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COST ESTIMATE MEMO FOR COMPONENTS

OF THE ADMINISTRATION'S WELFARE REFORM PROPOSAL

SECTIONS:

PARENTAL RESPONSIBILITY
MAKING WORKING PAY
TRANSITIONAL ASSISTANCE FOLLOWED BY WORK
IMPROVING GOVERNMENT ASSISTANCE

DRAFT: SUBJECT TO CHANGE

COST ESTIMATE MEMO FOR WELFARE REFORM

INTRODUCTION

The following memo provides a detailed account of the assumptions and methodology behind the HHS cost estimates of the various provisions that will make up the "Comprehensive Welfare Reform and Family Support Amendments of 1994." These estimates represent the work of the staff of ASPE and ACF in HHS, CEA, NEC and FNS.

The provisions which make up the major elements of the proposal (Parental Responsibility, Transitional Assistance Followed by Work, Making Work Pay, and Improving Government Assistance), are described. For each provision, there is a detailed account of the assumptions and methodology used to estimate the costs.

The organization of this memo is based on the tables reporting the cost of the welfare reform options. The first section on SIM-AFDC explains the model that was used to predict the welfare dynamics which were in turn estimated for cost purposes.

The costs described are the ones that appeared in the Presidential memos. We assume that there will be no pay-go costs associated with regulatory changes. Therefore, these costs have appeared in separate tables.

These descriptions explain the general assumptions and methodology behind the cost estimates in the memos from the welfare reform working group. These estimates are the rationale behind the proposal to date. Therefore, the costs of the programs are yet to be finalized and should be interpreted as preliminary until final decisions are made about the design of the welfare reform bill.

SECTION 1: PARENTAL RESPONSIBILITY

MINOR MOTHERS PROVISION

PROPOSAL

All States would require minor mothers (mothers aged 13 to 17) to reside in their parents' household, with a legal guardian or other adult relative, or reside in a foster home, maternity home or other adult-supervised supportive living arrangement. There would be certain exceptions to this rule.

ASSUMPTIONS/METHODOLOGY

Impacts on Caseload

According to AFDC QC data, there are approximately 54,000 teen parents aged 13 to 17 who receive AFDC. Of these, 41 percent, or about 22,000, live on their own. The rest live with either their parents, another adult relative or someone else. It is assumed for purposes of this cost estimate that only the 22,000 living on their own would be potential cases that would be required to move back.

Of the 22,000, we assume that **60 percent** would have good cause for not moving back and that another **30 percent** would have their benefits terminated for failing to move back. (Since States currently have the option of implementing the minor parent provision, but most have not done so, it suggests that if forced to do so, many would probably be fairly liberal with good cause. This estimate assumes a 60 percent good cause rate, which is actually lower than is currently the case in most States with this provision in place).

We assume that **5 percent** of the 22,000 (or 1,100) would move back to a family not on AFDC, but that the savings from counting the grandparents' income will be offset by those cases where a grandparent is added to the AFDC unit.

Finally, we assume that the remaining 5 percent of the 22,000 will move back to an existing two person AFDC unit.

Therefore, we assume that of the 22,000 minor mothers affected by this proposal (those who are currently living on their own):

- 13,200 (60 percent) would have good cause for not moving back, producing no change in benefits;
- 6,600 (30 percent) would not move and would therefore have their benefits terminated;
- 1,100 (5 percent) would move in with a non-AFDC family, producing no net change in benefits; and
- 1,100 (5 percent) would move into an existing two person AFDC unit, which would produce AFDC benefit savings.

Cost Estimate

The costs in this estimate result from increased Food Stamp costs to offset lowered AFDC benefits.

Savings result from the sanctioning of mothers who refuse to move back with a responsible adult and from the combining of two two-person AFDC units into one four-person AFDC unit.

In the former case, we multiply the 6,600 sanctioned mothers by the average monthly AFDC benefit for a two person family of $310 in 1992. Therefore, we save $3720 per family per year for those families who becomes ineligible for benefits due to sanction, yielding an annual savings of $25 million. For the latter group of families who combine their AFDC units, we subtract the median benefits for the median benefit for one four-person unit ($435) from the median benefits for two two-person cases ($610). Then, we multiply this number ($185) by the number of affected families (1,100), resulting in $2.5 million in annual savings for these families.

There will, however, be a corresponding increase in Food Stamp benefits for both of these groups of families. Assuming that for every dollar lost in AFDC, a family receives about 30 cents worth of Food Stamps, the overall Food Stamp cost is about $8 million for both groups of families.

Therefore, the yearly savings from this provision are $27 million minus $8 million, resulting in net annual savings of $19 million.

NO ADDITIONAL MONEY FOR ADDITIONAL CHILDREN[1]

PROPOSAL

Allow States the option of keeping AFDC benefits constant when a child is conceived while the parent is on welfare. In order to exercise this option, the State must demonstrate that family planning services under 402(a)(15) are available and provided to all recipients.

Under this option, if a parent has an additional child, the State must disregard an amount of income equal to any increase in aid that would have been paid as a result of the additional child. Types of income to be disregarded include: (a) child support; (b) earned income; or (c) any other source that the State develops and is approved by the Secretary.

This provision will not be applied in the case of rape or in any other cases that the State agency finds would violate the standards of fairness and good conscience.

ASSUMPTIONS

We assume that states with one-third of the AFDC caseload will take this option.

Savings will result from the decreased benefits to the AFDC family. There will, however, be an increase in Food Stamps costs which will partially offset some of the savings.

This proposal would affect all cases in which a child was conceived after the proposal was implemented and while the case was on AFDC. We assumed that States would keep the maximum payment at the previous amounts for the number of children in the case at the time the case opened[2].

We also assumed that the need standard, which governs eligibility, would not be held to the standard for the original number of children. That is, the need standard would rise with case size, since it is a measure of the case's level of need, rather than the level at which the benefit would be paid.

Finally, we assumed that "no additional benefits for children conceived after the case was opened" also means no special pregnancy benefits for pregnancies that begin after the case has opened. Under current law, these special benefits may include a "special need benefit" added to the payment standard, and/or increasing the case size by one person to treat the unborn child as a member of the AFDC case.

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1. The Urban Institute performed the simulations and wrote up the results. This paper relies extremely heavily on that document.

2. The proposal could be modified to follow the 1992 California proposal in which the maximum was kept from increasing with additional children, but the payment standard (from which income is subtracted) was allowed to increase.

METHODOLOGY

Number of Children Affected

We used the fiscal year 1991 AFDC-QC model because QC data includes variables indicating the length of time the case has been on the rolls. Therefore, we can compare the months on the rolls to the ages of the children in the case.

The simulation is based on the date the case started receiving AFDC (not the date of application). We ran this simulation twice, with two different assumptions on time since implementation: 1 year and 3 years after implementation. That is, we assumed we were in the second year of implementation and the fourth year, in order to get an accurate simulation of the effects of the policy. For simplicity, we took the middle month of each year -- month 18 since implementation and month 42 since implementation. For impacts of other years, we interpolated the results from these two points.

For each run, if it had been X months since implementation of the proposal, a child is "disallowed" if the following were true: the child' age plus 9 months were less than the number of months the case had been opened, and the child's age plus 9 months were less than X. For women with other children, a pregnancy is "disallowed" if the case had been open less than 5 months. (Note that if a pregnant woman has no other children, the case must have opened after the pregnancy had started.) The payment standard and maximum payment are assigned based on the case size without the "disallowed" child and/or the "disallowed" pregnancy.

Limitations of this Methodology

One limitation of this methodology is that we cannot capture behavioral impacts on childbearing decisions. If this proposal changed behavior so that fewer children were born before a case applied for AFDC, we would underestimate the savings. Given the length of time for this effect to show up in the data, it probably would not affect the estimates until the out-years. If this proposal affected behavior after the case were getting AFDC, that would not directly affect the savings estimate, because AFDC is not paying additional benefits to the "additional" children.

We were not able to capture the effects of the exemption provisions described in the first paragraph for cases that leave the caseload and then return.

Simulation Results

In 18 percent of all cases, the youngest child's age is such that the child was conceived after the AFDC case was opened. This does not mean that the proposal would affect 18 percent of the caseload immediately. Assuming no change in childbearing behavior, the effect of the proposal would increase over time; from four percent in the second year to 11.5 percent in the fourth year after implementation.

In the second year after implementation, the QC model estimates that the average monthly caseload would decline about 0.1 percent, total annual benefits would decline about 0.9 percent, and average annual benefits would decline about 0.8 percent. About 0.1 percent of total cases -- some of those with other income -- would lose eligibility under this proposal because they would no longer be eligible for a positive benefit using the smaller payment standard. About 3.9 percent of the average monthly caseload would have lower benefits under this proposal.

In the fourth year after implementation, the results are bigger: a 0.7 percent decline in the average monthly caseload, a 3.3 percent decline in total annual benefits, and a 2.6 percent decline in average annual benefits. Approximately .7 percent of the total caseload would lose benefits and about 10.8 percent of the average monthly caseload would have lower benefits under this proposal.

These impacts when applied to caseload projections and interpolation between years yield the savings, in millions, shown in the cost table. We used the forecasts from the 1995 President's Budget for AFDC spending (ACF data). Since the eligibility impacts are small, we assumed Medicaid impacts would be negligible. For the Food Stamp Program offsets, we used the "rule-of-thumb", 30 percent offset of total AFDC savings.

For the second 5-year period, we assumed recipients adjust their behavior so the total AFDC savings increases by 4 percent per year.

COMPREHENSIVE GRANTS

PROPOSAL

This provision would establish demonstrations to educate and support school-age youth (ages 10 and above) in high risk situations, and their family members, through comprehensive social and health services, with an emphasis on pregnancy prevention. Funding and services provided under this program do not have to achieve this goal of comprehensiveness in and of themselves. Rather, this funding can be used to provide "glue money," fill gaps in services, ensure coordination of services, and other similar activities which will help achieve the overall goal of comprehensive integrated services to youth.

ASSUMPTIONS

This estimate was developed based on the cost per site, as we are unable to determine the actual cost per youth given the flexibility afforded by the demonstration. In determining the cost per site, the experience of the following programs was taken into consideration:

- The DOL Youth Employment and Training Demonstrations spent approximately $2,000 per individual/year.

- Based on the Carnegie Corporation Middle Grade School State Policy Initiative, which aims to implement Turning Points, the cost of reforming a middle school requires grants of $500,000-$750,000 over three years.

- The Public/Private Ventures STEP demonstration spent $200,000 per 165 students for summer academic enrichment and training. An annualized application of this is used to estimate the cost of after-school and evening enrichment and recreation programs.

- An average estimate of $300-$500 per youth/year for mentoring services assumes the cost of administering programs in which people volunteer to be mentors as well as the cost of lowering the adult to youth ratio in schools and recreation programs to increase youths' exposure to competent, caring adults.

Sites would be neighborhoods with a population of approximately 20,000. Youth ages 10 and above would be included in the demonstration.

METHODOLOGY

Each site would receive $3.6 million per year for five years. This $3.6 million per year for five sites ($18 million) results in a five year total for comprehensive demonstrations of approximately $90 million. The above assumptions indicate how many youth could be served with these funds.

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This provision also calls for an additional $10 million to be spent during this five year period for evaluation, training, and technical assistance.

The cost of these two components yields a total five year cost of $100 million.

TEENAGE PREGNANCY PREVENTION AND MOBILIZATION GRANTS

PROPOSAL

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The Teen Pregnancy Prevention Mobilization Grant Program will provide $3,000,000 over 5 years to about 1,000 schools and community-based programs. Each school will receive a grant of at least $50,000 and not more than $400,000 each year based on an assessment of the scope and quality of the proposed program the number of youth to be served by the program. This range is in line with experience of current pregnancy prevention and mentoring programs.

CHILD SUPPORT ENFORCEMENT

GENERAL ASSUMPTIONS

The child support proposal contains both small and large changes in the way the child support enforcement program would operate. Where a proposal substantially affected the entire caseload, or the majority of states, it was estimated separately. When a number of changes affected the same type of cases (for example, changes to streamline interstate case processing) the changes were estimated as a package. This packaging approach reduces the potential to overstate the effects of a group of related provisions. Lastly, changes that may effect costs in only one or two states or in a very small number of cases nationwide were not estimated. Generally speaking such changes could have a large effect on one state or on some individual cases but would not have a significant effect on national estimates.

Information for developing the estimates come from OCSE and AFDC administrative data, analysis from several national surveys conducted by the bureau of the Census, reports from states on their experience in implementing similar provisions on a voluntary basis, and on demographic trends.

Demographic and Caseload Trends

The following assumptions about the growth of the child support eligible population and about the AFDC and non-AFDC child support caseload were used in costing all the provisions.

- The number of child support eligible families will increase from 13 million in 1995 to 14 million in 2004. Basic demographic trends for families potentially eligible for child support were developed from Census data.

- The annual number of out-of-wedlock births was projected to increase from 1.5 million in 1995 to 1.7 million in 2004. These numbers are based on current fertility and marital trends.

- The number of families using Child Support Enforcement services was estimated at 8 million. Using custodial family units facilitated the use of AFDC administrative data and other national survey data in constructing the cost estimates. There are 15 million cases in the Child Support Enforcement system, but many of these cases represent two or more cases per family. Therefore, it was not possible to develop unduplicated family caseload counts from this source. Interstate cases are one of the primary reasons for case duplication.

- AFDC administrative data indicates that about 85 percent of AFDC households/children are child support eligible.

- The non-AFDC CSE caseload baseline was developed using Census and CSE administrative data. It is estimated that the non-AFDC portion of the CSE case load will grow at about the same rate as the AFDC caseload. About half of the current caseload is comprised of non-AFDC cases.

Uniform Cost Factors

In order to ensure the comparability of the estimates for various provisions, national expenditure and collections data were used to develop the cost estimates for the different provisions. State specific data was used when it was the only data available about the effects of a specific provision.

- Unless otherwise specified, all State costs and collections were phased in beginning with the effective date of the provision using a 25-50-75 percent phase-in rate. In other major child support reforms, the effects of specific provisions were often not discernable until several years subsequent to the effective date of the provision.

- Some provisions affected the speed at which a case would be worked rather than the working of an additional case. For those cases collections were assumed to happen three months earlier than under current law. These collection are a one-time only addition to collections. Generally there were no costs attached to these provisions, since the case would have been worked in the absence of the provision, but at a slower rate.

- Some provisions result in new cases worked which would not have been worked in the absence of the proposal. These proposals increase collections over multiple years. In the first year the increase is 50 percent of the total possible collections from the cohort. This adjusts for cases processed in January as well as December. The collection rates used for the second and third year varied with the type of provision.

- Non-AFDC collections are assumed to result in savings for the government because the increased income helps families reduce or avoid reliance on welfare programs. This cost avoidance is calculated at a rate of 20 percent of collections. This rate is based on a 1987 OCSE study.

- All non-AFDC CSE collections resulting from the proposal were not considered eligible for cost avoidance. National data indicates that CSE clients brought into the system under the universal mandates of the proposal are likely to receive some or all of their child support award in the absence of such mandates. In 1990, families with recent awards but who were not in the CSE system received about 85 percent of the aggregate amount of support due. Therefore, cost avoidance was only taken on the additional collections brought about by the child support enforcement program activities under the universal mandates.

- Collection increases were pegged to the per capita collections projected under current law for the President's budget (and beyond). That is, collections were attributed to cases with new or additional collections at the same per capita level that we expect under current law. Different per capita rates, based on CSE administrative data, were developed for new awards and enforcement actions for both AFDC and non-AFDC cases. In AFDC cases the per capita collections included a reduction for the $50 pass-through.

ASSUMPTIONS FOR SPECIFIC CHILD SUPPORT PROPOSALS

Paternity Establishment Provisions

The paternity establishment provisions were aggregated into three major proposals: the effects of incentives and outreach on in-hospital paternity establishment; the effects of cooperation and good cause requirements; and the effects of administrative procedures on voluntary paternity establishment. It is estimated that the three provisions would result in government costs in FYs 1995 and 1996 but would generate savings thereafter.

Incentives and Outreach

This proposal would pay states up to five percent additional FFP for paternities established through in-hospital based paternity establishment programs (standards to be established by the Secretary) and would require states to engage in activities to promote voluntary paternity establishment.

This proposal increases the number of paternities established under the in-hospital paternity establishment programs mandated in the Omnibus Reconciliation Act of 1993. It was assumed that under the OBRA provisions, paternity would be established in about 40 percent of the annual out-of-wedlock births by fiscal year 1999 and the rate would remain relative stable thereafter. This is based on data from Virginia, West Virginia, and Washington, all of which have been operating in-hospital paternity establishment programs for several years.

Because of the new incentives which reward states for in-hospital paternity establishment performance and the mandated outreach provisions it was assumed that the in- hospital paternity establishment rate would reach 50 percent by 1999 and 60 percent by 2004. Of those paternities established due to the proposal, it was assumed that 30 percent were already or would become AFDC cases in the first year after the child's birth. An additional twenty percent would receive AFDC in the second year and ten percent would be receiving AFDC by the third year after the child's birth. An additional five percent would become non-AFDC cases in the first year, ten percent in the second year and five percent in the third year.

This proposal would generate savings due to increased collections and the reduced cost of establishing paternity. These savings are offset to some degree by the cost of the outreach program and the cost of establishing more paternities in the hospital.

Non-Cooperation and Good Cause

These provisions would require that AFDC applicants cooperate in the establishment of support prior to receipt of AFDC benefits. The number of new entrants each year were taken from the work-welfare model estimates. Based on estimates from other data (SIPP and IQC) it was assumed that 60 percent of new entrants would be coming onto the rolls with out-of-wedlock children. It was also assumed that these cooperation requirements will apply to out-of-wedlock children born to women already receiving AFDC benefits.

Of those new birth/entrants fifty percent will cooperate or have paternity established; five percent will have legitimate good cause claims; five percent will be sanctioned for non-cooperation; and ten percent will provide information but we will be unable to locate the father. The remaining thirty percent, who provide information that would not have been provided under current law, proceed through the paternity establishment process. Of these ninety percent get paternity established and 90 percent of those with paternity get awards. Of those with awards 56 percent get collections. Collections are not phased-in. Collections were offset for the additional costs of more cases being worked. Blood tests were estimated at a cost of $400 per case, voluntary stipulations were $150 and the cost of order establishment was $400 additional.

Additionally savings were achieved because some women are sanctioned for non-cooperation under this proposal. While it was assumed a steady state sanction rate of five percent by FY 1999, a higher sanction rate was assumed in the first several years. Twenty percent of cases were sanctioned in 1996, 15 percent in 1997, and 10 percent in 1998. The benefit reduction rate for all years was $69 per month and sanctions continued for two years or less. Additional costs were allocated for IV-A administration to handle the additional hearings that would result from this provision.

No change was estimated due to the possibility of a "family cap" provision. If the family cap includes the new child in the AFDC unit, but with zero payment, then the cooperation requirement would still apply. The mother would be sanctioned if she choose not to cooperate. If the child is outside the AFDC family unit, but still receiving Medicaid, the mother is still require to cooperate in establishing medical support and most often also agrees to the establishment of cash support as well. If the child is outside the unit and child support payments are excluded from the family income calculation, then the mother would have even more reason to cooperate because total family income would increase if child support was received.

Voluntary Acknowledgement for Paternity

Under this proposal paternities established under current law would no longer have to go to court to require genetic testing or to ratify the results of a genetic test.

Based on an Urban Institute study we estimated that at least 25 percent of all paternities established required a minimum of one court appearance. This provision would result in cases being processed more quickly. Additional collections would be obtained for cases where the blood test showed a high probability of parentage (70 percent of cases with genetic testing). Collections would result in 56 percent of these cases. We assume no phase-in for this provision because under OBRA such procedures must be in place (but they do not have to be used). Paternity costs were reduced by $100 per case to account for the elimination of court involvement and the streamlining of administrative procedures.

The following tables show various aspects of the paternity establishment provisions. The first tables shows the anticipated results of the in-hospital based paternity establishment activities. The second table shows paternities established under the regular IV-A program activities. The final table shows the number of children who continue to need paternity established. These efforts are shown for current law and the proposal.

Table 1 - In-Hospital Paternities To Be Established

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Out of Wedlock births	1,413	1,450	1,484	1,515	1,544	1,569	1,595	1,620	1,643	1,668
Current Law In-Hospital Paternity Establishment	283	363	445	530	618	628	638	648	657	667
Projected Percentage of Establishments	20%	25%	30%	35%	40%	40%	40%	40%	40%	40%
In-Hospital Paternity Establishment Under the Proposal	28	58	89	121	154	188	223	259	296	334
Projected Percentage of Establishments Under the Proposal	2%	4%	6%	8%	10%	12%	14%	16%	18%	20%
TOTAL In-Hospital Paternities Established	311	421	534	651	772	816	861	907	953	1,001
In-Hospital Paternities Established As A Percentage of all Non-Marital Births	22%	29%	36%	43%	50%	52%	54%	56%	58%	60%

* Triple in-hosp. p/e over 10

Table 2 - CSE Paternities Established (Not In-Hospital)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Current Law CSE Paternities Established	520	551	556	561	584	620	657	693	728	764
CSE Paternities To Be Established Under the Proposal	0	262	289	317	347	348	353	359	364	370
Total CSE Paternities To Be Established Under CSE	520	813	845	878	931	968	1,010	1,052	1,092	1,134

Table 3 - SUMMARY

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Surviving children (<18) ever born out of wedlock	16,826	17,719	18,593	19,430	20,272	21,111	21,952	22,786	23,586	24,362
Children ever eligible for paternity establishment	14,996	16,042	16,956	17,824	18,689	19,541	20,386	21,219	22,019	22,795
Current Law Paternities Under CSE and OBRA	803	913	1,001	1,092	1,201	1,248	1,299	1,340	1,385	1,431
Additional Paternities To Be Established Under The Proposal	28	320	378	438	501	536	576	618	660	703
Projected Number of Children Without Paternity Established	9,850	9,891	9,668	9,263	8,698	8,063	7,374	6,617	5,796	4,930

* cut # of kids w/o p/e in half

Enforcement and Establishment Provisions

These provisions taken as a group provide savings in all fiscal years. However, there are some individual proposals that do not produce any government savings. All of these proposals, however, are essential to developing a child support system which ensures that all children are financial supported by both parents and that child support collections support the transition of families from dependency to economic self-sufficiency.

Licensing

This proposal requires that renewal/receipt of State driver's and professional licenses be contingent upon payment of child support.

This estimate is for the combined effect of conditioning both professional and drivers licenses on the payment of support. Most people with a professional license would also have a driver's license but the schedule for renewal and the impact of non-renewal would likely be different. More collections would be obtained if both proposals were in place than if only one proposal was enacted. A three percent increase in collections is assumed for both AFDC and non-AFDC. This is based on conversations with states and their responses to a CBO/APWA survey on the effects of monitoring license renewal.

Collections would be offset by increased cost of $1 per case with arrears for processing this information. There is an additional cost of $5 per "hit", that is, taking an action when a case is found. The assumption was that eight percent of the cases processed would be "hits." This was based on information from states that have already implemented license renewal monitoring.

Costs and collections were reduced by 30 percent to account for states that have already implemented licensing programs. There was no phase-in for implementation; states seem to generate savings quickly under these kinds of programs.

W-4 Reporting

Under the W-4 reporting proposal a national data base would be established for all new hires. This database would be used by states for both intrastate and interstate cases. The effectiveness of W-4 reporting is dependent on the full implementation of a unified state database for all child support cases.

The W-4 estimates utilize results from the Virginia W-4 reporting project. Separate rates were used for enforcement and establishment by AFDC and non-AFDC case status. These results were increased by 30 percent to account for the ability of a national W-4 system to provide information on interstate cases. The Virginia results were not dissimilar from a previous study done in Washington State. The caseload was reduced by 25 percent to account for states that have or will have W-4 reporting in place before 1995. Collections were assumed to be achieved three months sooner than would have been the case under current law.

Costs for the W-4 reporting system are primarily born by the Federal government and are included in the cost of Federal ADP systems development and operations. Some additional costs were included to account for interstate cases that would not be identified and worked under state based W-4 systems.

Interstate

Several interstate proposals were estimated together, including the enhanced Federal Parent Locate activities and the adoption of the Uniform Interstate Family Support Act (UIFSA). The enhance Federal locate would help states identify non-custodial parents who are not paying their child support through a national registry of all child support obligations registered in the states. Adoption of UIFSA would require uniform case processing across state lines and would allow states to treat many interstate cases as if the non-custodial parent lived within the state.

The caseload base was 30 percent of unduplicated cases. Thirty percent is the accepted estimate for the proportion of interstate cases. Twelve percent of the existing interstate cases are paying cases. This was based on CSE administrative data. We assumed a ten percent increase in paying cases as a result of these provisions. Because more non-custodial parents could be located and more cases could be processed by the state in which the custodial parent lived, rather than having to be sent to the non-custodial parents state for processing, the payment rate on interstate cases would be more similar to the payment rate for intrastate cases. The increase in the number of paying cases was multiplied by the per capita collection to reflect increase collections.

This provision would increase the Federal government's cost of operating the Child Support Enforcement System. Those costs are included in the cost of enhanced ADP systems. No other increases or decreases in cost result from this provision. It was assumed that the increased cost due to working more interstate cases would be offset by a decrease in the cost of working interstate cases overall.

Administrative Authority

Increased use of administrative authority would reduce or eliminate the involvement of the courts in establishing orders for marital cases and non-marital cases in which paternity has already been established. On an annual basis orders are established for 14 percent of the unduplicated AFDC caseload and 9 percent of the unduplicated non-AFDC caseload.

Administrative processes would result in collections being obtained three months earlier. There are no additional costs since these cases would be processed under current law but at a slower pace. There is no information available to assess whether administrative establishments are less costly than court based establishments. Legal costs may be less in administrative establishments, but CSE must pick up all the cost. Under current law, certain court costs are excluded from CSE reimbursement.

Establishment of State Registry and Increased State Level Responsibilities

These proposals would require that states establish automated central registries of child support orders which include all CSE program cases and all new and modified orders established in the state. The state must also have sufficient state staff and authority to monitor cases and impose enforcement remedies that can be handled through mass case processing.

Based on the recent experience in Massachusetts collections for both AFDC and non-AFDC cases were assumed to increase by 7.5 percent. Some additional costs would be incurred because of the increase in cases worked. However, the increased use of technology and mass case processing would offset the need for significant increases in staff to handle the expanded workload.

Universal Mandates

This proposal would require that all new and modified orders in the state be included in the state child support enforcement system, unless the parents ask to be excluded from the requirement. States currently have the authority to require such participation under state law, but only ten percent of states have chosen to do so.

Census data indicates that there were about 500,000 families with awards established or modified in 1991 that were outside the CSE program. This level is projected to remain stable over the ten year period. We assumed that by the year 2000, about 400,000 of these awards would come into the CSE program each year. It would take several years for the states to be able to absorb this level of caseload growth. It is projected that there would be a cumulative increased caseload of 1 million families by FY 2000. The stock is larger than the flow because initially cases would not leave the CSE system as fast as they entered. The average age of children at the time of divorce is 7 to 8 years.

For these new non-AFDC cases coming into the system, 85 percent would pay the child support owed under current law (CPS Child Support Supplement, 1990). These cases would cost the government $5 a month for tracking and distribution. Enforcement action would be taken on the remaining 15 percent of the incoming cases. Enforcement costs (assuming all the proposed revisions and simplifications in this proposal) would be $100 per case. (Current reported enforcement costs are $164 per case).

New collections based on enforcement action on the remaining 15 percent of the cases were reduced by 50 percent to account for cases that would have come into the CSE System under current law. Cost avoidance is taken on the remaining collections.

Review and Adjustment

This provision requires that all awards in the state child support registry be reviewed and adjusted every 3 years based on a reapplication of the child support guidelines. The review and adjustment would be mandatory. This provision would not take effect until FY 2000. Under current law review and adjustment are mandatory for AFDC cases and can be obtained upon request by either parent in non-AFDC cases.

Based on information from the CSE review and adjustment demonstrations, the cost of $100 per case reviewed was used for each non-AFDC case selected for review. This incorporates both the cost of the review and the cost of adjustments for those cases adjusted. For the current non-AFDC caseload, 21 percent of the cases would be reviewed each year. This represents a third of the caseload eligible for review. Of the cases reviewed it was assumed that 30 percent of these cases would be adjusted. This is twice the rate of adjustment experienced in the mandatory AFDC reviews. Cases were adjusted by increasing the per capita payment by 10 percent. The ten percent represents the equivalent of a three year CPI increase. These increases were cumulative for three years.

For the new CSE cases (coming in under the universal mandate), 80 percent of three year old cases would be reviewed. Fifty percent would be adjusted and the adjustment would be 15 percent. This estimate reflects the higher income of the non-custodial parents paying support to families outside the CSE program. All research indicates that higher income is associated with payment of child support.

The following tables illustrate the effects of the proposal on collections and expenditures. Table 4 shows the increase in collections for both AFDC and non-AFDC families and the estimated effects of the sanctions. Table 5 shows the changes in expenditures and changes in the federal and state shares due to financing. Table 6 illustrates the estimated total change in savings.

Table 4 - PRELIMINARY ESTIMATE OF CHILD SUPPORT COLLECTIONS AND SANCTIONS
(Numbers in millions)

	1995	1996	1997	1998	1999	5 YEAR TOTAL	2000	2001	2002	2003	2004	10 YEAR TOTAL
TOTAL COLLECTIONS												
Total Collections - Current Law	10,578	11,582	12,543	13,574	14,676	62,953	15,786	16,853	17,779	18,791	19,578	151,740
Increase Under Proposal	2	259	840	2,128	4,020	7,249	6,445	7,713	8,550	9,054	9,441	48,452
Total Collections - Proposal	10,580	11,841	13,383	15,702	18,696	70,202	22,231	24,566	26,329	27,845	29,019	200,192
AFDC COLLECTIONS												
AFDC Collections - Current Law	2,908	3,216	3,483	3,776	4,070	17,453	4,383	4,672	4,936	5,164	5,356	41,964
AFDC Decrease (arrears to families)	0	0	0	151	163	314	175	187	197	207	214	1,294
AFDC Increase	2	156	332	668	1,018	2,176	1,380	1,764	1,966	2,068	2,156	11,510
Payments to families	1	55	115	211	289	671	360	430	459	471	481	2,872
Payments to Families (arrears)	0	0	0	27	41	68	55	71	79	83	86	442
Federal Share	1	55	119	252	402	829	564	737	834	884	927	4,775
State Share	0	44	96	201	321	662	449	587	663	702	736	3,799
AFDC Collections - Proposal	2,910	3,372	3,815	4,444	5,088	19,629	5,763	6,436	6,902	7,232	7,512	53,474
NON-AFDC COLLECTIONS												
Non-AFDC Collections - Current Law	7,670	8,366	9,060	9,798	10,606	45,500	11,403	12,181	12,843	13,627	14,222	109,776
Non-AFDC Increase	1	103	193	499	1,035	1,831	1,607	2,277	2,716	2,886	3,025	14,342
Universal Mandate Increase	0	0	314	961	1,967	3,242	3,458	3,672	3,888	4,099	4,260	22,619
Available for Cost Avoidance	1	103	205	555	1,186	2,050	1,913	2,747	3,289	3,494	3,663	17,156
Cost Avoidance	0	21	41	111	237	410	383	549	658	699	733	3,432
Federal Share	0	12	25	67	142	246	230	330	395	419	440	2,060
State Share	0	8	16	44	95	163	153	220	263	279	293	1,371
Non-AFDC Collections - Proposal	7,671	8,469	9,568	11,258	13,608	50,574	16,467	18,130	19,426	20,612	21,508	146,717
AFDC SANCTIONS												
Proposed Savings	0	35	82	60	37	214	23	23	24	24	24	332
Federal Share	0	20	47	34	21	122	13	13	14	14	14	190
State Share	0	15	35	26	16	92	10	10	10	10	10	142

(50%)
- Increase collections by a third - 50B over 10 (10/yr in out yrs)
- $11 B new collections from fathers of kids on welfare

Table 5 - PRELIMINARY ESTIMATE OF CHILD SUPPORT EXPENDITURES AND FINANCING CHANGE
(Numbers in millions)

	1995	1996	1997	1998	1999	5 YEAR TOTAL	2000	2001	2002	2003	2004	10 YEAR TOTAL
EXPENDITURES (w/out enhanced ADP)												
Expenditures - Current Law	2,570	2,836	3,119	3,430	3,778	15,733	4,118	4,442	4,746	5,024	5,269	39,332
Expenditures Increase	11	142	155	193	239	740	379	403	410	418	418	2,768
Federal Share	7	98	112	158	198	573	318	342	353	364	364	2,314
State Share	4	44	43	35	41	167	61	61	57	54	54	454
Expenditures - Proposal	2,581	2,978	3,274	3,623	4,017	16,473	4,497	4,845	5,156	5,442	5,687	42,100
FINANCING CHANGE (w/out cost avoidance)												
Base - Current Law												
Federal Share	793	875	977	1,090	1,228	4,963	1,353	1,476	1,594	1,706	1,808	12,900
State Share	(599)	(658)	(703)	(745)	(775)	(3,480)	(820)	(855)	(884)	(906)	(920)	(7,865)
Base - New FFP												
Federal Share	794	953	1,156	1,054	1,240	5,197	1,416	1,598	1,781	1,963	2,087	14,042
State Share	(600)	(736)	(882)	(709)	(787)	(3,714)	(883)	(977)	(1,071)	(1,163)	(1,199)	(9,007)
Difference												
Federal Share	1	78	179	(36)	12	234	63	122	187	257	279	1,142
State Share	(1)	(78)	(179)	36	(12)	(234)	(63)	(122)	(187)	(257)	(279)	(1,142)

Table 6 - PRELIMINARY ESTIMATE OF CHANGE IN SAVINGS
(Numbers in millions)

	1995	1996	1997	1998	1999	5 YEAR TOTAL	2000	2001	2002	2003	2004	10 YEAR TOTAL
Total	10	(14)	(185)	(293)	(602)	(1,084)	(862)	(1,297)	(1,557)	(1,671)	(1,773)	(8,244)
Federal Share	7	86	95	(159)	(277)	(248)	(339)	(523)	(603)	(592)	(630)	(2,935)
State Share	3	(100)	(280)	(134)	(325)	(836)	(523)	(774)	(954)	(1,079)	(1,143)	(5,309)

FINANCING AND DISTRIBUTION

Priority for Distribution

Under this proposal more child support would be paid to former AFDC recipients, the under current law. Under current law the State can choose to pay itself back first for any assigned child support debt after a family is no longer receiving AFDC. This policy would be changed so that the family would be paid for any child support debt owed them before the state could reimburse itself.

It is estimated, based on Massachusetts data and OCSE administrative data, that this change would transfer an additional four percent of AFDC collections to families. These funds are available for cost avoidance as they will assist former AFDC families remain self-sufficient.

Change in Financing

The proposal contains major changes in the way the Child Support Enforcement Program is financed. Under the proposal the four components to the financing system would change as follows:

- The basic Federal matching rate for expenditures would increase from 66 percent to 75 percent. Enhanced funding for changes in ADP systems would be extended from FY 1995 to the end of FY 1997. Enhanced match would be provided for additional activities including paternity establishment outreach, and training and technical assistance activities within the state. Currently genetic testing is funded at an enhanced match rate of 90 percent.

- Incentives paid to states are based on the States AFDC and non-AFDC collections. Based on their cost to collections ratio all states get at least six percent of their AFDC collections and up to six percent of their non-AFDC collections (although the later is limited to 115 percent of the AFDC amount). Depending on performance a state may get up to ten percent of collections in incentives. These incentives may be used by the state for any purpose but must be shared with any local government which provides part of the programs non-federal match.

  Under the proposal incentives would be paid as an add on to the States federal matching rate for child support enforcement rather than as a rebate to their AFDC benefit grant. Up to five percentage points FFP would be paid for paternity establishment performance, up to ten percentage points FFP would be paid for overall performance which includes the proportion of cases with awards, the proportion of cases with payments, the ratio of amount due to amount paid and the ratio of amount collected to amount spent on the program. An additional five percentage points FFP would be paid to any state whose child support was operated and funded entirely at the State level (unified state system)

- Under current law States get to keep a share of the AFDC collections not paid to families. The share the state retains is determined by the states' matching rates for AFDC benefit payments. This would not change under the proposal.

- States are required to charge fees (although in most states these are nominal or are paid by the state) and states may recover costs for child support services to non-AFDC families. The proposal abolishes the charging of fees and cost recover except for those states that currently have such policies in place.

Much of the financing cost estimation is straight forward. The new base matching rate starts in FY 1996 at 69 percent, increasing to 72 percent in FY 1997 and 75 percent in FY 1998. The matching rate used to distribute AFDC collections to the state and federal government was the FY 1995 FMAP, which produces an aggregate share of 57 percent for the federal government and 43 percent for the state. Incentives paid to the states in FY 1995 through FY 1997 were assumed to the same amount as would have been paid under current law and were credited against the Federal share of collections.

Incentives under the proposal were applied as an expected average FFP rate across all the states rather than calculated for each state and then aggregated. This was done for two reasons. First, the child support enforcement performance standards are to be set by the Secretary through the regulation process; therefore, it was not possible to determine even using actual data, which states might meet or exceed any performance standard. Second, it is not possible to predict any particular states behavioral response to the performance incentives.

Beginning in FY 1998 the cost of the incentives were estimated as an increasing share of the potential 20 percent FFP maximum. In FY 1998 the average incentive rate was assumed to be seven percent. This rate grew by one percentage point per year through FY 2003. The 12 percent FFP rate in 2003 was maintained in 2004. Under current law State performance in the various areas where standards are to be established as improved steadily (but slowly) over time. With new tools and greater rewards for performance the program should be able to gradual improve their overall matching rate. Of the overall twelve percentage points (in 2003) two percentage points for the unified state systems (out of five percent possible). Up to 16 states, most small to medium sized states (about 25 percent of the total caseload) currently have or are close to meeting the definition of a unified state system. Paternity establishment was estimated at three percent. Those States that have already established in-hospital based paternity establishment programs reached a 40 percent penetration rate relatively quickly. It is assumed that states will reach 60 percent by 2004. Three percentage points out of five is consistent with this estimate of performance. The remaining seven percentage points (out of ten possible) reflect improved state performance in award establishment, collections and cost-effectiveness. The proposal projects increased performance by the states in all these areas.

The change in financing was handled separately for the new provisions and for the current law base. All new provisions were costed using the new funding scheme. Because the change in financing is built into the net effect of the provision there is no separate calculation for the cost of the provision under the current and proposed financing schemes.
The current law base was reestimated under the new financing provisions and compared to the financing under current law. For the current law base there is no change in the collections and expenditure streams only a reallocation of the shares paid for by the state and federal government. Under the new financing structure it is estimated that States will receive a greater return on their investment than they do under current law.

SECTION 2: MAKING WORK PAY

AT-RISK CHILD CARE

PROPOSAL

Provide child care services to working poor families by expanding the At-Risk for those who are not already receiving child care subsidies from IV-A programs.

ASSUMPTIONS/METHODOLOGY

The Administration is proposing to increase the funding for the At-Risk Child Care program, which provides child care subsidies for working poor families who do not receive welfare. Subsidies for this population currently come from the At-Risk Child Care program and the Child Care and Development Block Grant. Since we propose, in this legislation, to increase funding for the At-Risk Child Care program, we have assumed that states will target their resources towards families who are below 130 percent of poverty. Therefore, when this discussion refers to "working poor child care," that is the population that we are considering.

The estimate of the amount necessary for full coverage of the working poor should be regarded with some caution. These estimates only refer to the population below 130 percent of poverty, so there are presumably needy families above this income level who will also need care. Also, these estimates do not assume any change in work behavior of parents below 130 percent of poverty, such as changing from night to day shifts or a nonworking parent joining the labor force. They also do not take into account potential usage by families with a nonworking parent at home. Therefore, these assumptions lead to an estimate of potential need which could be underestimated for the reasons stated above.

Number and Age Distribution of Children from Working Poor Families

The first step was to determine the size of the population of children who were under 130 percent of poverty and whose families did not receive AFDC. We had the Urban Institute do a TRIM run using average monthly data in order to accurately gauge the number of children who received and did not receive AFDC. Using this data, I found that, in 1991, there were between 8 and 8.5 million children who were under 130 percent of poverty and whose families did not receive AFDC. (These families will, in the future, be referred to as working poor families to distinguish them from AFDC families.)

Since all of this data was for 1991, we then had to make some estimate of how the number of working poor children would change over the next 15 years from 1991 to 2004. The Census Bureau performs population projections by age each year, but no one projects poverty rates. Therefore, I used Census data to determine the total number of children in 1991.

Using the TRIM data, I determined the percentage of children who were below 130 percent of poverty. Then, keeping these percentages constant, I applied them to population projections in subsequent years to determine the overall population of children below 130 percent of poverty. To get the number of working poor families, I subtracted ACF's AFDC caseload projections from that number. My justification for using constant percentages is the fact that improving macroeconomic conditions might lead to a decrease in poverty rates, but demographics (increasing number of single parents and out-of-wedlock births) would balance this out by increasing poverty rates.

Finally, I removed TCC participants from the working poor population. Each year approximately 1,000,000 children will be in families who will leave welfare for work and stay off of welfare for at least one year. I assume that 90 percent of those people will stay below 130 percent of poverty. Approximately 900,000 children each year will be potentially eligible for TCC, representing about 12 percent of the working poor population. Non-TCC eligible children below 130 percent of poverty represent approximately 88 percent of the population of children below 130 percent of poverty.

Full-Time vs. Part-Time Care

Families were considered to need full-time care if they lived in a two parent family in which both parents worked full-time or in a single parent family where the parent worked full-time. We judged that children would need part-time care if their two parents worked part-time or one parent worked full-time and the other worked part-time. If a single parent worked part-time, his or her child would need part-time care as well. If one parent did not work, the child was not considered to need child care. These same standards apply to legal guardians of children who do not live with their parents.

Our definition of a full-time worker was someone who usually works full-time (40 hours or more) during the year. We defined a part-time worker to be someone who did not usually work full-time during the year. We found that approximately 25 percent of children below 130 percent of poverty had parents who satisfied the definition of full-time work and approximately 15 percent had parents who satisfied the definition of part-time work.

Take-Up (Utilization) Rates

We assumed that working poor families would have the same utilization rates for full-time and part-time care and that these rates are the same as those for AFDC families in part-time work. These rates are 45 percent for full-time and part-time care for children who are five years old and younger and 35 percent for children who are six years old and over. The average rate is approximately 40 percent, representing about a 10 percentage points increase over average current rates for families below 130 percent of poverty (Current rates from SIPP). **(For background on take-up rates, see JOBS/WORK child care section.)**

Unit Costs

The Unit Costs for TCC are the same as those for JOBS/WORK and Working Poor Child care. See Unit Costs section in JOBS/WORK child care for a description and explanation of the development of the unit costs.

Child and Adult Care Feeding Program

The Child and Adult Care Feeding Program methodology is the same for the At-Risk Program as it is for JOBS/WORK Child Care.

How Many Slots

Based on the above analysis, a cost was calculated for providing care for all non-AFDC and non-TCC children whose families are below 130 percent of poverty. Since we are increasing funds for the At-Risk Child Care program, and we have no evidence that states are spending this money on children whose families' incomes are above 130 percent of poverty, we assume that states would continue to serve this population with increased funds. However, we do not specify in the Administration's proposal that states restrict their funding to those below 130 percent of poverty.

Therefore, the following table illustrates the number of slots that are currently being purchased and would be purchased under our funding stream for this population. This estimate represents the number of slots that can be purchased with the specified funds. States could make these funds go further with co-payments from parents based on their sliding fee scales for the Child Care and Development Block Grant. For instance, if the average family of four, with two children in care, paid an average of $125 per child, per year, there would be approximately 5,000 more slots partially subsidized slots per year.

Table 7 - Slots for Expansion of At-Risk Child Care Program

	1995	1996	1997	1998	1999
Additional Funding for the At-Risk Child Care Program (Federal and State Expenditures)	$0	$225 million	$350 million	$575 million	$1 billion
Additional At-Risk Child Care Slots Under the Administration Proposal[3]	0	80,000	120,000	195,000	300,000

Current Law

In order to determine net costs for working poor child care, we subtract baseline expenditures from the Child Care Development Block Grant (90 percent that goes to services) and At-Risk Child Care, which total approximately $1.5 billion per year.

3. This figure represents the total number of full-time, part-time, and Head Start wraparound slots that could be paid for from the above funding.

ALLOW STATE FLEXIBILITY ON INCOME AND CHILD SUPPORT DISREGARDS

PROPOSAL

This proposal would replace the current $90 work expense disregard, the $30 earned income disregard for 12 months, and the 1/3 earned income disregard for 4 months with a flat $120 per month disregard. This disregard would be time invariant, and would be adjusted for inflation in rounded increments of $10.

The AFDC $50 pass through for child-support payments will also be adjusted for inflation in rounded $10 increments.

States will have complete flexibility to establish disregard polices above these amounts. In addition, states will have complete flexibility in establishing fill-the-gap policies (i.e., States can determine which types of income will be considered, such as child support payments, stipends, etc. in addition to the earned income).

ASSUMPTIONS/METHODOLOGY

Cost estimates for this provision were done in three steps.

The child support provision was estimated by assuming that states with ten percent of the AFDC caseload currently receiving a child-support pass-through would increase the pass through by an additional $50 per month.

The cost estimate for allowing state flexibility on earned income disregards is based on estimates generated by TRIM2, with adjustments made based on conversations with states representing roughly half of the AFDC caseload.

TRIM2 was used to simulate a policy which assumed that on average, state policies would be equivalent to eliminating the current time limit on the $30 and 1/3 disregards. The TRIM2 simulation included no behavioral changes, which would be expected.

States were polled to understand what their responses to a state-flexibility policy might be. In general, states indicated that simplifying and enhancing the treatment of income was high on their wish list. However, state personnel noted that state fiscal constraints are a barrier to any program expansions. If enhancements to the treatment of income are to be made, the changes would likely be financed by changes in other areas of their AFDC programs, or would be made under the assumption that substantial increases in work among recipients would minimize the potential costs.

As a result of the views of state human services personnel, the TRIM2 estimates were adjusted downward. It was assumed that the total Federal/State AFDC cost of allowing state flexibility on income disregards would be roughly $240 million in FY 99. $40 million of those costs result from indexing the federally established disregard. The disregard is assumed to be adjusted in FY 99 and FY 03 due to inflation. The estimates for years other than FY 99 reflect the same percentage change of costs as the FY 99 estimate, with appropriate adjustments made to reflect the expected costs of indexing the federal minimum.

Food Stamp costs were calculated using the "rule-of-thumb" that one dollar in AFDC costs results in $.29 in Food Stamp savings.

SECTION 3: TRANSITIONAL ASSISTANCE FOLLOWED BY WORK

SIM-AFDC: ASPE'S SIMULATION MODEL

ASSUMPTIONS: THE BUILDING BLOCKS OF THE MODEL

SIM-AFDC is a relatively simple probabilistic model that ASPE has been used to simulate the effects of various reforms of the welfare system. The model is a dynamic microsimulation model that is driven by three main probability equations: one for exits from a first spell of AFDC, one for exits from second and subsequent spells of AFDC, and one for returns to AFDC. The two exit equations are multinomial logit equations that allow a person to exit welfare for work, marriage or other reasons. The return equation is a simple binomial logit model.

The equations for the model were estimated using data from the National Longitudinal Survey of Youth (NLSY). Each equation is estimated as a discrete-time hazard model with fixed and time-varying covariates. The age of the household head, age of the youngest child and number of children are entered as time-varying covariates and are updated on a monthly basis in the model. If an unmarried recipient leaves welfare for a marriage exit, her marital status is updated to ever married for the remainder of the simulation. Similarly, if a recipient leaves for a work exit and has no previous work experience, his/her work experience is updated to reflect the fact that s/he now has recent work experience. Unemployment rates are updated annually using national projections. All other covariates are fixed at the point at which recipient first receives welfare. These fixed covariates include race/ethnicity; region; maximum AFDC benefit; education; whether a recipient lives in public or subsidized housing; whether a recipient has a disability or health problem that limits the amount or kind of work a person can do; whether a recipient receives child support and the amount of support received; and a predicted wage. Additional covariates that are included in the return equation include whether a recipient has private health insurance and reason for most recent exit from welfare.

The model also includes a secondary set of equations used to predict subsequent births. These equations have also been estimated using data from the NLSY. Separate equations were estimated for Whites, Hispanics and African-Americans.

The seed data for the model was extracted from the 1990 panel of the Survey of Income and Program Participation (SIPP). Three different data sets were created from this data to represent the following groups of recipients: 1) the current caseload; 2) new applicants; and 3) former recipients. The data set for the current caseload includes all women over the age of 15 who report receiving AFDC in January 1990. (Women living with a spouse who is also identified as receiving AFDC in that month are excluded.) The data set for new applicants includes women over the age of 15 who first report receiving AFDC after the start of the panel. The data set representing former recipients includes all women over the age of 15 who report receiving AFDC prior to January 1990, but were not receiving AFDC during that month. The data for the current caseload and new applicants were reweighted to match the QC data as closely as possible.

METHODOLOGY: HOW THE MODEL WORKS

Evaluating the Probabilities to Determine Subsequent Events (Exits, Returns, Births)

In each month, the characteristics of each "seed" are used to calculate the probability of exiting from AFDC in the current month if the recipient is on AFDC or of returning to AFDC if she is off AFDC (p_{return}). To determine a recipient's AFDC status for the next month, this calculated probability is compared to a number (r) between 0 and 1 that is drawn randomly from a uniform distribution. For exits from welfare, the likelihood of leaving welfare for work (p_{wrk}), marriage (p_{mar}) or for other reasons (p_{oth}) must be evaluated simultaneously. Thus, a recipient's status is determined according to the following:

Value of Random Number:	Status in t+1:
$0 < r <= p_{wrk}$	Exit for Work
$p_{wrk} < r <= p_{wrk}+p_{mar}$	Exit for Marriage
$p_{wrk}+p_{mar} < r < p_{wrk}+p_{mar}+p_{oth}$	Exit for Other Reason
$p_{wrk}+p_{mar}+p_{oth} < r <=1$	Remain on AFDC

In the case of returns, if $r <= p_{return}$, the recipient returns to AFDC in the next period. The model restricts returns to AFDC to women who have been off AFDC for 60 months or less. This is equivalent to treating women who have been off welfare for longer than five years as new applicants.

The likelihood of a new birth is calculated every twelve months. Again, a random number is generated to determine whether a birth will occur during the upcoming year. If a birth does occur, a separate routine based on published fertility rates by month of the year is used to distribute births across the months of the year.

Creating A Dynamic Caseload

The three different data sets described above were extracted from SIPP to be able to model movement on and off the welfare rolls as accurately as possible. In any give month, the caseload is made up of recipients who were on AFDC last month, recipients who were on AFDC previously and have returned to AFDC this month and recipients who are receiving AFDC for the first time. The data set that represents the current caseload accounts for the majority of recipients in the early years of the model. However, as time goes on these recipients leave and are replaced with new and returning applicants who then become part of the current caseload. Women who report receiving AFDC previously, but who were not on AFDC in January 1990 return to the welfare rolls as returning applicants based on calculated return probabilities during the first five years of the simulation.

In the model, a pre-determined number of new applicants enter the welfare system each month. In 1990, 1991 and 1992 the number of new applicants is set at 50 percent of the actual number of approved applications. In later years, the number of new applicants is assumed to be the number of new applicants in the previous year plus a percentage increase that is based on the projected growth of the AFDC caseload.

CAPABILITIES OF THE MODEL

Program Options That Can Be Modeled

The primary strength of this model is that it can provide us with detailed information on the total time women spend on the welfare rolls, making it possible to estimate the number of recipients who will spend more than two years on the welfare rolls under a variety of different scenarios. Currently, we have the capability of modeling the following policy and/or program options: exemptions, the impact of participation in JOBS, the response to the time limit, and the impact of the EITC and health care reform.

Projected Caseloads Under Program

See the next page for table 8, which is a summary of the distribution of the AFDC caseload under a welfare reform scenario.

Notes to Table 8

Numbers assume modest behavioral effects that increase over time. These behavioral effects include employment and training impacts similar to San Diego's SWIM program and a modest increase in the percent of recipients who leave welfare when they hit the time limit. Figures for 2004 are subject to considerable error, since it is difficult to make caseload projections or to determine the impact of WORK requirements on behavior. Figures for FY 2004 also assume behavioral effects from the implementation of health reform.

This table assumes the proposed reforms will be implemented in all States by Federal law by October 1995.

Table 8

Fiscal Year	1996	1997	1998	1999	2000	
Projected Cases Subject to the Time Limit Without Reforms	1,031	1,639	1,894	2,150	2,420	
Off Welfare with Reform	16	79	142	170	357	- 15%
Program Participants	1,014	1,560	1,751	1,980	2,063	
Working While on Welfare	84	131	152	165	179	- 7%
JOBS Participants	545	867	919	870	806	
WORK Participants	0	0	85	292	412	
JOBS Prep -- disability	130	200	223	259	276	
JOBS Prep -- severely disabled child	14	22	25	29	30	
JOBS Prep -- caring for a young child	241	340	347	365	360	

Fiscal Year	2001	2002	2003	2004	2005	
Projected Cases Subject to the Time Limit Without Reforms	2,699	2,976	3,266	3,544	3,813	
Off Welfare with Reform	500	610	717	881	932	- 24%
Program Participants	2,200	2,366	2,548	2,662	2,880	
Working While on Welfare	186	196	212	213	222	
JOBS Participants	855	940	1,002	1,065	1,151	
WORK Participants	452	470	496	543	584	
JOBS Prep -- disability	311	360	419	432	506	
JOBS Prep -- severely disabled child	32	34	38	37	43	
JOBS Prep -- caring for a young child	363	366	382	373	374	

ENHANCED TEEN CASE MANAGEMENT

PROPOSAL

Provide enhanced case management services to all AFDC custodial parents below the age of 20.

ASSUMPTIONS/METHODOLOGY

The case management cost estimate presumes that at full implementation, enhanced case management services would be provided to all teen parents under the age of 20 and receiving assistance. The percentage of teen parents receiving comprehensive case management services is predicted to rise from 70 percent in FY 1996 to 80 percent in FY 1997, 90 percent in FYs 1998 and 1999 and to 100 percent in FY 2004.

The cost per teen figure for enhanced case management is drawn from Teen Parent Demonstration data. There is no data available on the current level of case management expenditures in the JOBS program. Consequently, the estimate employs, as a proxy for a JOBS case management cost per participant number, a figure calculated using data from the welfare-to-work demonstrations of the 1980s (San Diego I and Baltimore Options).

The additional cost of comprehensive case management for teens is the difference between the cost of providing enhanced case management to teen parents under 19 and the cost of delivering standard case management to the same population. The difference is roughly $560 per participant per year, in 1993 dollars.

ADDITIONAL JOBS SPENDING

PROPOSAL

Increase the funding for the JOBS program in order to cover the additional welfare recipients whose participation will be required during their two year transition period.

OVERVIEW

The additional JOBS expenditures associated with welfare reform are estimated using a point-in-time methodology.

The total cost of the JOBS program for each year under the proposed reform is the product of an average monthly number of participants for that year, based on numbers from the SIM-AFDC dynamic caseload model, and an annual cost per JOBS participant figure calculated using cost per JOBS participant figures from fiscal years 1991 through 1993.

Those cost per participant figures for FYs 91 through 93 are arrived at by dividing total expenditures reported for each of those years by the reported average monthly number of JOBS participants. Accordingly, multiplying the predicted average monthly number of JOBS participants by a cost per participant figure based on this historical data is a reasonable method of estimating the total cost of the JOBS program under the proposed reform. Moreover, this methodology is consistent with current ACF methodology for projecting the baseline costs for the JOBS program.

The estimated increase in JOBS spending is then arrived at by taking the difference between projected JOBS program spending under the proposed law and the baseline JOBS spending projections.

These cost figures will be used to determine the appropriate caps for spending under the JOBS program. Included in the calculation of the JOBS cap is the current and additional spending for JOBS, the cost of enhanced teen case management (described above), and the cost of a JOBS program for non-custodial parents. There will be no set-asides under the cap: states will have complete flexibility to allocate their money under the cap. In setting the cap, we will assume that states will spend all of their allotments.

ASSUMPTIONS: COUNTABLE AND TOTAL PARTICIPANTS

Under the current law definition, a *countable* JOBS participant is an individual who is scheduled for an average of 20 hours of JOBS activities per week and attends for 75 percent of the scheduled hours (or 15 hours per week). For purposes of calculating the rate, States are permitted to average the number of hours, i.e., two individuals, one participating 10 hours per week and one participating 30 hours per week, could be counted as two JOBS participants.

The number of *countable* JOBS participants, as defined above, is lower than the *total* number of JOBS participants. A JOBS participant, for purposes of determining the *total* number of JOBS participants in a month, as opposed to the number of *countable* participants, is any individual who participated in any JOBS activity during the month.

The ratio of countable to total participants represents a measure of the intensity of services a State is providing to JOBS participants. A low ratio of countable to total participants indicates that a sizeable percentage of JOBS participants may be participating sporadically. A high ratio, on the other hand, indicates that most JOBS participants in any given month are scheduled for 20 hours per week, a relatively high level of involvement.

The ratio of countable to total participants has been rising over time, from .528 in FY 1991 to .61 in FY 1992 to .69 in FY 1993.

METHODOLOGY

Caseload Flows

The Administration for Children and Families, to calculate baseline JOBS costs, uses the participation rate to estimate the countable number of participants, divides that number by an estimate of the ratio of countable to total participants and then multiplies that quotient by a cost per total participant figure. The same methodology is employed to project the costs of the JOBS program under the proposed law, for the sake of consistency with the baseline estimates and to make the best use of the available JOBS data.

For purposes of these estimates it is assumed that the ratio of countable to total participants will continue to rise through FY 1995, reaching a plateau of .8 by FY 1996.

To determine the total average monthly number of JOBS participants, two numbers from the SIM-AFDC model are used. First, a participation rate of 50 percent is applied to the average monthly number of *phased-in* (born in 1972 or later) JOBS-mandatory persons predicted by the model for each year to arrive at an estimate of *countable* phased-in JOBS participants; part-time work counts as JOBS participation. That figure is then divided by .8, the predicted ratio of countable to total participants, to arrive at the total number of phased-in JOBS participants.

The above applies only to phased-in recipients not in extension status. Persons granted extensions are assumed to participate at an 80 percent rate. The number of extended JOBS participants is otherwise calculated as described in the preceding paragraph. The SIM-AFDC estimate of recipients in extended status is multiplied by .8 and then divided by .8 (meaning that all extended persons are expected to participate in some activity during the month).

A very similar procedure is used to estimate the number of *not-phased-in* (born before 1972) JOBS participants under the proposed reform. We are currently assuming that states will serve the same percentage of non-phased-in recipients as they have served (20%) as they would have served under the old JOBS program. The historical exemption rate (57 percent in FY 92, 55 percent in FY 93) is applied to the SIM-AFDC projection of not-phased-in adult recipients for each year to estimate the number of JOBS-mandatory not-phased-in recipients (the model does not separate the not-phased-in group into JOBS-mandatory and those not required to participate). For purposes of this estimate, it is assumed that for not-phased-in recipients, the FY 95 participation rate of 20 percent will be extended to FY 96 and beyond. Accordingly, the number for JOBS-mandatory not-phased-in recipients is multiplied by .20 to arrive at the number of countable not-phased-in JOBS participants in ?

each year. That number is then divided by .8 to arrive at the average monthly number of total not-phased-in participants.

The figures for total phased-in JOBS participants and total not-phased-in JOBS participants are then added together to yield an estimate of the total number of JOBS participants for each year under the proposed reform.

The following table summarizes the JOBS caseload flow:

Table 9 - JOBS Caseload Flow
(Numbers in thousands)

	1996	1997	1998	1999
Phased-In, Required to Participate	551	881	876	811
Phased-in Participants Not Extended	306	491	450	390
Extended Participants	0	0	64	85
TOTAL: Phased-In Participants	**306**	**491**	**514**	**475**
TOTAL: Not Phased-In Participants	**388**	**335**	**319**	**301**
TOTAL: All JOBS Participants	**694**	**826**	**833**	**776**
BASELINE	514	525	529	512
Difference from Baseline	**180**	**252**	**304**	**264**

- 50% increase in JOBS

Average Costs

That number is then multiplied by the cost per (total) participant figure for each year calculated, as discussed above, using historical cost per participant data. As the ratio of countable to total participants has risen, the annual cost per total participant has also increased, from $1,913 in FY 1991 to $2,044 in FY 1992 to $2,359 in FY 1993 (all three figures in FY 1993 dollars). Such an increase is to be expected, given the greater intensity of service implied by the higher ratio of countable to total. The cost per participant figures used for each year of the estimates are based on the FY 93 number, $2,359 per participant per year, adjusted for the projected increase in the countable-to-total ratio between FY 93 and FY 96 and for inflation (using Administration CPI projections). The FY 91 to 93 data is used to approximate the relationship between changes in the ratio of countable to total participants and changes in the real cost per (total) participant figure. This relationship is used to estimate the effect on cost per participant of the predicted change in the ratio between FY 93 and FY 96, yielding a projected FY 96 annual cost per JOBS participant figure of $2,900 (FY 96 dollars).

The product of the projected average total number of JOBS participants in a year and the corresponding annual cost per total participant figure yields an estimate of total JOBS spending for that year under the welfare reform proposal. New spending is then calculated by taking the difference between this estimate of total JOBS spending post-reform and the baseline JOBS spending projection for that year.

That baseline projection is calculated using the same method employed to project the costs under the proposed law. Current (FY 92 and FY 93) exemption rates are applied to the adult caseload and the FY 95 participation standard of 20 percent is assumed to be extended through FY 1999. The *baseline estimates*, unlike the projections for the proposed law, do assume that the cap on Federal JOBS spending, currently set at $1 billion for FY 96 and beyond, remains in place. If the baseline estimates presumed the lifting of the cap, the estimated increase in JOBS spending would accordingly be smaller.

WORK PROGRAM (Work-for-Wages Model)

PROPOSAL

Create a WORK program to make subsidized public and private sector jobs available to welfare recipients who had completed their two years of transitional assistance and could not find unsubsidized employment. The WORK program would provide jobs, generally at the minimum wage, rather than CWEP placements, to individuals who had reached the two-year time limit.

ASSUMPTIONS/METHODOLOGY

Aggregate Cost

The total cost of the WORK program represents the product of the (average monthly) number of persons subject to the work requirement, taken from the SIM-AFDC model, and an annual cost per WORK slot figure. The figure for the number of WORK participants assumes that the State conducts a comprehensive assessment of WORK participants who have spent at least two years in the program. The estimates further presume that, as a result of this assessment, some of those reaching the two-years-of-WORK point are assigned to JOBS-Prep, some continue in the WORK program and a very small number are found ineligible for further support, either in the form of AFDC benefits or WORK participation. This assumed distribution can be easily adjusted for purposes of estimating the total cost of the WORK program.

Cost Per Slot

The annual cost of a WORK slot represents the cost of placing an individual in a work-for-wages position for a full year or, equivalently, keeping a work-for-wages slot filled for an entire year. The cost figure is the sum of two basic components, "Annual Operating Cost" and "Work Expenses and Employer FICA."

Annual Operating Cost

The annual operating cost number represents the expenditure associated with developing and maintaining the work slot for a full year, including supportive services other than child care (primarily one-time and unusual work-related expenses). The number used for this annual operating cost, $2,494 in 1993 dollars, is based on work done by Rebecca Maynard of Mathematica and the University of Pennsylvania (formerly of ASPE). The $2,494 number is the sum of Professor Maynard's benchmark estimate of the cost of job development/monitoring of participation ($2,200), 25 percent of her benchmark estimate of the cost of supportive services other than child care (25 percent of $720, or $180), and an estimate of the cost of Workers' Compensation ($114 per year). Her estimate for expenditures on supportive services apart from child care is reduced by 75 percent due to the application of a work expense disregard to WORK wages (see *Work Expenses and Employer FICA* below). Use of the disregard would minimize direct program payments or reimbursement for transportation and other work-related expenses.

Professor Maynard's estimates are for a work experience program similar to the current Community Work Experience Program (CWEP) and are based on CWEP cost per participant data from the welfare-to-work demonstrations of the 1980s and from JOBS (specifically, from States with a monthly average of 500 or more JOBS participants in CWEP during FY 1991). According to MDRC, Workers' Compensation coverage was not provided for CWEP participants in the 1980s welfare-to-work demonstrations. Consequently the cost of such coverage is not included in the cost per participant data reported by MDRC and a separate estimate, based on 1991 Workers' Compensation data, is in order.

The total estimate, including the cost of Workers' Compensation, falls well within the range of CWEP per participant costs presented in the MDRC report *Unpaid Work Experience for Welfare Recipients: Findings and Lessons from MDRC Research.* The cost per participant year (the cost of maintaining a person in a CWEP slot for a full year, **including child care** and other supportive services) ranged evenly from $681 for male AFDC-UP recipients in the West Virginia work experience demonstration to $8,168 in the Maine demonstration, for an unweighted average of $4,184. The cost per participant year for CWEP in San Diego SWIM was $6,038 for AFDC recipients and $5,797 for AFDC-UP recipients (all figures in 1993 dollars).

The WORK program contemplated, however, at least with respect to the positions in the public and not-for-profit sectors, would be similar to PSE (public service employment) rather than to CWEP. Nonetheless, the primary element of the CWEP unit cost, development of positions and follow-up, is common to both CWEP and PSE.

Michael Laracy of ASPE canvassed State and local human services administrators this fall on a number of topics relevant to the WORK program. Most agreed that the cost of providing CWEP placements would be quite comparable to the cost of generating PSE positions. Moreover, the administrators surveyed found Rebecca Maynard's benchmark estimates to be consistent with their experiences in operating CWEP and PSE programs.

To the extent, however, that we expect a sizeable percentage of work-for-wages slots to be subsidized private sector positions, rather than assignments in the public or not-for-profit sectors, the operating cost of a work-for-wages slot may differ substantially from Rebecca Maynard's estimate. The annualized costs per participant for Work Supplementation tend to be considerably higher than the annualized cost for CWEP. For example, according to FY 91 JOBS data, Work Supplementation carried a cost of $5,348 per participant, as opposed to $2,167 for CWEP (the Work Supplementation figure does not include funds diverted from the grant). The higher cost of Work Supplementation may be attributable to the greater time and effort needed to develop positions in the private, as opposed to the not-for-profit or public sectors. On the other hand, if the private employer is paying a share of the participant's wages, the wage cost to the agency administering the WORK program would be correspondingly lower. There is no immediately apparent way of estimating what percentage of WORK assignments would be in the private sector and the extent of the subsidy to such private sector employers. Consequently it is rather difficult to gauge whether the operating and the total costs per participant for work-for-wages would be appreciably different than the corresponding figures for a CWEP/PSE-type program.

Work Expenses and Employer FICA

This figure represents primarily the effect of a work expense disregard. **Accordingly, disputes about the size of this component cannot be resolved apart from the question of whether the family of a person in a WORK assignment is eligible for supplemental cash benefits if its countable income, including wages from the WORK slot, falls below the AFDC eligibility standard.**

For purposes of calculating the "Work Expenses and Employer FICA" figures used to date, we have assumed that the family of a person in a WORK assignment is eligible for supplemental cash benefits if the family's income is below the AFDC threshold. WORK wages are treated as earned income for the purpose of calculating cash benefits and food stamps. States are presumed, however, to apply only the standard work expense disregard to WORK wages for the purpose of calculating benefits. The operating assumption is that States with more generous earned income disregard policies will not apply such policies to WORK wages.

Among the work expenses to be addressed by the work expense disregard would be employee FICA taxes, any State or local taxes, transportation costs and other on-going work expenses. For the estimates described here, a $120 work expense disregard (proposed law) was used.

The Work Expenses number used represents a weighted average of State figures. For each State and for each family size within the State (excluding one-person families, which are primarily child-only cases) the total dollars to the family of an adult in a WORK assignment, including both wages and any supplemental benefits, is compared to the total dollars to a family of the same size on AFDC with no earned income. The difference between those two figures, for each family size, is weighted by the national distribution of AFDC households by family size (36.4 percent are two-person families, 27.6 percent are three-person families, etc.) to calculate a weighted average for the State. WORK assignments are assumed to pay the minimum wage.

States in which the benefit for a family of three is lower than the total wages from a 20 hour per week WORK assignment are assumed to provide 15 hour per week WORK assignments, while all other States are assumed to provide at least 20 hour per week WORK assignments.

The presumption here is that States will in general not provide WORK slots paying wages greater than the AFDC benefit to a family of that size (e.g., California would not place the adult in a two-person family into a 35 hour a week WORK slot; the wages from such a slot, $639, would exceed the $490 benefit for a family of two). The estimate does assume, however, that medium and high-benefit States will find it simpler to make all WORK assignments 20 hours, rather than generate a relatively small number of 15, 17, and 19 hour WORK assignments for families of two.

<u>Examples:</u>

<u>Arizona</u>
The benefit for a family of three in Arizona is $347 per month, which is lower than the wages from a 20 hour per week WORK assignment ($365 per month).

Accordingly, Arizona is assumed to make all WORK assignments 15 hours per week.

Arizona currently provides a benefit of $275 per month to a family of two. Wages from a 15 hour a week WORK assignment would total $274 per month. WORK wages, as noted above, are treated as earnings rather than benefits. The $120 work expense disregard would be applied to WORK wages when calculating benefits, resulting in a countable income of $154 ($274 - $120) for a two-person family. The family would accordingly be eligible for $121 ($275 - $154) per month in supplemental benefits. The total of $395 ($274 + $121) per month in wages and supplemental benefits would represent an increase of $120 per month in gross income for the family.

As mentioned above, the benefit for a family of three in Arizona is $347 per month. The family's countable income, as with the two-person household, would be $154 per month, making the family eligible for $193 per month in supplemental benefits. A family of three with an adult in a WORK assignment would receive $467 ($274 + $193) per month in wages and benefits, which as with a two-person family, would represent an increase of $120 in gross income for the family.

A family of four in Arizona is eligible for $418 per month in AFDC benefits. With a countable income of $154 from the WORK assignment, the family would receive $264 in supplemental benefits, for a total of $538 per month in cash and benefits, an increase of $120 per month in gross income.

The weighted average increase in gross income for all family sizes in Arizona would accordingly be $120 per month.

Alabama

Alabama's WORK assignments are assumed to be for the minimum of 15 hours per week. Benefits to a family of two in Alabama are set at $123 per month. Even when the work expense disregard is applied, the countable income from a 15 hour per week WORK assignment, $154, exceeds the grant level, and consequently the family is not eligible for supplemental benefits. Nonetheless, the WORK wages represent an increase of $151 per month ($274 - $123) in gross income for the family.

The typical payment to a family of three in Alabama is $149 per month. As with a family of two, the wages from a WORK assignment would make the family ineligible for supplemental benefits. The family gross income would still increase by $125 per month.

Only the largest families in Alabama would receive supplemental benefits. The grant for a family of six is $219 per month, which exceeds the $154 in countable income from the WORK assignment. A six-person family would be eligible for $65 per month in supplemental benefits and a total of $339 in cash and benefits, which would represent an increase of $120 per month in gross income.

The State figures for Alabama and Arizona are calculated by weighting the figures for each family size using the nationwide distribution of AFDC families by size. The distribution does vary by State, but not significantly.

To summarize, the Work Expenses component of the "Work Expenses and Employer FICA" number incorporates both the effect of the work expense disregard and the minimum number of hours provision (setting the minimum number of hours at 15). It should be noted that due to the relatively small number of States in which the wages from a 15-hour WORK assignment exceed the benefit level, even for a family of two or three, the impact of the minimum hours provision is relatively minor. The combined effect of both elements is $121 per month, or about $1,449 per year. In the absence of a minimum number of hours rule, the Work Expenses component would be equal to $120 per month, or $1,440 per year.

The second element in WORK Expenses and Employer FICA is employer FICA. The size of the contribution is a weighted average of the employer contribution for each State, which in turn depends on whether WORK assignments in the State are assumed to be for 15 or for 20 hours per week. The weighted average employer's contribution would be about $29 per month (the 7.65 percent employer FICA tax rate applied to average WORK wages of $375 per month), or about $345 per year. Preliminary feedback from the Office of the Assistant Secretary for Management and Budget (ASMB) at the Department, the Congressional Budget Office (CBO) and the Office of Management and Budget (OMB) indicates that no revenue to the OASI and DI Trust Funds will be scored as a result of either employer or employee contributions to the fund made under the auspices of the WORK program. For the estimates to date, it was presumed that employer FICA taxes are paid from IV-A funds. Private employers would, however, be expected to assume at least a share of the employer FICA taxes. To the extent that WORK assignments are in the private, for-profit sector, the cost of employer FICA *to the WORK program* is overestimated. Predicting the percentage of WORK assignments that would be in the private sector, however, is problematic, as discussed under *Annual Operating Cost*.

SUMMARY/CONCLUSION

The total cost of a work-for-wages slot can be disaggregated as follows:

$2,200	Cost of Developing and Maintaining a WORK Assignment
$180	Cost of Supportive Services Other than Child Care
$114	Cost of Worker's Compensation

$2,494	Annual Operating Cost
$1,449	Work Expenses: Effect of Disregard and Minimum # of Hrs
$345	Employer FICA

$1,794	Work Expenses and Employer FICA
$4,288	**Total Cost of Work-for-Wages Slot ($120 disregard, FICA)**

Comparison of Work-for-Wages and CWEP

CWEP participants would receive benefits rather than wages, and no work expense disregard would be applied. Consequently, direct program payments and reimbursement for transportation and other work-related expenses would be considerably higher under a CWEP than under a work-for-wages model. The figure used for the cost of supportive services--

other than child care--under a CWEP structure is Rebecca Maynard's benchmark estimate which is, as discussed above, based on CWEP cost per participant data from the welfare-to-work demonstrations of the 1980s.

The total cost of a CWEP slot can be broken down as follows:

$2,200	Cost of Developing and Maintaining a CWEP Assignment
$720	Cost of Supportive Services Other than Child Care
$100	Cost of Workers' Compensation

$3,020	Annual Operating Cost
$3,020	**Total Cost of a CWEP Slot**

NON-CUSTODIAL PARENT JOBS/WORK PROGRAM

PROPOSAL

To provide states with the funds to operate jobs, education and training programs for unemployed non-custodial parents with the goal of increasing child support payments to AFDC families. States can spend up to 10 percent of their JOBS and WORK funds on these programs.

ASSUMPTIONS/METHODOLOGY

We assume that half of the states will spend 10 percent of their JOBS and/or WORK funding on programs for non-custodial parents.

Work and Training Costs

We assume that 85 percent of custodial parents who receive AFDC are eligible for Child Support Enforcement services. Therefore, approximately 4 million non-custodial parents would be eligible for this program in FY 1995, increasing to about 4.7 million in FY 1999. From this pool of eligible non-custodial parents, we assume that about .5 percent will be referred to a state's non-custodial parent JOBS/WORK program. Then, two-thirds of them will participate in at least one activity for an average of three months (based on data from MDRC's evaluation of the Parent's Fair Share Program).

The cost of this program is a weighted average of the cost of JOBS and WORK for custodial parents. We assume that there will be a 50-50 split of non-custodial parents in JOBS and WORK activities.

Child Support Payments - AFDC Savings

This program will have two effects on non-custodial parents. There will be a smoke-out effect from parents with income who will pay rather than participate in the program activities and there will be a treatment effect for parents who will begin to pay their child support as a result of the program.

We assume that one-third of the non-custodial parents who are referred to this program will not participate, and 25 percent of these parents will pay off their arrearages, averaging $500. Then, these parents will continue to pay their full awards (of approximately $2500 per year) for about six months. Due to the $50 pass-through only about 75 percent of the collection will be available for the government.

The second effect is the treatment effect which will result in the participating non-custodial parents paying their child support after they complete the program. We assume that 25 percent of program participants will pay child support for the next six months (averaging about $1500 per year). Due to the $50 pass-through only about 65 percent of the collection will be available for the government.

Net Costs

We assume that the costs of the program will be offset by the AFDC savings from increased child support collections. We also assume a phase-in of costs and savings at 25 percent in FY 1996, 50 percent in FY 1997, 75 percent in FY 1998, and 100 percent in FY 1999.

ADDITIONAL CHILD CARE FOR JOBS AND WORK

PROPOSAL

The Administration is proposing to provide child care assistance to all parents who are participating in JOBS or WORK.

ASSUMPTIONS

We believe that child care costs will increase when welfare reform is implemented for the following reasons:

- There will be more people participating in JOBS and a new WORK program.
- There will be more younger children served because of changed exemption policies.
- With the increased participation standards and fewer exemptions, it will be more difficult for states to "cream" by preferring participants with older children, smaller families and/or access to informal arrangements.

The following memo will describe the methodology used to operationalize these assumptions. This model is used to estimate the Federal and State costs for the provision of child care to JOBS and WORK participants; many of the its basic assumptions also apply to TCC and At Risk ("working poor") child care.

METHODOLOGY

Number and Age Distribution

The number of participants in the JOBS and WORK program vary according to the different policy options produced by ASPE's AFDC-SIM model. From the 1992 QC data, I have determined the number and ages of children under 13 whose parents would be phased in to this program. As the cohort ages, the children age and the number of children increases.

Full-time vs. Part-time Care

We assume that all JOBS and WORK slots will average 20 hours per week. Therefore, they are all part-time. The children of these participants will need 30 hours of care per week. ?
This assumption is subject to change as decisions are finalized concerning the WORK program.

Take-Up (Utilization) Rate

Although we know (from the above assumptions) how many children might need care, we do not yet know how many parents would use paid child care arrangements. The percentage of parents who would use child care that the federal government would pay for is called the take-up (or utilization) rate.

Current estimates of the overall take-up rate for IV-A funded child care among JOBS participants range from 21 percent to 30 percent depending on the data source one uses. Other data sources support the idea that current take-up rates for infants and toddlers are higher than those of school-age children. SIPP reports a take-up rate of about 68 percent for children under 5 and 19 percent for children over 5 (in all families above and below poverty). There is also evidence that the take-up rates for parents who work full-time are higher than those who work part-time (NCCS, 1990).

We assumed that when additional people are added to the JOBS and WORK programs, the take-up rate will rise. First of all, the population we are serving will more closely resemble the overall AFDC population than does the current JOBS program. This means that there will be more infants and toddlers whose parents will be participating. Second, hours of participation might be increased. Finally, there will be more people with larger families and less access to informal care as the population being served increases. Because of these factors, this estimate uses take-up rates that vary according to the age of the child, full-time vs. part-time status of the parents, and working or AFDC status of the parents.

Children 5 and under

In the Teen Parent Demonstration project, the overall take-up rate for agency-paid child care was approximately 45 percent (Maynard). Since these were young children whose parents were participating part-time, we will use this rate for part-time care for children 5 and under. The NCCS data shows that the take-up rate for full-time care for young children is approximately twice the rate for part-time care. Therefore, I use a take-up rate of 90 percent for AFDC parents who are participating full-time. At this time, our policies do not result in AFDC parents' participating full-time.

Children over 5

These children need part-time care during the school year whether or not their parents work full-time or part-time during the year. Therefore, I assume the same take-up rate for all children between the ages of 6 and 12. According to the NCCS data, the take-up rate for children between the ages of 6 and 12 is approximately one-third for both full-time and part-time care. In my estimate, I assume that the take-up rate for all children over 5 will be 35 percent. This rate applies to AFDC and working poor families.

<u>Child And Adult Care Feeding Program</u>

When the number of children in regulated care increases, there will be an associated increase in the cost of the Child and Adult Care Feeding Program, which provides free meals to child and adult care centers and homes. We are still examining the costs of the increase in this program. Our preliminary estimates indicate that the additional cost of the Feeding program would be 6 percent of total child care costs.

<u>Unit Costs</u>

Although some two to four year olds will be in preschool, this estimate assumes that all of children will need full-year full-time or part-time care depending on their parents' participation in the labor force, JOBS or WORK. There is an offset for children in Head Start. These children are only assumed to need wrap-around care for the hours they are not in Head Start. For the purposes of these estimates, the assumption is that the average Head Start child is in care for 20 hours per week.

The average five year old is assumed to be in kindergarten during the school year (38 weeks) for three hours per day, five days per week (Department of Education). The child would then need wrap-around care for the time they are not in school and full-time or part-time care during the summer (14 weeks). The average six to twelve year old is assumed to be in school during the school year for six hours per day, five days per week (Department of Education). If a child's parents work full-time, he or she would need 20 additional hours of care per week during the school year and 14 weeks of full-time care during the summer; if a child's parents work part-time, he or she would only need part-time care during the summer.

The costs we are using are weighted averages determined from data in the Profiles in Child Care Settings and National Child Care Surveys by multiplying the hourly cost of care in different day care settings (centers, regulated family day care and unregulated family day care) by the percentage of children in each setting. These weighted averages come out to approximately $1.70 for children under 1, $1.75 for 1-2 year olds, $1.90 for 3-4 year olds, $1.70 for 5 year olds, and $1.80 for school age children (in FY1994 dollars) (PCCS-NCCS, 1990).

The 1994 full-time and part-time costs are shown in Table 1. In subsequent years, they will be inflated by inflation (3 percent) plus 1 percent.

In the aggregate numbers, eight percent of the services cost is added to represent the cost of administration.

Table 1 - FY 1994 Unit Costs per Child

Age of Child	Full-Time	Part-Time
0	$4,297	$2,606
1	$4,385	$2,665
2	$4,389	$2,703
3	$4,651	$2,903
4	$4,733	$2,972
5	$3,416	$1,710
6-12	$2,508	$743

Current Law

Current law is the portion of the costs for JOBS child care that would have been spent on the population we are phasing in to the JOBS and WORK program. In subtracting out current law, we assume that 20 percent of current law IV-A expenditures go to AFDC families who are working and not participating in JOBS.

TRANSITIONAL CHILD CARE

PROPOSAL

To provide Transitional Child Care services (as specified in current law) to former AFDC recipients who leave welfare due to earnings increases and who have received AFDC for at least three months out of the last year.

ASSUMPTIONS/METHODOLOGY

Number of Children

Each year, a certain percentage of the AFDC caseload leaves the program. If they have received AFDC for at least three months and leave for work, they are eligible for one year of transitional child care benefits. According to Donna Pavetti, an average of four percent of the adult AFDC caseload leaves the program each month, and sixty percent stay off of AFDC for at least one year. Half of these exits are for work. We further assume that 90 percent of these families will remain below 130 percent of poverty.

In a welfare reform scenario, we assume that an additional average .6 percent of AFDC recipients will leave the program each month because of the impacts of our reform efforts. We also assume that two-thirds of all exits will now be for work because of welfare reform.

Full-Time vs. Part-Time Care

We assume that the majority of AFDC recipients (75 percent) who leave AFDC for work will leave for full-time jobs and 25 percent will leave for part-time jobs. Part-time work is defined as twenty hours per week of work, requiring 30 hours per week of care. Full-time work is defined as forty hours per week of work, requiring 50 hours per week of care.

Take-Up (Utilization) Rate

For the purposes of our estimates, we divide the TCC-eligible population into three groups.

GROUP 1: Those who are not phased into our "24 and under" welfare reform will leave AFDC at baseline rates and will utilize TCC at a baseline level. It is very difficult to determine what this level is, but we assume that it would reach about 20 percent in 1999 and stay at that rate over the next five years. This take-up rate will be phased in over the next five years at the following rate:

1994: 10%, 1995: 13%, 1996: 15%, 1997: 15%, 1998: 17%, 1999: 20%; 2000: 20%.

There is no additional TCC cost attached to this group.

GROUP 2: We assume that most of the "24 and unders" who leave welfare would have left the program without our reforms and that half of them will leave for work. These people will have increased utilization rates for TCC because of our changes in welfare offices and the regulations governing TCC. Therefore, their take-up rates will increase above baseline by the following amounts:

1994: 0%, 1995: 0%, 1996: 5%, 1997: 10%, 1998: 13%, 1999: 15%; 2000: 17%.

GROUP 3: The remaining people in the "24 and under" group will leave welfare because of reform and they will be more likely to leave for work. We assume that these recipients would not have left AFDC without our program and that their utilization rates will equal the baseline rates plus the marginal rates of the group above. Therefore their rates will be the following:

1994: 0%, 1995: 0%, 1996: 20%, 1997: 25%, 1998: 30%, 1999: 35%; 2000: 37%.

These people will have a cost attached to them for their increased exit rates and utilization rates.

There are some issues surrounding TCC, such as a desire to distance oneself from the welfare system or lack of information that would probably limit the growth in take-up rates to a level below that of AFDC and working poor families.

We believe that states will only increase their TCC costs to cover group 3. Therefore, the TCC cost estimates in the tables reflect the cost of serving group 3.

<u>Unit Costs</u>

The Unit Costs for TCC are the same as those for JOBS/WORK and Working Poor Child Care. See Unit Costs section in JOBS/WORK child care for a description and explanation of the development of the unit costs.

<u>Child and Adult Care Feeding Program</u>

The Child and Adult Care Feeding Program methodology is the same for TCC as it is under JOBS/WORK Child Care.

<u>Current Law</u>

Current law is our current Transitional Child Care program which will cover those people who are not phased-in to our program but leave welfare for work.

SECTION 4: IMPROVING GOVERNMENT ASSISTANCE

STATUTORY CHANGES

REMOVE TWO PARENT (UP) RESTRICTIONS

PROPOSAL

This proposal would give states the option to eliminate the special eligibility requirements that two-parent families must meet to be eligible for AFDC. In addition, this proposal would make permanent the provision requiring states to operate UP programs. This provision expires October 1, 1998.

Under current law, a two-parent family can receive AFDC benefits only if the principal wage earner is incapacitated or unemployed. The following screens are applied to unemployed parents:

- The principal wage earner cannot work more than 100 hours in a month;

- The principal wage earner must have (1) worked 6 or more quarters in any 13-calendar-quarter period ending within 1 year prior to application for assistance; or (2) received or been eligible to receive unemployment compensation within 1 year prior to application for assistance.

In addition, in several states, eligibility to AFDC benefits among two-parent families can be limited to 6 months in a twelve month period.

ASSUMPTIONS/METHODOLOGY

Table 10 shows the AFDC caseload effects of this option.

Table 10 - New AFDC-UP Caseload

(Numbers in Thousands)

	1997	1998	1999	2000	2001	2002	2003	2004
Baseline	327	323	321	321	320	320	319	319
Cases if State Option	47	83	91	91	91	91	91	91
People if State Option	191	340	375	375	374	374	372	372
TOTAL UP CASELOAD	374	406	412	412	411	411	410	410

HHS Assumptions
Cost estimates for eliminating the special eligibility requirements for two-parent families are based on output from TRIM2, with two adjustments made based on estimates from the Food Stamp Quality Control data and discussions with states regarding how current policy is carried out.

The number of newly eligible units simulated in TRIM2 was reduced by 42,000 to account for different eligibility estimates from the FSP QC tape.

The TRIM2 estimates were further reduced to account for TRIM2's inability to simulate the work history test. Instead of applying the quarters of work rule, TRIM2 screens out potential eligibles who are not in the labor force (not working, not looking for work). In general, this is more lax than the work history test. Therefore, one-third of those who were simulated to be newly eligible when the labor force participation requirement was removed in TRIM2 were instead assumed to currently eligible.

Further, the TRIM2 estimates were done using a 1991 baseline, and FSP QC estimates were done using a 1992 baseline. Because estimates from both sources were combined, the estimated caseload change was compared to the average of the 1991 and 1992 baselines. This percentage growth was then applied to the projected UP baselines. The cost estimates were adjusted by the same ratio as the caseload estimates.

To determine the cost of making UP a state option, the following assumptions were made:

1) States with half of the caseload would remove the 100-hour rule; and,
2) States with 25 percent of the caseload would remove the quarters of work rule.

These assumptions are based on discussions with some states and a survey conducted by the National Governors' Association (NGA) on state welfare reforms.

The survey indicated that states with 70 percent of the caseload are interested in eliminating the 100 hour rule. The estimate uses 50 percent because many of those states would be expected to apply the change to recipients only (most notably, California). The NGA survey indicated that states with 25 percent of the caseload are interested in removing the work history test.

The ACF and CBO baselines assume that all states would continue to have UP programs, even after the mandatory coverage provision expires on October 1, 1998. Therefore, there are no costs associated with extending this provision.

FNS Assumptions
FNS used the MATH and QC-based models to simulate the effects of eliminating all AFDC restrictions on two-parent unit eligibility on a national basis. Then, they estimated the cost implications for AFDC and Food Stamps of the effects on two groups: those currently receiving Food Stamps who become eligible for AFDC, and those becoming newly eligible for both programs as a result of the change.

They then applied ASPE's distribution of costs between these two groups to their estimates, adjusted to hit ASPE's full-year impacts, and determined the net effects of the adjusted changes to these two groups. This estimate was then adjusted to reflect a state optional, rather than mandatory, program.

PROPOSAL: GENERALLY CONFORM TO FOOD STAMPS RULES ON RESOURCE LIMITS AND EXCLUSIONS

Resource Limits

Increase the AFDC resource limit to $2000 (or $3000 for a household with a member age 60 or over) to conform to the Food Stamp resource limit.

Resource Exclusions

1. Totally exclude one burial plot per family member (conforming to the Food Stamp policy).
2. Totally disregard one funeral agreement per family member (change rules for AFDC and Food Stamps).
3. Exclude real property which the AFDC family is making a good faith effort to sell at a reasonable price and which has not been sold (conforming to the Food Stamp policy).
4. Totally exclude the cash surrender value of life insurance policies under the AFDC program (conforming to the Food Stamp policy).
5. Provide that a household that knowingly transfers resources for the purposes of qualifying or attempting to qualify for AFDC shall be ineligible for benefits for a period of up to one year from the date of discovery of the transfer (conforming to Food Stamp policy).

ASSUMPTIONS/METHODOLOGY

Resource Limit

HHS Assumptions
Based on estimates from TRIM2; increase of 0.4 percent in benefit payments.

TRIM2 does not capture the interaction between a resource change and non-financial assets (most notably, the impact from automobiles). Therefore, the TRIM2 estimate was adjusted by an amount equal to the estimated cost of increasing the automobile value limit by $1,000.

FNS Assumptions
Offsetting Food Stamp savings associated with AFDC conforming to the Food Stamp resource limit. Rule of thumb offset for AFDC costs was used for the financial asset portion of the AFDC estimate. The impact of the automobile interaction was estimated using the FOSTERS model. Note, simply using the rule of thumb may overstate the Food Stamp savings because some of the new AFDC participants may not be receiving Food Stamps prior to becoming eligible for AFDC.

Resource Exclusions

HHS Assumptions
HHS believes that the AFDC cost all Resource Exclusion provisions will be negligible.

FNS Assumptions
None of the Resource Exclusion provisions are food stamp changes. Therefore, they would produce no independent Food Stamp cost. However, there will be offsetting FSP budget impacts based on the AFDC cost. However, the FSP cost, like the AFDC cost, would also be negligible.

PROPOSAL: INCREASE TERRITORIES' CAP BY 25 PERCENT

Continue to require the territories to operate the AABD, AFDC (including JOBS supportive services) and Foster Care programs. Increase the caps by an additional 25 percent and create a mechanism for indexing.

ASSUMPTIONS/METHODOLOGY

The current cap on expenditures for the territories of Puerto Rico, the Virgin Islands, and Guam is set at $118 million. This proposal would increase this cap by 25 percent (about $30 million) and index it for inflation.

PROPOSAL: LIMIT THE KINDS OF INDIVIDUALS WHO CAN BE ESSENTIAL PERSONS

Limit the kinds of individuals that a State may identify as essential to individuals providing at least one of the following benefits or services to the AFDC family: (1) child care which enables a caretaker relative to work full-time outside the home, (2) care for an incapacitated AFDC family member in the home, (3) child care that enables a caretaker relative to attend high school or GED classes on a full-time basis, (4) child care not to exceed two months that enables a caretaker relative to participate in employment search or another work program, and (5) child care that enables a caretaker relative to receive training on a full-time basis.

ASSUMPTIONS/METHODOLOGY

HHS Assumptions
The number of essential persons is estimated by examining QC data for those States that have an essential person provision and counting the cases that have more than two adults in UP and incapacity cases and more than one adult in the remaining cases. It is assumed that these adults are essential persons. The number of essential persons is then multiplied by the increment in the payment standard in each State from a family of three to a family of four. This yields the total AFDC savings, which is multiplied by each State's FMAP to yield the Federal AFDC savings. (See attached table.)

This represents .0016407 of total assistance payments in FY 1992. It is assumed that essential persons in families that report earnings, or school attendance, or receipt of SSI would continue to meet the more restrictive definition of essential persons. Only 10 percent of cases identified as essential person cases met this criteria; thus, the .0016407 is multiplied by .9 to arrive at the factor used to measure total AFDC savings, or .0014766. This is applied against the 10-year projected AFDC expenditures. The FMAP applied to the total AFDC savings in 52 percent (which is based on the States involved, the number of essential persons in each State, and the grant amount).

FNS Assumptions
This is not a Food Stamp change and would produce no independent Food Stamp cost. However, there will be offsetting FSP budget impacts based on the AFDC cost. The Food Stamp cost is based on the standard 29 percent offset.

PROPOSAL: ALLOW STATE FLEXIBILITY ON STEPPARENT DEEMING

Give states complete flexibility to increase the amount of the disregards applied to stepparent income.

HHS Assumptions
Based on 1991 QC data there were 73,000 stepparent who were not AFDC recipients. It was assumed that half of those stepparents have income, and that states with half of the caseload would implement a change allowing stepparents to keep an additional $50 per month.

Of note, this estimate is very sensitive to the number of states that take advantage of this option. Given that states will be given the option to enhance benefits in other parts of the proposal, such as income and child support disregards, states may choose to target resources to those areas rather than stepparent deeming. Therefore, the assumption that states with half of the caseload will use this option likely overstates the impact of this proposal.

FNS Assumption
This is not a Food Stamp change and would produce no independent Food Stamp cost. However, there will be offsetting FSP budget impacts based on the AFDC cost. The Food Stamp cost is based on the standard 29 percent offset.

PROPOSAL: CONFORM UNDERPAYMENT POLICY TO THAT OF FOOD STAMPS

Require the issuance of agency-caused underpayments to current and former recipients for a period not in excess of 12 months from the date that the agency learns about the underpayment.

ASSUMPTIONS/METHODOLOGY

HHS Assumptions
According to 1990 QC data, there is approximately $30 million in client-caused underpayments, of which an estimated 80 percent is currently repaid. (Note: there is currently no data on the actual percentage repaid, but is based on the assumption that most client-caused underpayments result from changes, such as the birth of an additional child or loss of a job, that are reported shortly and corrected). Under this proposal, this amount of $24 million would not have to be repaid. It is assumed that very few payments go beyond a year and that few additional payments would have to be made to those with an agency-caused error that are ineligible. The $24 million underpayments represented .0012874 of assistance payments costs, and this factor is used for the 10-year projections. The Federal share is 55 percent.

FNS Assumptions
This is not a food stamp change and would produce no independent Food Stamp cost. However, there will be offsetting FSP budget impacts based on the AFDC cost. The Food Stamp cost is based on the standard 29 percent offset.

PROPOSAL: EXCLUDE LUMP SUM PAYMENTS

Exclude non-recurring lump sum payments from income. Disregard as resources, for one year from the date of receipt, non-recurring lump sum payments that are reimbursements for past, current or future costs or are intended to cover the cost of repairing or replacing assets. Disregard the amount of any Federal or State EITC lump sum payments as resources for one year from receipt.

ASSUMPTIONS/METHODOLOGY

HHS Assumptions
Lump sum income in AFDC is estimated to be about $2 million a year. This was extrapolated from a study (Institute for Women's Policy Research, Combining Work and Welfare) using SIPP data.

The cost of the EITC exclusion as a resource is estimated using many simplifying assumptions. Bane and Ellwood (1983) estimated that 15 percent of AFDC spells begin due to a decline in earnings. These would be potentially eligible for the EITC. This means that 375,000 approved applicants may be receiving a larger EITC under the new policy and could be denied their applications without a change in policy. It is assumed that one-third of these would receive an EITC large enough to place them over the resource limit and that one half of these would still have the EITC as a liquid resource when applying for AFDC, and that the proposed policy would, on average, save 2 months in benefits (since without the policy change, many are likely to quickly spend their EITC to meet daily living needs and/or to qualify for AFDC). Thus, the savings are computed using the average 1995 AFDC benefit:

(375,000)(.25)(.33)($375) = $11,601,562

It is assumed that the Federal share is 55 percent.

The $2 million cost associated with not counting lump sum income is added to the $11.6 million to get a total cost of $13.6 million. This is .0005862 of total assistance payments and is the factor used to derive 10-year costs.

Non-recurring lump sum payments excluded from income

HHS's estimate is based on SIPP data. There is no food stamp change, but there will be an offsetting FSP budget impact based on AFDC cost/savings.

Disregard non-recurring lump sum payments as resources for one year

HHS assumes that the current treatment of non-recurring lump sum income is assumed to save a small amount; however, it is assumed the primary savings is from their treatment as

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income, not resources. Thus, it is assumed that any change in the treatment as a resource is likely to have a negligible effect.

Disregard EITC as resource

According to HHS, AFDC currently excludes the EITC for two months; recipients are likely to spend down to avoid being made ineligible for AFDC.

This provision will entail minimal FSP costs. This is a change for FSP applicants only, who currently are allowed an exclusion for only two months. It is likely that many people will spend down their EITC prior to applying for FSP benefits. It is also likely that, for those who do hold onto their EITC, we will be unable to distinguish how much of their asset holdings are EITC assets versus other assets. Therefore, we probably won't be bringing many people onto the FSP earlier than under current law. Finally, there is the argument that if an applicant is turned away because of excess resources, the applicant will very quickly spend down the excess resources and reapply.

FNS Assumptions
To get an upward ceiling on the potential impact of excluding EITC, FNS modeled on the 1989 FOSTERS model the effect of excluding for households with children an additional (a) $1,000 and (b) $2,000 of nonvehicular assets. These two amounts were chosen because the current average EITC is about $1,000 for both FSP households and all households receiving an EITC, and this average may go up to about $2,000 in 1996 due to scheduled increases in the EITC, The FOSTERS result was increased by 20 percent to account for inflation from 1989 to 1994. The monthly impact was: (a) $25.4 million and (b) $40.2 million.

To capture just those households with recent earnings and thus limit the estimate to those most likely to have gotten an EITC in the past year, these amounts were multiplied by .79 since the dynamics report shows that 79 percent of new FSP households had earnings prior to joining the program. The results were: (a) $20.1 million and (b) $31.8 million.

To further limit the impact to those households actually getting an EITC, these amounts were multiplied by .75 to reflect an assumed EITC participation rate of 75 percent. Research done on EITC participation puts the rate at between 50 percent and 80 percent, and we opted to stay with the 75 percent assumed in the Congressional Budget Office estimate. The results of this limitation were: (a) $15.1 million and (b) $23.9 million.

FNS assumed 50 percent of our target group spent all of their EITC payments within a month of receipt and the other half spent the amount more gradually. Thus, the estimate was further reduced by half to eliminate hose who would have no EITC to discount for FSP purposes. This assumption leads to a revised estimate of: (a) $7.6 million and (b) $12 million.

These estimates were then scaled down by the fraction of households with earnings that are on the FSP a year or less -- 77 percent per FNS study of program dynamics -- to try to narrow the group to applicants versus participants. The results were: (a) $5.9 million and (b) $9.2 million.

Finally, FNS imposed assumptions about EITC spend-down rates. For a $1,000 exclusion, it was assumed that households with an EITC would spend one-half of EITC the month of receipt and half again, or $200, whichever was larger, in each subsequent month until the total EITC was spent. (In other words, we assumed that households would spent at least $200 of EITC a month rather than dwindling it down more gradually.) For the $2,000 exclusion, we assumed that EITC spend-down would be one-and-a-half times their ate of spend-down under the $1,000 exclusion. For both exclusion amounts, we tabulated from the FOSTERS model, the number of households with EITC to spend after the current law exclusion period of two months, applied the two spend-down assumptions, and calculated adjustment factors of .49 and .87. We applied these factors to the above amounts for the $1,000 and $2,000 additional exclusions respectively, and got final rounded impacts of: (a) $3 million and (b) $8 million.

PROPOSAL: DISREGARD EDUCATIONAL ASSISTANCE

Totally disregard all educational assistance received by AFDC applicants and recipients.

ASSUMPTIONS/METHODOLOGY

HHS Assumptions
HHS assumes that the cost of this provision will be negligible.

FNS Assumptions
FNS reestimated the cost of exempting earnings from dependent 18 to 21 year old high school students, which was part of the Leland 1993 budget amendments. Additional costs would be incurred by exempting the earnings of nondependent 18 year old high school students. Then savings were estimated from no longer exempting earnings from dependent 19 to 21 year olds high school students. Therefore, net costs were obtained by exempting the earnings for all 18 year old high school students and no longer exempting earnings from 19 to 21 year old dependent high school students.

PROPOSAL: GENERALLY CONFORM THE TREATMENT OF INCOME

<u>Student Earnings</u>

Amend the Social Security Act and the Food Stamps Act to disregard the earnings of elementary and secondary students up to age 19 without regard to their status as parents or dependent children.

<u>Irregular Income</u>

Amend the Food Stamp Act to conform to AFDC rules to exclude inconsequential income not in excel of $30 per individual per quarter.

<u>Treatment of JTPA Income</u>

(1) Amend the Social Security and the Food Stamp Acts to disregard as income all training stipends and allowances received by a child or adult from any program, including JTPA. (2) Eliminate targeted earned income disregards so that the earned income from any on-the-job

training programs or from a job will be counted after the general earned income disregards are deducted.

Treatment of Income from Complementary Programs

Disregard cash donations based on need to the household not to exceed $300 in any one quarter from one or more charitable organizations.

ASSUMPTIONS/METHODOLOGY

HHS Assumptions
There is no cost associated with irregular income, since Food Stamps is conforming to AFDC. States already have to option to disregard JTPA income of dependent children for up to 6 months. Cash donations are believed to be small, since such donations would currently simply offset the AFDC grant and would not increase the well-being of the recipient. It is estimated, from QC data, that the cost of expanding the disregard for student earnings is about $1.4 million. The total AFDC cost of all the provisions is estimated to be $2 million, with the Federal share equal to 55 percent.

Treatment of JTPA Income

FNS Assumptions
FNS assumes that eliminating the exclusion for the OJT income of individuals under age 19 would result in minimal FSP savings. (Currently most OJT slots for youth last less than 6 months. In addition, some of these youth would not have their income counted anyway because of the current FSP exclusion for student earnings.) However, given that the discussion under "earnings of students" suggest that some broad policy for treatment of earnings (either OJT or other) of individuals under age 19 will be developed, a specific savings estimate was not done.

Treatment of Income from Complementary Programs

HHS Assumptions
HHS assumes that the number of cash donations that are counted as income for AFDC purposes is assumed to be negligible. There would be no motivation to give, if it reduces the grant dollar-for-dollar.

FNS Assumptions
This is not a food stamp change and would produce no independent Food Stamp cost. However, there will be offsetting FSP budget impacts based on the AFDC cost. The Food Stamp cost is based on the standard 29 percent offset.

PROPOSAL: CREATION OF INDIVIDUAL DEVELOPMENT ACCOUNTS

Establish in the tax code a program that allows AFDC recipients to keep money in an individual development account. The money could only be used for three purposes: education and training, purchasing a first home, or starting a business. If the money is withdrawn for any other purposes, the recipient is charged a penalty of 10 percent of the amount withdrawn. The IDA would not count against the asset limits for AFDC recipients.

ASSUMPTIONS/METHODOLOGY

HHS Assumptions
HHS determined the number of cases with resources exceeding the limit by examining the fraction of AFDC cases who would be discontinued because their resources exceeded the limit. Because it is known that this is an underestimate, the observed fraction was doubled.

The fraction assumed to be attracted to IDA's was that used by FNS to estimate Food Stamp expenditures for this program. They based this fraction on an SSI study. In line with the FNS estimate, families availing themselves of this program were assumed to extend their AFDC participation by 6 months.

FNS Assumptions
FNS assumes that a constant of 10,000 households would be involved in the demonstration. In the first year, the assumption is that 28 percent of the caseload leaves the FSP. Of those, 20 percent leave for "other reasons," which they interpret as excess assets. Of those who leave, 62 percent stay off that year. Thus, 3.5 percent of the 10,000 original cases (350 households) would retain eligibility if they opened an IDA account.

Then, they assume that two percent of households that would have otherwise become asset-ineligible have an IDA account. This figure was obtained from SSI data which show that two percent of SSI disabled earners have a PASS account.

Of the 350 households who would retain Food Stamp eligibility with an IDA account, they assume that seven would remain on Food Stamps because of their IDA account. We assumed six months of participation and an average monthly benefit for a household of 2.5 people to get our first year estimate.

In subsequent years, of those who opened IDA accounts in previous years, 22 percent leave the FSP for reasons other than excess assets (28 percent times 80 percent). Of those remaining, assume the average monthly benefit for the full year. Meanwhile, from the current caseload, assuming replacement for those that leave FSP, new costs accrue when those who would have left the FSP are able to stay on because of the IDA account. For those households, we assumed the average monthly benefit for a household of 2.5 people to obtain cost estimates for the demonstration. Their number and cost are calculated similar to steps 1 to 4 with the adjustment that 11 percent rather than 28 percent leave in all years after the first.

To obtain a national estimate, we assumed nearly 11 million households (people estimate for 1995-1999 divided by the average household size of 2.5 people). We divided the projected number of households by 10,000 (the size of the demonstration). That ratio was used to inflate the demonstration cost to obtain a national cost.

REGULATORY CHANGES

PROPOSAL: INCREASE AUTOMOBILE RESOURCE LIMIT TO $3500

Amend the regulations to increase the AFDC automobile limit to an equity value that is compatible with the current Food Stamp FMV limit with the goal of assuring that a vehicle will meet the requirements of both programs.

ASSUMPTIONS/METHODOLOGY

HHS/FNS Assumptions
FNS ran the MATH model using CPS data. Although, the SIPP-based FOSTERS model has better information on income and assets, FNS has not developed an AFDC-eligibility simulator for FOSTERS. The MATH model showed a cost impact for AFDC of 4.97 percent of AFDC costs.

For AFDC impact, HHS made several out-of-model adjustments to the MATH model results:

- to bring the results closer to what previous experience shows FOSTERS model results to be (based on differences between MATH and FOSTERS results in other reforms), they multiplied the cost impact by 45.455 percent;

- to lower the participation rate of newly-AFDC eligible households to a more realistic level, they multiplied the adjusted cost impact by 28.571 percent.

The estimate assumes that the statutory change to raise the resource limit is effective prior to the regulatory change. This has the effect of increasing the cost of the legislative change and reducing the cost of the regulatory change.

PROPOSAL: CONFORM TO FOOD STAMP ACCOUNTING PROCEDURE

Allow States to continue to use retrospective and prospective budgeting. Require recipients to timely report all significant changes in circumstances affecting eligibility or the amount of assistance. Require the State to make timely adjustments to benefits, both up and down, when significant changes in income and other factors are reported by the recipient. Significant changes in income include getting or losing employment, promotion, permanent changes in hours worked, etc. Non-permanent fluctuations in income (overtime, absence) are not considered to be significant. Overpayments would not occur where recipients report timely and the agency makes adjustments no later than the second month after the month in which the m\change occurred, subject to notice requirements. This option closely conforms to current Food Stamp program policy.

ASSUMPTIONS/METHODOLOGY

The agency would be required to make timely adjustments to benefits resulting from significant changes in income or eligibility changes. However, overpayments based on changes would not occur where the agency makes adjustments no later than the second month after the month in which the change occurred.

The cost of this proposal is essentially the amount of collections associated with overpayments that occur in the month of change and the following month. This is estimated to be 14 percent of the cost of providing 45 days in benefits to exiting cases and cases that have an e earnings change and remain on the rolls.

PROPOSAL: SIMPLIFY VERIFICATION PROCESS

Amend regulations so that: (a) States may choose the verification systems, methods and timeframes for action; (b) States may choose the computer matching activities that are most effective provided that the alternative match or verification process is just as effective as those required IEVS and SAVE; and (c) States may verify additional factors of eligibility. FNS will continue to have authority to verify additional factors that relate to the Food Stamp program only, such as actual medical costs.

Verification methods, systems and time limits will be included in the State Plan.

ASSUMPTIONS/METHODOLOGY

The agency would be required to make timely adjustments to benefits resulting from significant changes in income or eligibility changes. However, overpayments based on changes would not occur where the agency makes adjustments no later than the second month after the month in which the change occurred.

HHS Assumptions
The cost of this proposal arises from not considering some payments as overpayments; therefore, resulting in less recovery/recoupment of what are currently classified as overpayments.

Exits are classified into 2 categories: 1) increases in earnings/other income will be called "income" exits; and 2) family circumstance changes (e.g., an AFDC mother gets married) will be called "eligibility" exits. The total number of discontinuances is from AFDC administrative data. Monthly exit data is derived from Pavetti (1993) and Harris (1993). (These studies employ different data sets and examine different subsets of the AFDC population, but each show a high rate of exits due to earnings.)

	Pavetti Study
Income exits	
Work	45.86
Non-work-related income	7.30
Eligibility exits	
Marriage/remarriage/reconciliation	11.36
No eligible child	3.05
Other/unidentified	32.43

A large number of the exits in the Pavetti study (24.08 percent) are classified as unidentified; it will be assumed that these are not income exits. Harris finds that most exits are due to earnings, and about 60% are because taking a new job takes a family completely off welfare ("New Job"), while about 40% are due to earnings only after the individual has worked while on AFDC for some period of time. (However, Harris finds higher earnings exits, 68 percent, than Pavetti.)

Merging the administrative data with the findings from longitudinal data yields the following number of exits, by type of exit:

Total Exits	**2,736,606**
Income Exits	**1,454,779**
Earnings	1,255,008
Other income	199,771
Eligibility Exits	**1,281,827**

Research indicates that larger families are less likely to have either earnings or marriage exits. This suggests that those cases that do leave have smaller than average benefits, because they are more likely to be smaller in terms of family size and/or they may have been working for some period (and thus had lower than average benefits). A rough estimate is that cases that leave AFDC have benefits 25 percent less than the average benefit.

Some families affected by the proposal are those that have earnings increases, but do not leave the rolls. It is estimated that 502,003 cases work and receive welfare simultaneously, before exiting (40 percent of earnings exits) and they have one earnings change (taking the job), that affects their benefits under the proposal. It is assumed that the employment would reduce the grant by $200 in these cases. It is estimated that another 1,000,000 work for part of the year, without going off welfare during a year and that they have one change in earnings that would reduce the grant by $100. (This too is a very rough approximation, based partly on the Harris finding that 51 percent of AFDC mothers work at least some during the year; the dollar amount is also roughly estimated, but is thought to be relatively small, based partly on a study using SIPP data and the average amount of earnings for families that don't leave welfare.)

Assume cases exit evenly throughout a quarter, resulting in added payments for 75 days, on average. (The cost is 75 days in the first month of a quarter, 45 days in the second month, and 105 days in third month. The last month is so high because it is assumed to be too late to affect the next quarterly payment.)

Cost for Exiting Cases

One cost is 45 days in benefits in each State multiplied by each State's discontinuances. The attached table shows the total and Federal share of paying one month's worth of benefits per discontinuance in each State. The total is multiplied by 1.5 to adjust this to the 45-day standard.

Cost = ($1,000,000,000)(1.5) = $1.5 billion

This is adjusted down by 25 percent, assuming that benefits are lower for discontinuance cases than average cases.

Cost = ($1,500,000,000)(.75) = $1,125,000,000

This assumes that no benefits are currently paid to cases that exit beyond the point in which they are eligible. In reality, many exiting cases receive benefits for a period after they are ineligible; these payments are currently considered overpayments. For example, if someone gets a job paying enough to terminate assistance, the recipient has 10 days in which to report the action, the agency has 10 days to issue a notice of adverse action, and then the recipient has 10 days to appeal the notice, before the grant can be reduced. This means that not only can the current month's check not be readjusted, but the next month's check often goes out as well. If we assume that currently most changes result in full payment of benefits in the month of change and the following month, this reduces the cost by 45 days worth of benefits. Then, the only cost is the estimated 15 percent in overpayments we collect, or $169 million.

Cost of Cases on the Rolls

A second cost comes from paying more in benefits to cases that would have their benefits reduced without actually leaving. This is estimated by taking the 500,000 such earnings-related cases and multiplying the average amount their benefit would go down by 1.5, to adjust for the average 45-day hold-harmless period.

Cost = (500,000)($200)(1.5) = $150,000,000

There is also the cost for the 1,000,000 cases that have some earnings, but never go off.

Cost = (1,000,000)($100)(1.5) = $150,000,000

Adding these two gives the cost of the proposal for cases that have earnings changes while on the rolls.

Cost = $300,000,000

Like the impact on exiting cases, these numbers can be adjusted to reflect the overpayment (and recovery) assumptions discussed above.

Cost = $45 million

Total Cost

The total cost of all changes, both those resulting in exit, and those while cases on the rolls, is $214 million. This is .0095267 of FY 1993 assistance payments. This factor is used for 10-year projections.

Caveats

Does not factor into account non-income changes that would reduce benefits, without taking the case off the rolls. This is not likely to be significant and the average amounts involved with such changes are likely to be small. There is no data on the amount of actual overpayments associated with these changes or the amount of overpayments actually collected.

Calculation of total and Federal discontinuance cost

	FY93 Total discontinuances	FY93 Average monthly payment per family	Program costs of FY93 discontinuances	FY93 FMAP	Federal share of program costs
Alabama	35,946	$155.33	$5,583,492	71.45	$3,989,405
Alaska	6,113	838.06	5,123,061	50.00	2,561,530
Arizona	58,962	318.87	18,801,213	65.89	12,388,119
Arkansas	24,790	187.18	4,640,192	74.41	3,452,767
California	467,690	569.30	266,255,917	50.00	133,127,959
Colorado	39,933	314.52	12,559,727	54.42	6,835,004
Connecticut	26,528	562.15	14,912,715	50.00	7,456,358
Delaware	7,663	291.46	2,233,458	50.00	1,116,729
Dist. of Columbia	7,949	386.00	3,068,314	50.00	1,534,157
Florida	56,220	275.93	15,512,785	55.03	8,536,685
Georgia	72,946	251.02	18,310,905	62.08	11,367,410
Guam	266	519.47	138,179	75.00	103,634
Hawaii	7,926	649.19	5,145,480	50.00	2,572,740
Idaho	9,052	281.42	2,547,414	71.20	1,813,759
Illinois	108,932	320.61	34,924,689	50.00	17,462,344
Indiana	34,004	260.97	8,874,024	63.21	5,609,270
Iowa	33,936	370.40	12,569,894	62.74	7,886,352
Kansas	19,962	346.84	6,923,620	58.18	4,028,162
Kentucky	46,272	213.23	9,866,579	71.69	7,073,350
Louisiana	47,927	165.19	7,917,061	73.71	5,835,666
Maine	12,772	428.92	5,478,166	61.81	3,386,055
Maryland	40,954	319.76	13,095,451	50.00	6,547,726
Massachusetts	59,649	533.62	31,829,899	50.00	15,914,950
Michigan	94,889	441.90	41,931,449	55.84	23,414,521
Minnesota	45,094	486.25	21,926,958	54.93	12,044,478
Mississippi	54,825	121.91	6,683,716	79.01	5,280,804
Missouri	56,046	270.19	15,143,069	60.26	9,125,213
Montana	10,329	350.26	3,617,836	70.92	2,565,769
Nebraska	6,767	316.73	2,143,312	61.32	1,314,279
Nevada	17,123	282.77	4,841,871	52.28	2,531,330
New Hampshire	8,945	423.72	3,790,175	50.00	1,895,088
New Jersey	62,773	354.73	22,267,466	50.00	11,133,733
New Mexico	22,837	321.17	7,334,559	73.85	5,416,572
New York	213,636	528.48	112,902,353	50.00	56,451,177
North Carolina	106,692	225.60	24,069,715	65.92	15,866,756
North Dakota	6,145	359.04	2,206,301	72.21	1,593,170
Ohio	136,696	314.34	42,969,021	60.25	25,888,835
Oklahoma	33,710	296.22	9,985,576	69.67	6,956,951
Oregon	24,990	456.46	11,406,935	62.39	7,116,787
Pennsylvania	101,757	391.81	39,869,410	55.48	22,119,549
Puerto Rico	18,970	105.70	2,005,129	75.00	1,503,847
Rhode Island	12,243	503.40	6,163,126	53.64	3,305,901
South Carolina	37,540	186.75	7,010,595	71.28	4,997,152
South Dakota	10,253	302.17	3,098,149	70.27	2,177,069
Tennessee	4,971	173.95	864,705	67.57	584,281
Texas	238,237	160.16	38,156,038	64.44	24,587,751
Utah	17,120	341.79	5,851,445	75.29	4,405,553
Vermont	7,893	512.63	4,046,189	59.88	2,422,858
Virgin Islands	513	259.31	133,026	75.00	99,770
Virginia	50,492	262.28	13,243,042	50.00	6,621,521
Washington	36,056	492.28	17,749,648	55.02	9,765,856
West Virginia	24,167	246.60	5,959,582	76.29	4,546,565
Wisconsin	47,515	458.22	21,772,323	60.42	13,154,838
Wyoming	990	337.54	334,165	67.11	224,258
U.S. total	2,736,606	$376.70	$1,005,789,118	55.65	$559,712,360
Territories					1,603,616
Total of States only					$558,108,744

FNS Assumptions
FNS assumes $3 million in savings because States would opt to discontinue the use of SAVE. There would be no cost to the FSP. However, this estimate assumes that FNS would wive specific verification requirements only for FSP recipients who also receive AFDC and that erroneous benefits do not increase for AFDC/FSP recipients as States have a vested interest in ensuring AFDC payment accuracy.

PROPOSAL: DISREGARD BOARDER INCOME

Modify AFDC and Food Stamp rules to permit States the option to allow a flat rate, a percentage, or either the maximum allotment for a household of the same size as the number of boarders in the thrifty food plan or the actual documented cost, if is higher than the allotment. The same procedure would be adopted for each program.

ASSUMPTIONS/METHODOLOGY

HHS Assumptions
There is no data on the number of AFDC cases with boarder income, but since the number of self-employed is only 22,700 (based on FY 1991 QC data), the number who have self-employment expenses related to boarder income is minimal.

FNS Assumptions
Minimal food stamp cost. There are very few FSP participants with boarder income currently, and this is a moderate change from current policy.

PROPOSAL: MICROENTERPRISE EXPENSES

Change the Food Stamp and the AFDC regulations to provide a deduction of the amount of depreciation or the actual cost of purchasing the asset as claimed for tax purposes, or if none yet claimed, according to State criteria.

Delete current language in AFDC regulations to conform with Food Stamp rules by adding examples of specific costs of producing self-employment income, such as the identifiable costs of labor, stock, raw material, interest paid to purchase income producing property, insurance premiums, and taxes paid on income producing property.

ASSUMPTIONS/METHODOLOGY

HHS Assumptions
Based on FY 1991 QC data, there were 22,700 AFDC cases with self-employment earnings, which average $193 a month. Allowing a write-off for depreciation would increase the grant amount for some of these cases and would make some self-employed individuals currently ineligible, eligible for assistance.

It is assumed that States would be allowed to place a limit on the size of deductions (ranging from $3,000 to $10,000 for the purchase of capital assets) and a time period (e.g., 12 consecutive months), as has been the case in current demonstration projects.

FNS Assumptions
The microenterprise cost estimate is composed of two separate estimates: (1) the cost of allowing the self-employed to include depreciation as a countable business expense, which offsets income, and (2) the cost of allowing the self-employed to deduct the cost of expenditures for equipment and other business assets as an expense, which also offsets income.

The cost of depreciation is based on additional benefits for both existing and new self-employed participants with a depreciation deduction. The cost is estimated by using IRS data on depreciation costs of businesses held by persons with low incomes. Take-up rates for new participants attracted by higher benefits are based on estimates from the SIPP-based FOSTERS model. We estimate that this depreciation component of the change will cost an additional $40 million in food stamp benefits in FY 1995.

The cost of equipment and other capital goods purchases is based on the notion of paid-in capital. Paid-in capital are equity payments made against loans held against business assets, such as trucks, computers or machinery. Federal Reserve Board figures scaled down for small businesses were used to estimate annual paid-in capital for business expenditures. The estimate includes both exiting participants and new self-employed participants drawn to the program based on higher potential benefits. Only the proportion of those with capital expenditures are included in the estimate. The cost to the Food Stamp Program is estimated to be $60 million in FY 1995.

The total cost to the Food Stamp Program for the microenterprise provision is estimated to be $100 million in FY 1995.

IMPROVING GOVERNMENT ASSISTANCE APPENDIX

Caveats On Estimates For Conforming AFDC to Food Stamps

1) The budget estimates reflect the total costs/savings of AFDC conformance to the Food Stamp Program. Federal program costs/savings are typically 55 percent of the total.

2) The budget estimates generally do not take into account interactions with other programs. For example, a change that increases AFDC benefits by $100, will tend to reduce Food Stamp benefits by $30. There would be a similar effect for AFDC families in HUD-subsidized housing. In addition, expanding AFDC eligibility will increase Medicaid costs. (FNS is calculating Food Stamp offsets.)

3) The costs/savings are not cumulative. For example, the estimated savings in FY 1990 the Food Stamp earnings disregards is $389 million, while the cost of adopting the Food Stamp resource limit is $125 million. The net effect is not a savings of $264 million, as would be the case if they were additive. This is because changing the resource limit would make more families eligible for AFDC, some of whom would have earnings. This would, therefore change the savings associated with the earnings disregards.

4) Administrative costs were difficult to estimate due to the lack of data. It is generally assumed that even if there are differences between program rules, case workers generally follow similar procedures for joint AFDC/Food Stamp units. Moreover, even if a given reform to conform to Food Stamps saves processing time, there may be no savings if that time is devoted to some other activity, e.g., increased case management. Increases in time devoted to other activities presumably increases the quality of work on those tasks, something not captured in this analysis.

One study which examined the impact of consolidating many AFDC/Food Stamp policies (Mathematica Policy Research, Final Report on Vermont's Project to Demonstrate the Consolidation of AFDC and Food Stamp Policies, December 1982) found that: "Policy integration reduced the time required to complete an eligibility review, from 51 to 46 minutes." Since this included many of the items identified in the current report, we could assume each item saves, on average, one minute. If we assume that there are four million applications a year, this would save 66,666 hours of work. If average compensation is $15 an hour, the savings would be $999,999 (i.e., less than $1 million and, consequently, negligible. (It is worth noting that OPE/ACF, ASPE, and the CBO typically do not attempt to measure administrative costs/savings.)

5) None of the estimates include costs/savings due to changes in error rates. Although individual reforms may have modest impacts on reducing error rates, large-scale simplification, by many of the items, is likely to have a much larger effect, which is not estimated. To some extent, the impact on error rates also depends on which program rules are adopted. For example, replacing the AFDC earnings disregards (the $90 plus time-limited $30 plus one-third) with the Food Stamp earnings disregard would lower error rates for AFDC. However, if Food Stamps adopted the AFDC provision, error rates would rise, since the AFDC provisions are more complicated.

6) Most estimates are derived using data from FY 1989, FY 1990 or FY 1991; estimates of budgetary impact for future years is based on official Administration projections of inflation. This may overstate some impacts, since benefits have typically not increased as fast as inflation. On the other hand, it may understate impacts, since caseloads have risen rapidly in the past two years. FNS did make adjustments for caseload and changes in benefit levels; the latter adjustment is much easier for Food Stamp estimating purposes since their benefits and disregards are indexed to the CPI (or some component of it), whereas the determination of AFDC benefits is left to the States.

7) Many options may have several components, which can have several different budgetary effects. For options that have "negligible" impacts, the direction of the impact is indicated, unless it is not clear, due to offsetting influences.