to buy services from JTPA. Self-sufficiency programs for families with children in housing programs would be coordinated through JOBS. JOBS would also be expanded to include volunteer parenting activities such as Head Start or other self-initiated community service activities (e.g. Michigan). HHS would work with all States to shape their JOBS programs in ways that are consistent with the new directions of the plan.

Funding

Federal funding for the JOBS program would increase by \$500 million per year beginning in fiscal year 1995 up to a total of \$3 billion in the sixth year and thereafter. The Federal matching rate would be raised from the current level to 75 percent. Countercyclical assistance would be provided through an enhanced Federal match of 90 percent if the unemployment rate in a State rises above 7 percent.

Exemptions

Exemption from the obligation to participate in education, training or work activities and from the time limit would apply to a caretaker of an AFDC child who meets one or more of the following conditions. He or she:

- (1) is not a natural or adoptive parent; (this could be a temporary exclusion until all natural mothers are being served by JOBS and there exists enough work opportunities);
- (2) has care of a child under 1 year old (up to 3 years at State option). This exemption would be limited to a "child of record," and additional children would not qualify the mother for this exemption;
- (3) has care of a disabled or ill child or relative;
- (4) has a functional disability, illness or impairment that prevents employability. States would be allowed to exempt up to 10 percent of their caseloads for those people with substantial barriers to employment; or
- (5) is working more than 20 hours per week (40 hours for both parents).

Exemptions 1-5 would result in the payment of benefits without a time constraint.

Exhaustion of time limits

If an individual has reached the time limit for receiving transitional payments and self-sufficiency payments and does not have access to a private job, public work slot as defined below, or other State-defined CWEP or other work slot, and is available to take any job that is offered, and has engaged in job search, and successfully completed JOBS and/or self-initiated community service for at least 20 hours per week, States would have the option to provide a one-time, 12-month extension of the transitional payments.

At the end of this extension (or at the end of the regular time limit, for States who do not provide the extension), States

must provide additional payments for individuals described above at 100 percent State expense. This would be part of the State AFDC plan, and the State funding requirement can be justified based on the addition of child support assurance which is 100 percent Federally funded. This State payment would not count in the calculation for any other assistance benefits and must bring total income to the current level of food stamps and AFDC, less child support assurance amounts. (It is assumed that all mothers could be receiving child support assurance, except for those who have established good cause.) If combined food stamp and AFDC benefits in a State are greater than 60 percent of the poverty level, States may decrease the combined payment level by up to 20 percent. This payment would continue indefinitely until the family moved off the AFDC rolls.

Teenage Pregnancy and Parenting

Under the proposal, teen parents would be subject to the same requirements under the transitional assistance and public work programs as other recipients, with appropriate incentives and sanctions to encourage compliance. States would have the option to reduce the time period for transitional payments in order to encourage high school students to complete their education. Because teen parents are most likely to remain on AFDC for long periods of time, these women would receive the most intensive case management and more comprehensive training.

Teen parents would be given priority for service by States, with the goal being complete saturation of the teen parent population. Teen parents who have not completed high school would be expected to participate full-time in an appropriate educational activity, unless participation in work or training activities were determined to be in the best interest of the teen. To the extent possible, educational activities should be combined with work and training activities.

Upon entering the system, teen parents would be assigned to caseworkers specially trained to work with youthful, multi-problem families. These caseworkers would serve as mentors for the teen parents and would, at a minimum, assess their needs and those of their children, help identify appropriate plans of activity, help remove barriers impeding progress, refer them to other service providers as needed, and monitor compliance with participation and other requirements. In addition, the caseworkers would be responsible to work to develop part-time and full-time employment opportunities specifically for teens.

As much as possible, many services for teen parents, including child care, would be provided at a single site. Counseling, peer support groups, and courses on topics such as parenting, self-esteem and life management would also be offered. In addition, health screening and immunizations could be

available on-site for the teens and children participating in the program.

To encourage teens to delay subsequent pregnancies, the proposal would also include family planning services, including counseling on the risks and benefits of various birth control methods. The teen parent demonstration project has shown that mothers often desire to prevent the birth of additional children, but they do not often have the means or ability to follow through with this desire.

Post-transitional Assistance

When transitional payments and self-sufficiency payments are exhausted, able-bodied recipients would be expected to participate in some type of work. Hopefully before reaching the time limit, they would have obtained employment in the private sector. Non-exempt recipients who have reached their time limit without obtaining a private sector job would be assigned in many instances to a public work program slot. Work slots would be designed to improve the employability of participants through actual work experience and training in order to enable individuals to move into regular employment as soon as possible. Intact families would be given priority to receive a job slot over single-parent families.

Even without a work opportunity, at the end of the transition assistance program, food and housing benefits, as under current law for certain families, would continue to be available. In addition, child support payments would continue.

The cost of providing post-transitional job slots would be funded at a Federal matching rate of 75 percent. A total of 400,000 half-time (20 hours per week) work slots would be created and 100,000 full-time slots would be created for intact families. States who wish to provide additional work slots or hours per week above the minimum requirements could receive Federal funds at a matching rate of 50 percent. Fifty thousand of the half-time slots would be for noncustodial parents. Job slots would be allocated to the States based upon State AFDC caseload numbers, and States would be required to fully utilize all slots allocated.

Job slots would be created within local governments and through contracts with private, non-profit employers. Workers would be compensated at the minimum wage, the number of hours required to work would be at least 20 per week (up to 40 hours per week at State option). Work assignments for less than 20 hours per week could be made, if the client has a part-time private sector job such that the combined hours from the private and public sector jobs was greater than 20 hours per week.

Prioritization of Work Slots

The work slots would be first assigned to teen parents and intact families and then to those recipients most in need of assistance (e.g. without housing, without child support, through a waiting list).

Public Work Program Jobs

Public work program jobs would operate like "real" jobs, with clients receiving a bi-weekly paycheck and with normal employer-employee relationships assumed. The welfare department would assume that the participant is being paid for the hours specified; wages under the work slots would be counted as earnings and benefits calculated respectively. For any required hours that the participant failed to work, wages would be reduced accordingly. If a client fails to perform satisfactorily or does not show up for an extended period of time, he or she could be "fired", which would in effect entail a whole family sanction.

States would have discretion to determine how long clients could remain in the public work program up to a maximum of 18 months. For every year off of AFDC and public sector work, individuals would be able to earn two months of 'credit' for transitional payments.

Public work program jobs would be entry-level jobs which are newly created (as much as possible) in order to minimize displacement of regular workers. They should be useful, genuine work, including positions such as teacher's aides, health aides, office aides, child care workers, Head Start aides, recreational aides, library assistants, as well as clerks in welfare and employment agencies. Allowing AFDC recipients to work in child care centers or be paid to operate their own family day care homes could be particularly beneficial. Outdoor assignments could include gardening, park maintenance, road repair, building repair.

As much as possible, community organizations should be utilized to supervise groups of workers assigned to special projects within their local communities, including youth projects, painting and housing rehabilitation, recycling programs, senior citizens' programs, family day care programs, community beautification and entrepreneurial endeavors. Performance pay incentives could be provided to organizations (both for-profit and non-profit) and possibly to welfare offices which provide jobs to move families from welfare to work.

Treatment of Earnings

In order to encourage movement into the private sector, earnings from public work would not be counted as income for

purposes of calculating the earned income tax credit, and no unemployment benefits would be paid. Current law rules for the workers' compensation program and the Social Security program (including payment of the FICA tax) would apply. All benefits would be calculated according to existing rules; this implies that individuals would leave the AFDC program first, the food stamp program second, and the housing program third.

Additional Options

Several additional options exist for implementing the two-year time limit. All of these entail offering some work opportunities, but there is a recognition that many more individuals will exhaust transitional payments than there are work slots. Some of these options are much more viable than others:

(1) Cold turkey

This option would entail simply ending AFDC for all recipients after two years--regardless of whether or not they have found a job in the private sector or not--without offering any public sector work opportunities. To many, cold-turkey time limits not only save money, but they represent a philosophical approach to the welfare conundrum and a plausible interpretation of the promise to "end welfare as we know it." However, time limits without protections for child well-being are repugnant to much of the public and the Congress, and this approach seems highly irresponsible and likely to cause undue harm to low-income families and children.

(2) Public sector, part-time, minimum-wage jobs for all who reach the time limit

Under this option, public sector job slots would be granted to every recipient who reaches the time limit. These jobs would continue until recipients were able to move into the private sector labor market. While this option may be desirable in an ideal world, funding and capacity constraints prevent it from being a viable alternative.

Perhaps under very favorable circumstances this option could be made to work, with work slots being offered to all who exhaust transitional assistance payments. The plan would be phased in slowly: a) with teens, b) by cohort saturated within a given area of a State, c) by State.

If JOBS was very successful, if health insurance was implemented, and if the EITC and other support systems worked well, it might be possible to argue that enough work slots would be created to meet the demand. The number of

required job slots would be carefully monitored as the plan was implemented.

- (3) Reduce regular or current AFDC payments by 50 percent permanently, or let a reduced AFDC payment continue for another 12 to 36 months.
- (4) Instead of child support payments, create a small housing benefit for all those who exhaust transitional payments.
- (5) Like the preferred option except that for those who are not assigned a work slot, AFDC could continue for another 18 months.
- (6) After serving 180 days in a work slot successfully, one could again receive AFDC benefits. (I think this is a non-starter, but it does protect the safety net.)

Alternative Work Programs

States would be granted significant flexibility to augment their statewide public work program with smaller-scale strategies, including efforts to subsidize private employers to employ time-limited clients through wage supplementation strategies. These would be of limited duration (probably no longer than the 9 months of AFDC supplemented work under current law), and employers would be expected to offer regular employment to the participants at the end of the wage-supplemented period. Under such programs, the State's share of each client's wage could be below the minimum wage, so long as the total of the State's share and the employer's contribution are at least equal to the minimum wage.

States would also be given flexibility to design programs that offer work and training opportunities simultaneously. However, the Federal public work program funds could only be applied toward those activities which constitute actual work.

To encourage movement into private sector jobs, clients would be expected to participate in supervised job search concurrently while working in the public work program. Job search could be completed on an individual basis or through participation in a job club for a certain number of hours per week. In addition, States could establish a required period of full-time job search either before or after a public work assignment.

States would be encouraged to develop job networks through various means such as the Department of Labor's proposed "one-stop shopping" information system, job banks with requirements

that employers list available jobs, and alternative networks such as job fairs and subsidized employment newspapers.

Prevention

A principal factor contributing to risky behavior by adolescents is their perception that they have little to lose if they don't delay becoming parents and little to gain if they do. This view does not entail a belief that adolescents make choices about sexual activity and contraception based upon fine estimates of the present value of future income streams. However, it does assume that, if the desirability of the options at-risk youth see before them could be changed, their childbearing behavior might change as well.

Therefore, the proposal would include various incentives to encourage teenagers to stay in school to complete their high school education and to delay having children. Elements of such a strategy would include making the responsibilities that parents bear more transparent and increasing the opportunities that at-risk youth enjoy when they avoid becoming parents. States would be given considerable flexibility to design demonstrations to test such ideas based on programs that have shown positive results (such as Learnfare).

Work and Training Requirements for Noncustodial Parents

Under the proposal, ten large-scale, saturation demonstration projects would be conducted to evaluate the potential impact of enforcing requirements for and providing services to noncustodial parents. Under these demos, the JOBS program would be modified and funding would increase (by \$150 million in 1995, \$300 million in 1996, and \$500 million in 1997 and thereafter), and 50,000 additional PSE job slots would be created. In addition, 150,000 CWEP slots would be created to accommodate participation by noncustodial parents who have failed to, or are unable to, pay child support. These CWEP slots would allow non-custodial parents to work off their child support arrearages and would prevent JOBS from looking too attractive as a means to avoid payment. These parents would be required to participate in an initial parenting/job-readiness activity (such as Operation Fatherhood) for six months prior to receiving a job slot. After successful completion of a job slot experience, noncustodial parents could be eligible for additional education and training.

A State administrative law judge (ALJ) could require mandatory participation in job search activities, on-the-job training or work experience courses under the JOBS program for noncustodial parents who willingly fail to pay child support. Noncustodial parents who are unable to pay child support but are not more than two months delinquent would have an opportunity to volunteer for participation in the JOBS program or other

specified activities, during which time the current child support order would be waived.

Tax Treatment of Child Support and Benefits

Under the proposal, the household standard deduction would be increased to the level of the joint standard deduction. For 1993, this implies an increase of \$750. Child support payments and the assured benefit would be taxable to the custodial parent, and tax deductible to the noncustodial parent, if the custodial parent receives the personal exemption for the child. If the noncustodial parent receives the personal exemption, child support payments would continue to not be included in gross income to the custodial parent. AFDC benefits, food stamps, SSI and housing benefits would all be counted as taxable income to the custodial parent.

Phasing

The plan should be phased in such that lessons learned through implementation of various parts could be used to guide future implementation. This would imply a requisite level of flexibility throughout. The number of work slots would be phased in as described earlier. As we gain experience from the program and gather evidence of the impact it has, the number of slots may need to be raised.

For numerous reasons, including capacity and cost constraints, the reform plan will need to be phased in over a period of years. While strong arguments exist for each of the different phase-in strategies, the cohort phase-in may most clearly convey the message that the current system is seriously being reformed. Under the cohort option, States would be required to serve all members of an incoming cohort (e.g. all applicants in a given year, or specific sub-groups within an incoming cohort). States would also be encouraged to phase in the plan by office or geographical area and in so doing, must endeavor to change the entire culture of the welfare offices. States might choose to serve some of the existing caseload but would not be required to do so. As emphasized under the teen pregnancy and parenting section, one specific subgroup that must be served on a saturation basis is teen mothers.

In 1994, HHS should work with States who have existing waivers or who want to develop new waiver requests for programs that approximate what is outlined in this proposal. The cost neutrality requirement in Section 1115 should be relaxed in specific ways to allow some States to make investments in accordance with the overall goals of the plan. (Assuming the final plan will end up somewhere between the Administration plan and the Republican proposal, the territory between the two can be defined as limiting the shape of the waivers.) Allowing States

increased waiver flexibility would provide a good head start on the process and would hopefully yield successes early on. HHS should work with all States to shape their JOBS programs in ways that are consistent with the new direction. Current JOBS participation requirements, which in 1995 will be 20 percent, would apply to the continuing caseload.

Official phase-in, assuming the passage of legislation in 1994, would start with applicants to the welfare system in 1995. The applicants would be informed very clearly about the new program, the opportunities available to them, and the time limits they will face. During the first year of the program, new investments would be focused on job search and job development, work support activities, and expanding the current JOBS program for the entering cohort. HHS would develop the systems and procedures needed to track the new cohort, and goals would be set for an increase in exits and a decrease in recidivism. Savings over the baseline would be calculated accordingly.

In 1996 and beyond, emphasis would remain on work support activities and job search and development activities for the entering cohort. For the 1995 cohort, States would be required to have at least 30 percent of the cohort in their second year receiving self-sufficiency payments (implying JOBS program participation) rather than transitional payments. States would be encouraged to meet this participation rate target by serving all teen parents and through saturation programs in 30 percent of their offices. HHS would continue to track exits and recidivism and would calculate any savings over the baseline. The JOBS participation requirement for the continuing caseload would remain at 20 percent. This group, however, would disappear rapidly because anyone who cycles off the rolls and back on again would be considered a new entrant.

Sanction Policy

Sanction policy would follow current law with some additional State flexibility. Not participating in JOBS for a given month when required would result in using up a month of transitional payments and at State option up to three months of the adult portion of the AFDC grant.

The penalty for not working the required number of hours in the work slot was described earlier in the document. The penalty for not taking a private sector job when offered could follow current law, or result in the loss of all remaining months of transitional payments, or it could be the same penalty as not taking the work opportunity. The State would calculate the amount of assistance as if the job had been taken and adjust all forms of assistance accordingly. The actual penalty would be at State discretion.

State Waivers

Explicit waiver integration would be allowed by States which have existing waiver demonstrations in place and wish to incorporate parts of the new plan into their demonstration. However, States could opt to defer compliance with the welfare reform plan until after the expiration of the existing waiver. The latter would be encouraged to allow sufficient time to observe the results of experimentation underway.

Fraud and Abuse

Aggressively attacking fraud and abuse and ensuring that only those eligible for welfare benefits receive assistance is critical to developing public confidence in public assistance programs. Misuse of the system damages both recipients who are "doing the right thing" and taxpayers by reducing the willingness of the public to support social service programs and by wasting taxpayer resources. Eliminating fraud is an important goal to persons on all sides of the welfare debate and should be used to garner Congressional and public support.

Measures to attack fraud could include implementing a program of "front-end" fraud detection (based on a proposals now pending in the Massachusetts State legislature); establishing a nationwide fraud hotline; changing Federal and State law as necessary to allow welfare offices to verify eligibility information with other government offices and organizations; and encouraging and facilitating the use of national computer eligibility systems.

Reform by Regulation

As much as possible, the welfare reform proposal should be implemented through regulatory changes as opposed to Congressional action. This would particularly apply to changes in program rules such as asset rules in AFDC, food stamps and housing and the 20-hour rule in the AFDC program.

Demonstrations, Research and Evaluation

A thorough evaluation of all aspects of the proposal would be conducted after the time-limited transitional assistance and public work programs had been fully implemented. If it was determined that harm was being done to children, the President would have the authority to modify or eliminate the time limit.

[Evaluation section needs work]

In addition to the child support assurance, non-custodial parent and work support agency demonstrations described earlier

in this paper, a variety of other demonstration projects would be designed:

(1) America Works

A demonstration would be conducted based upon the success of the America Works Corporation in New York and Connecticut. Under this program, the contractor finds jobs in the private sector and prepares welfare clients to obtain these positions. The AFDC check is used to subsidize wages during a six-month trial period, and if the worker performs well, she is permanently placed in the job, and America Works collects a placement fee of about \$5,000;

(2) Incentives to pay child support

A demonstration would be conducted to test the effects of certain incentives for fathers to pay child support. Of particular interest would be whether the amount of child support paid by low-income fathers could be increased; and

(3) School attendance

A demonstration would be conducted to test the effects of various incentives and sanctions in encouraging welfare recipients to attend school in order to complete their high school education.

Cost

The proposal would be deficit neutral and other than the taxation of welfare benefits previously described would involve no additional taxes (with the possible exception of previously submitted proposals involving the extension of social security coverage). Most of the financing would come from tightening eligibility rules for non-citizens receiving welfare payments and other entitlement program changes.

WELFARE REFORM PROPOSAL

The following describes a proposal for reforming the current welfare system based on themes and ideas emerging from the process underway. The proposal includes measures to make work pay, improved paternity establishment and child support enforcement, child support assurance, amendments to the current AFDC program to assist intact families, time-limited transitional assistance and post-transitional work.

The charge to "end welfare as we know it" involves changing the culture of welfare as a way of life to welfare as a temporary "hand up" to families in need. The proposal described below encourages work and self-sufficiency, it provides services and opportunities for those who need assistance to reenter the labor force, it institutionalizes male responsibility, and it strengthens families.

Rationale for Reform

While opinions diverge about how best to reform welfare, there is near universal consensus that the current system simply does not work. Conservatives believe that it destroys initiative and fosters perverse incentives which discourage both work and marriage. Liberals contend that it offers modest benefits while robbing individuals of their dignity and self-esteem. Recipients feel degraded and trapped by a system that offers no reward for their efforts to be self-sufficient and gives them no control over their lives. And lastly, taxpayers decry spending seeming innumerable dollars on a program for which they see little positive result.

While the task of truly reforming our current welfare system looms large, the consequences of inaction are even more extreme. Recent decades have witnessed a sharp rise in single-parent families, which characteristically have a much higher poverty rate than two-parent families. Wages have declined, particularly during the 1980s, such that finding a job that pays better than welfare is extremely difficult. And, for too long we have accepted a system that requires everything of mothers and nothing of fathers.

The whole culture of welfare needs to be changed based on the philosophy of mutual obligation: the Government needs to commit to providing the opportunities, support services and incentives to allow individuals to move toward self-sufficiency; the recipient needs to commit to accepting responsibility for working toward that end. Welfare should be viewed as a "hand

up"--temporary assistance to families in need--rather than a "hand out". Instead of punishing the poor or preaching to them, we need to empower Americans and give them dignity and a sense of control over their own lives. We need to make work a more attractive option than welfare by ensuring that those who work full-time are able to support their families and not be poor.

Further, we need to change the biased nature of our current system which expects one parent to do the work two. Through universal paternity establishment and dramatically improved child support enforcement, we can ensure that both parents fulfill their responsibility to support their children. Only one-third of single parents currently receive any court-ordered child support. By strengthening the child support enforcement system, we can improve the well-being of all children--regardless of whether or not they are on welfare--by ensuring that they receive the support they deserve.

In addition, we must eliminate the requirement that recipients remain single and remove the so-called "marriage penalty" that exists in the current system. The data are clear that children benefit from interaction with two parents, and we need to remove the rules within the welfare system which discriminate against two-parent families. By giving priority to intact families in the public sector work slots and by removing barriers to self-sufficiency for married-couple families, we can encourage families to remain together.

Summary

Under the proposal, the child support enforcement program would be significantly strengthened, and a child support assurance system would be implemented. The programs providing cash or near-cash assistance would be simplified, and cash assistance for those capable of working in the private sector would be time-limited. The custodial parent would receive full AFDC benefits for a limited, transitional period during which intensive efforts through a variety of services, education, and training programs should enable the parent to move towards self-sufficiency. After this time period ends, if the recipient has not found a job in the private sector, he or she would be offered a minimum-wage 20-hour public work slot (up to 40 hours at State option). The welfare office would then recompute benefits under the AFDC, food stamp and housing programs, assuming the recipient is working 20 hours (up to 40) at the job provided. Earnings would be reduced proportionately for hours not worked, but any assistance benefits would not be affected. Thus, there would be a direct and immediate relationship between work and economic well-being.

At the end of 18 months, the public sector job would end. Child support, housing and food stamp benefits would continue, but cash assistance would end. The incentive to take a private sector part-time job would be very strong. In addition, recipients working in a public sector job would not be eligible for the earned income tax credit. At all points in time, there would be a large incentive to participate in the child support assurance system.

good

Bullet Summary

Make Work Pay

- o Advance payment of the EITC
- o Demonstration of work support agency
- o Child care programs consolidated and funded more generously

Child Support Enforcement and Assurance

- o Universal child support and paternity establishment program
- o Multiple opportunities for consent
- o In-hospital paternity establishment
- o Denial of government benefits across income strata if paternity is not established
- o Regular updating of awards
- o Mandating of universal central registries
- o State enforcement with IRS as Federal backup
- o New hire reporting and mandating of other enforcement tools
- o Establishment of child support assurance program if State meets certain enforcement criteria

good

AFDC

- o Rules simplified and coordinated with other assistance programs
- o Incentives to work increased through additional State flexibility
- o Barriers to remain as intact families eliminated

option, demo, 80% collection

Education and Training

- o 100 percent participation required for teen parents
- o \$3 billion of additional funding
- o Consolidation of food stamp and housing self-sufficiency programs into JOBS
- o Counter-cyclical matching rates in JOBS
- o JOBS made available to non-custodial parents, so they can meet child support obligations

good
?

Time Limits

- o 12-month time limit on AFDC payments
- o Intensive efforts to improve ability to acquire and hold private sector jobs
- o Work opportunities if transitional benefits expire
- o Safety net protected if custodial parent works or has a child support order or both

good
more
?

Making Work Pay

Numerous policy options could be considered to make work pay, including lowering marginal tax rates through fill-the-gap or AFDC earnings disregard policies adopted by the States, similar health insurance benefits whether working or not, and child care and transportation services.

Advance Payment of the Earned Income Tax Credit

An important element of making work pay is distributing the Earned Income Tax Credit (EITC) on a periodic basis, instead of in a lump sum several months after the end of the tax year. Under the proposal, certain low-income custodial parents who are eligible for the EITC could request to receive payment of the credit more regularly. To prevent overpayments, approximately 60 percent of the credit would be available on an advance basis. There are four options for making the payments:

- (1) The employer would add the EITC payment to the employee's paycheck bi-weekly, monthly or quarterly;
- (2) The food stamp office would administer the credit and give an accounting to the IRS of payments made at the end of each year;
- (3) The unemployment office would make quarterly payments based on quarterly reports from employers;
- (4) The IRS could administer the credit quarterly based on information from the previous year's tax returns and information received from the beneficiary on a postcard verifying earnings information.

Work Support Agency Demonstration

Several small-scale demonstrations would be conducted in 2-4 States to examine the effectiveness of a comprehensive work support agency. Such an agency would serve as a resource center for clients to obtain information on available jobs, would offer classes on resume-writing and other job-related skills, would supervise job search activities, and would provide the necessary

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supports (on-site as much as possible) to enable recipients to successfully attach themselves to the labor force.

Child Care

Under current law, there are three programs under which child care is provided to welfare recipients: Child care under AFDC, Transitional Child Care assistance, and At-risk Child Care. Under the proposal, these three programs would be consolidated into one open-ended entitlement with a Federal match at the Medicaid rate. Eligibility rules would be simplified. This program would be for recipients of welfare, JOBS participants, or for those making a transition to the private sector. In addition, outside of this welfare proposal, the Federally-funded Child Care and Development Block Grant would be expanded to serve only the non-welfare, low- and middle-income population. This program, for the most part, could not be used to fund individuals eligible under the former program. As much as possible, other rules governing these two programs would be standardized. This strategy will need to be reexplored if sufficient dollars cannot be added to CCDBG since otherwise this would reduce available funding for non-welfare families. Efforts to address the quality of child care would include a focus on Head Start for eligible children, linkages between child care and Head Start, consumer education, and technical assistance and training activities. In the public sector work program, efforts would be made to train welfare recipients as child care providers.

.NO

Make C.C.
conditional
on Paternity

Paternity Establishment

Federal funding would be made available to States to implement a paternity establishment program that expands the scope and improves the effectiveness of current State procedures. States would be required to meet new Federal requirements to ensure that paternity is established for as many children born out of wedlock as possible, regardless of the parents' welfare or income status and as soon as possible following birth. To facilitate this process, States would be required to implement changes based on the successes of other States, including the use of in-hospital paternity establishment and civil procedures that offer multiple opportunities for voluntary consent.

Performance and Measurement Standards

State performance would be measured based upon all cases where children are born to an unmarried mother--not only upon cases within the IV-D (child support) system. Each State would be required, as a condition of receipt of Federal funding for the child support enforcement program, to calculate a State paternity establishment percentage based on annual data for all out-of-wedlock births and all paternities established for new births, during the same year. The paternity status of all children born

out of wedlock would be tracked throughout the child's first 18 years of life, improving significantly each State's ability to determine precisely how long it takes to establish paternity on each birth.

Each State would be required to meet certain minimal standards of performance for establishing paternity in all cases, based on the percentage of paternities established by the State for children within the IV-D system. Old cases presently in the system in which paternity has not been established would not be counted in the State's paternity establishment percentage, but incentives would be provided for States to work old cases until they are eventually phased out of the system; States would be allowed to double-count old cases (cases at least one year old on the date of enactment) for purposes of meeting both Federal performance standards and funding incentives. In addition, States must, as a condition for receipt of Federal funding, show maintenance of effort in working old paternity cases.

Funding and Incentives

The Federal government would reimburse States for the costs of operating the paternity establishment program, both through Federal funding for State child support enforcement programs (at a rate yet to be determined) and through incentive payments to States based on performance. In addition, Federal funding would be provided at an increased matching rate of 90 percent to support specific paternity establishment functions, including the following:

- (1) staff training for both caseworkers, and hospital and vital records staff;
- (2) laboratory testing for establishing paternity; and
- (3) outreach programs promoting voluntary acknowledgement of paternity.

States would be required to reimburse hospitals and other providers who offer paternity establishment procedures by providing a fee for each paternity established. Federal reimbursement would be capped at \$20 per paternity established. At State option, States could experiment with programs that provide financial incentives for parents to establish paternity, and such programs, upon approval of the Secretary, would be eligible for Federal funding.

Voluntary Acknowledgement

Each State would be required to have in effect laws for the use of a simple, administrative process for the voluntary acknowledgement of paternity, including the establishment of a

hospital-based program for acknowledging paternity as soon as possible following a child's birth. Voluntary consent procedures would include:

- (1) requiring health-related facilities to inform unwed parents about the benefits and the opportunities from establishing legal paternity for their children;
- (2) making blood tests available, if requested by the parents, at the time of the child's birth;
- (3) requiring full participation by hospitals in paternity establishment procedures as a condition for reimbursement for Medicare and Medicaid.

Timeframes for establishing paternity through administrative procedures shall be determined by the Secretary.

Outreach

Outreach efforts at the Federal and State levels would be undertaken, emphasizing that the establishment of paternity is both a parental responsibility and a child's right. The Department of Health and Human Services would take the lead in developing a comprehensive media campaign designed to reinforce both the importance of paternity establishment and the message that child support is a "two-parent" responsibility.

States would be required to implement outreach programs promoting voluntary acknowledgement of paternity, which would be eligible, if approved, for an enhanced matching rate of 90 percent. In addition, States would be required to follow up with all individuals who do not establish paternity in the hospital, providing them with information on the benefits of and procedures for establishing paternity.

Cooperation and Good Cause Exceptions

All mothers with children born out of wedlock would be provided the opportunity to establish paternity for their children. As a condition of eligibility for benefits under AFDC, Federal housing assistance, the dependent care tax credit, child support assurance and for receipt of the tax exemption for children, a mother must cooperate in establishing paternity for her child, provided that she does not meet the good cause exception rules for non-cooperation.

State IV-D workers would be required, within 10 days, to determine whether a mother who wishes to receive Federal benefits has provided sufficient information to locate the putative (alleged) father. Once a determination of cooperation is made, the IV-D worker would inform both the mother and the relevant

programs. Applicants could not be denied program eligibility if the determination of cooperation was not made within the 10-day time period, or while an appeal to a determination of non-cooperation is pending. IV-D agencies would be subject to sanctions if they failed to comply with paternity establishment requirements established by the Secretary.

Good cause exceptions would be granted for non-cooperation on an individual case basis using strict application of the existing good cause exceptions for the AFDC program. State IV-D workers must inform each applicant of the good cause exceptions available under current law and assist the mother in determining if she meets the definition. New standards for cooperation would be established, which would apply to all applications for assistance for women with children born on or after 10 months following the date of enactment.

Applicants for public assistance would be referred immediately to the IV-D office to provide the necessary information before eligibility for AFDC is determined. Those individuals qualifying for emergency assistance, however, could begin receiving benefits before a determination is made. Applicants for AFDC who do not meet the definition of cooperation would lose the mother's portion of the AFDC benefits, but the children's benefits would not be affected. If a mother fails to cooperate and is determined ineligible for benefits, but subsequently chooses to cooperate, Federal benefits would be reinstated.

Contested Paternity Cases

Each State would be required to establish a civil procedure to adjudicate contested paternity cases through an administrative process. The process must be based on one of several models determined by the Secretary, or the State must seek approval from the Secretary for a plan designed by the State. Under the administrative process, each State must refer all contested paternity cases to an administrative law judge (ALJ) through the State agency and allow for the use of courts in paternity cases only in rare instances. Timeframes for paternity establishment for contested cases shall be determined by the Secretary.

Parent Locate Efforts

In addition, each State would be required to improve efforts to locate absent parents by ensuring that the parent locate service has access to requisite State and private records, and that other States have direct access to the State data bases in order to process interstate cases.

Establishment of Child Support Orders

At the time paternity is acknowledged, States must have in place procedures to collect the information necessary to establish a child support order. Such procedures must be used for all cases in which paternity is established through the child support agency. Parents who establish paternity outside the child support agency must, at a minimum, be provided subsequently with information on the benefits of and procedures for establishing a child support order.

States would establish all initial orders through an administrative procedure according to uniform, national guidelines indexed annually for inflation. Orders would be established on all noncustodial parents regardless of current ability to pay. Timeframes for the establishment of child support orders shall be determined by the Secretary.

The Federal government would establish and maintain a national, universal database of all existing orders with current information from the Federal income tax returns of all custodial and noncustodial parents including addresses, and States would be required to use this information to update orders every two years.

Collection and Enforcement of Child Support Orders

Wage Withholding

Under the proposal, States would assume primary responsibility for the collection, disbursement and enforcement of child support payments. Employers would withhold support from wages based on information from a revised W-4 form and would forward all withholdings to the State office. The State office would forward child support payments to custodial parents on a monthly basis, and would include separately any child support assurance amounts.

In addition, all new employees would be required to notify their employer of their child support obligations by filing the Federal W-4 form, which would be revised to collect information regarding the employee's name, address, Social Security number, earnings per period, child support order and health insurance benefits. Employers would forward this information to the Federal government to be verified against the national database of orders. The system would be fully automated, and noncustodial parents would be required to keep the child support office fully informed of any change in address or employer.

Any child support owed by a noncustodial parent at the end of the year in excess of that withheld during the year would be due to the State office and collected via the annual income tax

form. Child support payments would have precedent over Federal tax liabilities. The non-custodial parent would have various choices on how to pay his child support such as automatic withdrawal from a checking account, predated checks, wage withholding or other methods. The choice employed might dictate the necessity of one or two months of advance payments.

Arrearages

The State office, through its administrative law judges (ALJs), would have the discretion to reduce child support arrearages on a case-by-case basis, but only if the office determined that such a reduction would promote the payment of current child support obligations by the noncustodial parent. An ALJ could also reduce arrearages by reducing the present value of Social Security retirement benefits based upon changes in the earnings records of noncustodial parents.

The existing rules for distribution of arrearages would be simplified. The Federal government would retain any arrearages which resulted in the payment of the assured benefit, and no monies would be distributed to States as a result of any change in welfare benefits. Arrearages would be cancelled working backwards from the date of the arrearage payment on an annual basis.

Assured Child Support Benefit

Under the proposal, the Federal government would fund an annual assured child support benefit on behalf of any child who has been awarded support, but whose noncustodial parent failed to pay. The benefit would be administered by the State and would be determined according to the following schedule indexed to inflation:

a) The amount shown in the schedule below, less any private child support collected:

<u>Number of Children</u>	<u>Benefit</u>
1	\$1,500
2	2,100
3	2,700
4 or more	3,300

Under ~~either~~^{the} option, States would be required to disregard up to \$1,800 of child support and assured benefit payments before calculating the AFDC payment if the State's AFDC payment level was less than or equal to 33 (or 30) percent of the Federal poverty level. Child support payments and the assured benefit would be treated as income to the custodial parent for tax purposes.

Limit to age 8-10?

Child support assurance would be phased in slowly, State by State. Before being allowed to pay the assured benefit, States would be required to meet certain criteria. These criteria (to be specified in greater detail) would include having a strong child support enforcement system in place, a fully automated data system, a universal central registry, and meeting certain targets in establishing paternity. Also, as each State implements child support assurance, cost expectations must not be exceeded dramatically, or else further legislative authority must be given.

Social Insurance Programs

Social insurance program benefits based on a noncustodial parent's work history (i.e. disability and survivors' benefits) and received by his or her children, would be deducted from the child support owed by the noncustodial parent. In addition, the child support assurance payment would be reduced dollar-for-dollar. In the Social Security program, the rules governing the calculation of payments among children (particularly if the individual has children in more than one family) would not be altered.

Amendments to the AFDC Program

Under the proposal, changes would be made to the AFDC program as follows:

- (1) Rules for determining eligibility and benefit levels would be simplified and standardized to facilitate coordination among other assistance programs such as food stamps and housing;
- (2) Under current law, when food stamps are calculated, AFDC benefits are taken into account. The AFDC benefit is assumed to be 50 percent for housing and 50 percent for other needs, and housing benefits are calculated assuming one-half of the AFDC check as income. The other one-half reduces the housing subsidy dollar for dollar. Unlike current rules, under the proposal, food stamps would be treated as income for housing subsidy purposes. Calculation of the food stamp benefit would not count the amount of housing assistance received. As an additional option, the fair market rent for section 8 housing vouchers and certificates could be set at 30 percentile;
- (3) The 100-hour rule (which specifies that a parent must work fewer than 100 hours in a month to be classified as unemployed) would be eliminated;

- (4) The quarters of work rule (which specifies that to be eligible for AFDC-UP the principal earner must have worked 6 or more quarters prior to one year before application) would be eliminated;
- (5) In place of the current \$50 per month passthrough of child support, States would be required to increase AFDC benefit levels by \$70 per month for families with a child support order;
- (6) The standard disregard would be raised from \$90 to \$100 per month (with State option to increase up to \$250), the child care disregard would remain the same (20 percent of earnings to a maximum of \$175 per month per child), and an additional disregard of 20 percent of earnings (with State flexibility up to 50 percent) would be added;
- (7) All benefits (including AFDC, housing, food stamps and the assured benefit, as well as child support payments) would be taxable to the custodial parent; and
- (8) Treatment of children in the welfare system would be made consistent with treatment of children in the tax system.

Transitional Assistance

This section describes how the time limits would be administered and what happens if the time limits are exceeded. This is an extremely complicated problem, given cost and capacity constraints. Other options and how these would be phased in are described later in the paper.

Conceptually, the current AFDC program would be divided into five different parts (the eligibility rules under all five parts would be identical, with the possible exception of the emergency assistance program):

- (1) Emergency Assistance--a one- or two-month initial payment for those families desiring only limited assistance. The payment would only be for families who have had recent job experience and would probably be accompanied by a job search requirement. This is an option and is not critical to the overall plan;
- (2) Transitional payments--payments limited to a lifetime maximum of 24 months initially but eventually declining to 12 months when fully implemented. The State might also demand job search along with these payments. There would be some limited ability to earn back months of credit;

once in lifetime

- (3) Parent self-sufficiency payments--these payments are made to parents who are participating satisfactorily in JOBS or working sufficient hours. Participation in this program would be limited by the State on an individual basis. One could not stay in job training or education forever. An overall limit of two years would be imposed by the Federal Government. In only unusual circumstances could this be waived. Another option would be to not time-limit these payments if there is work of 20 to 30 hours per week. Only participation in JOBS would be time-limited.
- (4) AFDC payments--checks as under current law made to any family meeting exemption criteria 1 through 4 below;
- (5) Child support payments--payments as described in the earlier schedule for each child with an order in place or in the process of being established. This is a temporary program designed to give children a safety net. This is only for AFDC recipients and is only in States where a full-fledged child support assurance payment is not available. These payments would not be in any way conditioned upon the behavior of the parent. Actual child support payments would reduce these payments dollar for dollar. The proposal to exempt a portion of this (as described earlier) would also be considered. These payments are not affected by earnings of the custodial parent. *CAP program*

Transitional AFDC and parent self-sufficiency checks are equal to the current AFDC check less child support payments.

Under the proposal, transitional payments would be limited to 12 months initially (24 months), after which (adult) recipients would be expected to work. Recipients would be expected to use this time period productively and intensively to either build attachment to the labor force or increase their human capital, with the overall goal of increasing their long-term self-sufficiency.

Each new applicant to the system, after emergency assistance, would be assigned to a caseworker with whom she would jointly decide on an individual service strategy. A contract would be signed by both parties specifying the mutual obligations on the part of the Government and the recipient: the recipient commits to endeavoring to improve her self-sufficiency during the one-year period, and the Government commits to providing the means and supportive services necessary to fulfill this end. All applicants would be told about the time limitation and about the various education, training, work experience and job search options available to them. The State would have considerable discretion in how these services are delivered, including

determining the definition of satisfactory participation and placing time limits on certain education and training opportunities.

Services would be provided through expanded State JOBS programs. States would be given considerable flexibility, as under current law, as to how recipients move through the system. States would be required to properly inform all recipients of opportunities available to them and of the implications of the time limit.

Consolidation of Education and Training Programs

Under the proposal, States will be given the option to consolidate all education and training programs under the expanded JOBS program. Specifically, States would be allowed to combine funding for JOBS and the food stamp employment and training program and to operate them as a single program. The advantage of such a combination would be to reduce the administrative structure needed to run two separate, but essentially similar, programs. In addition, administrators would be encouraged to use some or all of their funding to buy services from JTPA. Self-sufficiency programs for families with children in housing programs would be coordinated through JOBS. JOBS would also be expanded to include volunteer parenting activities such as Head Start or other sanctioned community service activities (e.g. Michigan).

Funding

Federal funding for the JOBS program would increase by \$3 billion. The Federal matching rate would be raised from the current level to 75 percent. Countercyclical assistance would be provided through an enhanced Federal match of 90 percent if the unemployment rate in a State rises above 7 percent.

Exemptions

Exemption from the obligation to participate in education, training or work activities and from the two-year time limit would apply to a caretaker of an AFDC child who meets one or more of the following conditions. He or she:

- (1) is not a natural or adoptive parent; (this could be a temporary exclusion until all natural mothers are being served by JOBS and there exists enough work opportunities);
- (2) has care of a child under 6 months old (up to 2 years at State option);
- (3) has care of a disabled child or relative;

- (4) has a functional disability or impairment that significantly reduces employability;
- (5) is working more than 20 hours per week (40 hours for both parents). (States could opt to increase to 30 and 60 hours, respectively).

Exemptions 1-4 would result in an AFDC check without time constraints. Exemption 5 would result in a parent self-sufficiency check.

Teenage Pregnancy and Parenting

Under the proposal, teen parents would be subject to the same requirements under the transitional assistance and public work programs as other recipients, with appropriate incentives and sanctions to encourage compliance. Because teen parents are most likely to remain on AFDC for long periods of time, these women would receive the most intensive case management and more comprehensive training. Teen parents would be given priority for service by States, with the goal being complete saturation of the teen parent population. Teen parents who have not completed high school would be expected to participate full-time in an appropriate educational activity, unless participation in work or training activities were determined to be in the best interest of the teen. To the extent possible, educational activities should be combined with work and training activities.

Upon entering the system, teen parents would be assigned to caseworkers specially trained to work with youthful, multi-problem families. These caseworkers would serve as mentors for the teen parents and would, at a minimum, assess their needs and those of their children, help identify appropriate plans of activity, help remove barriers impeding progress, refer them to other service providers as needed, and monitor compliance with participation and other requirements. In addition, the caseworkers would be responsible to work to develop part-time and full-time employment opportunities specifically for teens.

As much as possible, many services for teen parents, including child care, would be provided at a single site. Counseling, peer support groups, and courses on topics such as parenting, self-esteem and life management would also be offered. In addition, health screening and immunizations could be available on-site for the teens and children participating in the program.

To encourage teens to delay subsequent pregnancies, the proposal would also include a program to encourage the voluntary use of Norplant for birth control purposes. The teen parent demonstration project has shown that mothers often desire to

prevent the birth of additional children, but they do not often have the means or the knowledge.

Post-transitional Assistance

When transitional payments are exhausted, able-bodied recipients would be expected to participate in some type of work. Hopefully before reaching the time limit, they would have obtained employment in the private sector. Non-exempt recipients who have reached their time limit without obtaining a private sector job would be assigned in many instances to a public work program slot. Work slots would be designed to improve the employability of participants through actual work experience and training in order to enable individuals to move into regular employment as soon as possible. Intact families would be given priority to receive a job slot over single-parent families.

Even without a work opportunity, at the end of the transitional payments, food and housing benefits, as under current law for certain families, would continue to be available. In addition, child support payments would continue.

The cost of providing post-transitional job slots would be funded at a Federal matching rate of 75 percent. A total of 400,000 half-time (20 hours per week) work slots would be created and 100,000 full-time slots would be created for intact families. States who wish to provide additional work slots or hours per week above the minimum requirements could receive Federal funds at a matching rate of 50 percent. Two hundred thousand of the half-time slots would be for noncustodial parents.

Job slots would be created within local governments and through contracts with private, non-profit employers. Workers would be compensated at the minimum wage, the number of hours required to work would be at least 20 per week (up to 40 hours per week at State option). Work assignments for less than 20 hours per week could be made, if the client has a part-time private sector job such that the combined hours from the private and public sector jobs was greater than 20 per week.

Prioritization of Work Slots

The work slots would be first assigned to teen parents and intact families and then to those recipients most in need of assistance (without housing, without child support, through a waiting list).

Public Work Program Jobs

Public work program jobs would operate like "real" jobs, with clients receiving a bi-weekly paycheck and with normal employer-employee relationships assumed. The welfare department

would assume that the participant is being paid for the hours specified; wages under the work slots would be counted as earnings and benefits calculated respectively. For any required hours that the participant failed to work, wages would be reduced accordingly. If a client fails to perform satisfactorily or does not show up for an extended period of time, he or she could be "fired", which would in effect entail a whole family sanction.

States would have discretion to determine how long clients could remain in the public work program up to a maximum of 18 months. For every year off of AFDC and public sector work, individuals would be able to earn two months of 'credit' for transitional payments.

Public work program jobs would be entry-level jobs which are newly created (as much as possible) in order to minimize displacement of regular workers. They should be useful, genuine work, including positions such as teacher's aides, health aides, office aides, child care workers, Head Start aides, recreational aides, library assistants, as well as clerks in welfare and employment agencies. Allowing AFDC recipients to work in child care centers or be paid to operate their own family day care homes could be particularly beneficial. Outdoor assignments could include gardening, park maintenance, road repair, building repair.

As much as possible, community organizations should be utilized to supervise groups of workers assigned to special projects within their local communities, including youth projects, painting and housing rehabilitation, recycling programs, senior citizens' programs, family day care programs, community beautification and entrepreneurial endeavors.

Treatment of Earnings

In order to encourage movement into the private sector, earnings from public work would not be counted as income for purposes of calculating the earned income tax credit, and no unemployment benefits would be paid. Current law rules for the workers' compensation program and the Social Security program (including payment of the FICA tax) would apply. All benefits would be calculated according to existing rules; this implies that individuals would leave the AFDC program first, the food stamp program second, and the housing program third.

Additional Options

Several additional options exist for implementing the two-year time limit. All of these entail offering some work opportunities, but there is a recognition that many more individuals will exhaust transitional payments than there are

work slots. Some of these options are much more viable than others:

1. Cold turkey

This option would entail simply ending AFDC for all recipients after two years--regardless of whether or not they have found a job in the private sector or not--without offering any public sector work opportunities. To many, cold-turkey time limits not only save money, but they represent a philosophical approach to the welfare conundrum and a plausible interpretation of the promise to "end welfare as we know it." However, time limits without protections for child well-being are repugnant to much of the public and the Congress, and this approach seems highly irresponsible and likely to cause undue harm to low-income families and children.

2. Public sector, part-time, minimum-wage jobs for all who reach the time limit

Under this option, public sector job slots would be granted to every recipient who reaches the time limit. These jobs would continue until recipients were able to move into the private sector labor market. While this option may be desirable in an ideal world, funding and capacity constraints prevent it from being a viable alternative.

Perhaps under very favorable circumstances this option could be made to work. Work slots would be offered to all who exhaust transitional payments. The plan would be phased in slowly: a) with teens, b) by cohort saturated within a given area of a State, c) by State.

If JOBS was very successful, if health insurance was implemented, and if the EITC and other support systems worked well, it might be possible to argue that enough work slots would be created to meet the demand. The number of required job slots would be carefully monitored as the plan was implemented.

Perhaps some version of this option and combined with the preferential option described above might be the optimal plan.

3. Reduce regular or current AFDC payments by 50 percent permanently, or let a reduced AFDC payment continue for another 12 to 36 months.

4. Instead of child support payments, create a small housing benefit for all those who exhaust transitional payments.

5. Like the preferred option except that for those who are not assigned a work slot, AFDC could continue for another 18 months.

6. After serving in a work opportunity slot successfully, one could again get AFDC benefits. (I think this is a non-starter but it does protect the safety net.)

Alternative Work Programs

States would be granted significant flexibility to augment their statewide public work program with smaller-scale strategies, including efforts to subsidize private employers to employ time-limited clients through wage supplementation strategies. These would be of limited duration (probably no longer than the 9 months of AFDC supplemented work under current law), and employers would be expected to offer regular employment to the participants at the end of the wage-supplemented period. Under such programs, the State's share of each client's wage could be below the minimum wage, so long as the total of the State's share and the employer's contribution are at least equal to the minimum wage.

States would also be given flexibility to design programs that offer work and training opportunities simultaneously. However, the Federal public work program funds could only be applied toward those activities which constitute actual work.

To encourage movement into private sector jobs, clients would be expected to participate in supervised job search concurrently while working in the public work program. Job search could be completed on an individual basis or through participation in a job club for a certain number of hours per week. In addition, States could establish a required period of full-time job search either before or after a public work assignment. The Department of Labor's proposed "one-stop shopping" information system could be an important resource for job search activity.

Prevention

A principal factor contributing to risky behavior by adolescents is their perception that they have little to lose if they don't delay becoming parents and little to gain if they do. This view does not entail a belief that adolescents make choices about sexual activity and contraception based upon fine estimates of the present value of future income streams. However, it does assume that, if the desirability of the options at-risk youth see before them could be changed, their childbearing behavior might change as well.

Therefore, the proposal would include various incentives to encourage teenagers to stay in school to complete their high school education and to delay having children. Elements of such a strategy would include making the responsibilities that parents bear more transparent and increasing the opportunities that at-

risk youth enjoy when they avoid becoming parents. States would be given considerable flexibility to design demonstrations to test such ideas based on programs that have shown positive results (such as Learnfare).

Work and Training Requirements for Noncustodial Parents

Under the proposal, one billion dollars would be allocated to conduct several large-scale demonstration projects to evaluate the potential impact of enforcing requirements for and providing services to noncustodial parents. Under these demos, the JOBS program would be modified, and 200,000 additional job slots would be created to accommodate participation by noncustodial parents who have failed to, or are unable to, pay child support. A State administrative law judge (ALJ) could require mandatory participation in job search activities, on-the-job training or work experience courses under the JOBS program for noncustodial parents who willingly fail to pay child support. Noncustodial parents who are unable to pay child support but are not more than two months delinquent would have an opportunity to volunteer for participation in the JOBS program or other specified activities, during which time the current child support order would be waived.

Tax Treatment of Child Support and Benefits

Under the proposal, the household standard deduction would be increased to the level of the joint standard deduction. For 1993, this implies an increase of \$750. Child support payments and the assured benefit would be taxable to the custodial parent, and tax deductible to the noncustodial parent, if the custodial parent receives the personal exemption for the child. If the noncustodial parent receives the personal exemption, child support payments would continue to not be included in gross income to the custodial parent. AFDC benefits, food stamps, SSI and housing benefits would all be counted as taxable income to the custodial parent.

Phasing

For numerous reasons, including capacity and cost constraints, the reform plan will need to be phased in over a period of years. While strong arguments exist for each of the different phase-in strategies, the cohort phase-in may most clearly convey the message that the current system is seriously being reformed. Under the cohort option, States would be required to serve all members of an incoming cohort (e.g. all applicants in a given year, or specific sub-groups within an incoming cohort). States might choose to serve some of the existing caseload but would not be required to do so. As emphasized under the teen pregnancy and parenting section, one specific subgroup that seems especially important to serve is teen mothers.

Sanction Policy

Sanction policy would follow current law with some additional State flexibility. Not participating in JOBS for a given month when required would result in using up a month of transitional payments and at State option up to three months of the adult portion of the AFDC grant.

The penalty for not working the required number of hours in the work slot was described earlier in the document. The penalty for not taking a private sector job when offered could follow current law, or result in the loss of all remaining months of transitional payments, or it could be the same penalty as not taking the work opportunity. The State would calculate the amount of assistance as if the job had been taken and adjust all forms of assistance accordingly. The actual penalty would be at State discretion.

Demonstrations, Research and Evaluation

A thorough evaluation of all aspects of the proposal would be conducted after the time-limited transitional assistance and public work programs had been fully implemented. If it was determined that harm was being done to children, the President would have the authority to modify or eliminate the time limit. Demonstrations and research projects will be determined at a later date.

Cost

The proposal would be deficit neutral and other than the taxation of welfare benefits previously described would involve no additional taxes (with the possible exception of previously submitted proposals involving the extension of social security coverage). Most of the financing would come from tightening eligibility rules for non-citizens receiving welfare payments and other entitlement program changes.