



United States
Department of
Agriculture

Food and
Nutrition
Service

3101 Park Center Drive
Alexandria, VA 22302

DEC 1 1994

SUBJECT: Preliminary USDA Analysis of the Personal
Responsibility Act

TO: Bruce Reed
Deputy Assistant to the President
Domestic Policy Council

For your information, I have attached our preliminary analysis of
the major provisions affecting domestic food assistance programs
in Title V of the proposed Personal Responsibility Act. We have
provided the same material to David Ellwood and his staff.

William E. Ludwig
Administrator

Attachment

November 23, 1994

**Personal Responsibility Act
Background Materials**

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- o Overview summary of provisions of Title V
- o Overview summary of effects of Title V
- o Section-by-section summary and analysis of Title V
- o Preliminary 5-year cost estimate
- o Historical illustration of block grant adjustment
- o Preliminary estimates of State-by-State effects
- o Projected distribution of food assistance by State and program under current law in 1996 (baseline)

NOTE: All materials attached are preliminary drafts for internal use only.

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SUMMARY OF TITLE V OF THE PERSONAL RESPONSIBILITY ACT

Title V combines all 15 food assistance programs into a single discretionary block grant.

- o Initial funding is set at \$35.6 billion in fiscal year 1996, more than \$5 billion below the 1996 current services estimate. Subsequent funding is indexed by increases in total population and food prices.
- o Each State's grant is based on their share of the economically disadvantaged population, defined as anyone with family income below the Lower Living Standard Income Level. In 1994 these income levels ranged from 142 to 173 percent of the poverty line for families of four.
- o States have total discretion in the use of grant funds, provided that funds support food assistance to economically disadvantaged families and individuals, that no more than 5 percent of the grant support administrative costs, that at least 12 percent support food assistance and nutrition education to women, infants, and children, and that at least 20 percent support child nutrition programs.
- o All statutory authority for existing food assistance programs, including authority to establish standards for these programs or provide nutrition education, is eliminated.
- o Certain food assistance program recipients -- generally all non-elderly, able-bodied, single individuals and childless couples regardless of their employment status -- must work at least 32 hours per month on behalf of the State or face reductions in benefits.

Other provisions that have implications for USDA programs include:

- o Section 107, which permits States to deny housing assistance, including Farmers Home Administration (FmHA) programs, to unwed parents age 18-20.
- o Section 202, which requires States to cash-out food assistance benefits for participants in AFDC-UP. This single cash payment would be reduced to the extent that at least one parent does not work 32 hours and conduct job search for 8 hours per week.
- o Section 203, which permits States to use food assistance block grant funds to subsidize wages for single parents on AFDC.
- o Section 301, which makes some FmHA housing assistance programs subject to a cap on aggregate growth on welfare spending. The cap limits growth in funding for welfare programs (including AFDC, housing assistance, and supplemental security income) to increases in inflation and in the size of the poverty population.
- o Section 401, which eliminates virtually all domestic assistance to non-citizens, with the exception of refugees and the elderly, after a one-year transition period. The Food Stamp Program was not included in the list of programs for which aliens are no longer eligible; this is apparently an unintentional oversight.

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EFFECTS OF TITLE V OF THE PERSONAL RESPONSIBILITY ACT

The Personal Responsibility Act would substantially reduce funding for food assistance, leading to less food money for poor families and individuals, less Federal support for States, and fewer dollars to spend on food and farm products. It would fundamentally change the very character of food assistance programs by eliminating all national standards and the guarantee of assistance for millions of low-income Americans. Finally, the proposal jeopardizes the Administration's efforts to improve the nutrition and health of the nation's children.

The bill significantly reduces food assistance. Funding for nutrition assistance programs will be cut by more than 10 percent (more than \$5 billion) from the Fiscal Year (FY) 1996 current services estimate for food assistance programs and \$3 billion below spending for this year. This gap widens to \$7 billion in FY 2000, with reductions over five years of nearly \$31 billion. Reductions of this size will translate into less assistance for many poor families or individuals, less Federal support for most States, and fewer food dollars to spend on American agriculture.

The bill makes all food assistance discretionary. Food assistance funding thus will be forced to compete for limited discretionary funds. Discretionary programs are much more vulnerable to reductions to meet other program needs. Moreover, the size of the grant in every future year is based on the previous year's appropriation. If funding for the Food Assistance Block Grant is reduced in one year to support other priorities, funding for future fiscal years would be permanently lower. This further jeopardizes the programs' ability to help those in need, particularly in times of poor economic growth.

The bill alters the current targeting of food assistance. More than 45 million Americans receive assistance through one of USDA's food assistance programs every month. Under the proposed block grant, there is no guarantee that these needy Americans will continue to receive nutrition assistance. Some will lose eligibility altogether while others may become eligible: the statutory income limits in the bill are less generous than the eligibility criteria used for some of the current food assistance programs and more generous than others. Furthermore, the flexibility given to States is so broad that States can choose not to offer anything similar to the current Food Stamp Program, the only assistance program currently available to virtually any low-income American without categorical restrictions.

The proposal limits the ability of food assistance programs to respond to changing economic conditions. The proposed bill eliminates the mandatory entitlements of the Food Stamp and National School Lunch programs. Historically, these programs have automatically expanded to meet increased need when the economy is in recession and contracted when the economy is growing. The indexing provisions in the proposal do not offer the same automatic adjustment. Under this bill, States will have to choose between absorbing additional costs or denying benefits to some families in need in the next recession.

Current efforts to improve nutrition and health of the nation's children are jeopardized. The proposed bill would eliminate all authority to establish minimal nutrition standards for any food assistance program. All authority for the School Meals Initiative for Healthy Children is eliminated. Authority to ensure that meals served provide some portion of the RDAs is eliminated. Furthermore, States no longer would be required to provide key components of WIC service -- food packages tailored to specific nutrition requirements, nutrition education, health care referrals, or immunization screening. The proposed bill also apparently prohibits financial support for meals served to the 31 million children eligible for paid meals under current law. In the absence of this support, many schools, especially those serving relatively small numbers of meals to free and reduced price students, may find it financially impossible to continue any form of school meal program, putting service to low-income students in those areas in jeopardy.

The block grant will require massive redistribution of food benefits among the States. The proposed formula for distributing grant funds among the States bears little relationship to the existing distribution of program funds. With the overall reduction in funding, most States would lose but a few States would gain Federal funding. In some instances, the gains and losses may be substantial.

The block grant will also redistribute benefits within States. The combination of the initial cut in funding for the grant and the statutory floors on spending for services to women, infants, and children will force States to make difficult decisions. After setting aside 12 percent for food assistance and nutrition education to women, infants, and children and 20 percent for child nutrition programs, the funding remaining is well below the amount currently projected for the Food Stamp and other nutrition programs.

Furthermore, the set-asides do not reflect current spending. The minimum set-aside for food assistance and nutrition education to women, infants, and children (\$4.3 billion in FY 1996) represents a \$350 million *increase* over the current service estimate for WIC. Similarly, the minimum set-aside for child nutrition services (\$7.1 billion in FY 1996) represents an 18 percent *decrease* (\$1.5 billion) from the current service estimate.

Limits on administrative spending would force States to choose the least-costly, although not necessarily the most effective, method for delivering benefits. States would also be limited to spending no more than five percent of their grant on program administration. The Federal share of State administrative expenses for food assistance programs now averages about eight percent, with substantial variations among States. There is no requirement that States contribute any of their own funds to program administration, so the actual reduction in administrative costs could be much greater. The cap on administrative spending will force States to look for ways to reduce administrative costs and is likely to push them in the direction of providing assistance in the form of cash rather than coupons, electronic benefits, or WIC vouchers. This will weaken the link between food assistance benefits, food consumption, and improved nutrition. USDA's research indicates that food stamp cash-out reduced expenditures on food in the short-run by 5 to 20 percent in three of the four demonstration sites in which cash-out was tested. Over a longer period, food expenditures may go down even further.

Eliminating USDA's authority to buy commodities for donations to States has serious implications. Without this authority, USDA no longer has the ability to provide responsive, short-term support to agricultural markets. Furthermore, the value of assistance is diminished by prohibiting USDA from using its superior purchasing power to acquire non-surplus commodities on behalf of schools. It also threatens the network of private emergency food assistance providers, who rely on government-donated commodities and administrative funding to support distribution of privately donated food to low-income households. Finally, eliminating commodity purchases limits USDA's ability to respond effectively to disasters.

Work requirements for food assistance recipients are greatly expanded. Section 501 requires non-exempt individuals to work for the State for at least 32 hours per month or face reductions in benefits. The proposed bill modifies the definition of an individual subject to work requirements to exclude parents of children under age 18 (current law only excludes parents of children under age 6) and to include individuals between the ages of 60 and 62, individuals complying with work requirements of other programs, individuals who are already employed, and individuals receiving unemployment compensation, all of whom are excluded from current Food Stamp Program work requirements. In effect, these changes will require some work for the State from all non-elderly, able-bodied single individuals or childless couples regardless of their current employment statuses. This creates a significant disincentive to work: *even individuals employed full-time would have to set aside the equivalent of one day a week to work for the State.* Furthermore, because these work requirements apply to all non-exempt recipients of food assistance, someone whose only food assistance is through a soup kitchen or food bank now has to work 32 hours per month for the State.

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SUMMARY OF THE PERSONAL RESPONSIBILITY ACT

TITLE V:

Section 501

Current Law:

Under current law, USDA operates a network of 15 domestic food assistance programs that provide access to a more nutritious diet for persons with low incomes. The Food Stamp Program is the largest of these programs and is the only assistance program available to virtually anyone who meets certain financial eligibility criteria. Other programs are designed to meet the needs of specific vulnerable populations, such as pregnant women, infants, children, and the elderly.

Republican Proposal:

All food assistance programs would be replaced with a Food Assistance Block Grant Program. Funding for Fiscal Year (FY) 1996 is set at \$35.6 billion. Funding for subsequent years would be adjusted for food price inflation and population increases.

Funding would be apportioned among States based on the proportion of the economically disadvantaged population living in each State. Economically disadvantaged is defined as an individual or family with income below the Lower Living Standard Income Level (LLSIL) published by the Department of Labor¹. There are specific set-asides for the territories (.21 percent) and for Indian Tribal Organizations (.24 percent).

States could use no more than five percent of their grant for program administration. In addition, each State would be required to spend a minimum of 12 percent on food assistance and nutrition education for women, infants, and young children and a minimum of 20 percent on child nutrition programs; i.e., school lunch and breakfast programs, child care food programs, food service programs in institutions, and summer food service programs. The 12 percent and 20 percent minimums could be lowered at State request with USDA approval.

¹The Department of Labor publishes separate income levels by family size for metropolitan and non-metropolitan areas in each of four regions of the country. The most current thresholds for a family of four range from about 140 to 170 percent of the poverty income guidelines.

States are directed to use grant funds to provide food assistance to economically disadvantaged individuals and families, defined as individuals whose family income is below the LLSIL.

The proposal repeals all existing authority for food assistance programs, all authority to establish nutrition standards for these programs, and all authority to provide nutrition education to anyone other than women, infants and their young children.

Certain food assistance program recipients -- generally all non-elderly, able-bodied, single individuals or childless couples regardless of their employment status -- would be required to work at least 32 hours per month on behalf of the State or face reductions in benefits. Section 204 authorizes the Department of Health and Human Services to pay States \$20 for each individual who performs work for the State.

Administration Proposal:

There is no similar provision in the Administration Proposal. The President's welfare reform proposal retains the Food Stamp Program as a key element of the safety net for low-income Americans and makes no major changes to other food assistance programs.

Analysis:

The Personal Responsibility Act has major implications for the future of domestic food assistance programs. If enacted, the bill would substantially reduce funding for food assistance, meaning less food money for needy individuals and families, less Federal support for States, and fewer dollars available to spend on food with potentially serious implications for American agriculture and the food industry. In addition, the bill will fundamentally change the very character of food assistance programs -- eliminating all national standards and the guarantee of assistance for millions of low-income Americans -- and require a massive redistribution of benefits. Finally, the proposed bill will also undermine the Administration's efforts to improve the health and nutrition of the Nation's children.

Funding for nutrition assistance programs will be cut by more than 10 percent (more than \$5 billion) from the FY 1996 current services estimate for food assistance programs and \$3 billion below spending for this year. This gap widens to \$7 billion in FY 2000, with reductions over five years of nearly \$31 billion. Reductions of this size will translate into less assistance for many poor families or individuals.

More than 45 million Americans receive assistance through at least one of USDA's food assistance programs every month. The Food Stamp Program alone serves about 27 million people monthly, more than half of whom are children and about 10 percent of whom are elderly. The National School Lunch Program serves 25 million children each day. WIC provides food assistance, nutrition education, and critical health care referrals to nearly 7 million women, infants, and children monthly. Because the proposed bill eliminates all

national standards, there is no guarantee that these needy Americans will continue to receive nutrition assistance. Some will lose eligibility altogether while others may become eligible: the statutory income levels in the bill are less generous than the eligibility criteria used for some of the current food assistance programs and more generous than others. This could easily lead to less well-targeted assistance.

The proposal would also significantly reduce infant formula rebates which will contribute over \$1 billion annually to WIC. The grant allocation process would remove State incentives to maintain rebate revenues and formula companies are likely to be less responsive to State bids after Federal oversight is removed.

The proposed bill eliminates the mandatory entitlements of the Food Stamp and Child Nutrition Programs. Under current law, anyone who meets the eligibility criteria is guaranteed to receive assistance. The proposed changes eliminate that guarantee. Coupled with the funding cut, the bill puts food assistance for millions of low-income Americans at risk.

Elimination of the entitlement will also severely impair the ability of food assistance programs to respond to changing economic conditions. Historically, most food programs have automatically expanded to meet increased need when the economy is in recession and contracted when the economy is growing. The indexing provisions in the proposal do not offer the same automatic adjustment. Under this bill, States will have to choose between absorbing additional costs or denying or reducing benefits to some families in need in the next recession.

Furthermore, there is no guarantee that the funding level specified in the proposal will actually be appropriated. All food assistance funding will be discretionary and thus will be forced to compete for limited discretionary funds. Discretionary programs are much more vulnerable to reductions to meet other program needs. Moreover, each future year grant is based on the previous year's appropriation. If funding for the Food Assistance Block Grant is reduced in one year to support other priorities, funding for future fiscal years would also be permanently lower. This further jeopardizes the programs' ability to help those in need, particularly in times of poor economic growth.

The combination of the initial cut in funding for the grant and the statutory floors on spending for services to women, infants, and children will force States to make difficult decisions. After setting aside 12 percent for food assistance and nutrition education to women, infants, and children and 20 percent for child nutrition programs, the remaining funds are well below the amount currently projected for the Food Stamp and other nutrition programs. There simply will not be enough money to support the current level of services. Every food assistance program and the people it serves are put at risk, and those who are least organized and least represented in State policymaking are put at the greatest risk.

The set-aside for services to women, infants, and children does not reflect current spending. The minimum set-aside for food assistance and nutrition education to women, infants, and children (\$4.3 billion in FY 1996) represents a \$350 million increase over the current service estimate. State flexibility in the proposal is so broad that no State would be required to provide any of the current vital components of WIC service -- food packages tailored to specific nutrition requirements, nutrition education, health care referrals, or immunization screening. The potential loss of these components is particularly problematic given significant evidence that investments in WIC return substantially larger savings in public health care costs.

The minimum set-aside for child nutrition services (\$7.1 billion in FY 1996) represents an 18 percent decrease (\$1.5 billion) from the current service estimate. In addition, many States -- those who are currently spending far more on child nutrition programs -- would face the tough choice of dramatically cutting back on support for child nutrition or using the limited funds from other existing food assistance programs. Based on current spending for child nutrition programs, reductions in some States could be quite large: in 23 States, funds for child nutrition could be cut by over 25%; in 17 States, by more than 30%; in 7 States, by more than 40%, and in three States by more than one-half.

Under current law, the National School Lunch Program provides some level of reimbursement for all meals served in authorized schools. This funding ensures that meals meet meal pattern requirements and that the program is available to provide free meals to low income children. The proposed bill prohibits even modest financial support (\$600 million) for meals served to the 31 million children eligible for paid meals under current law. In the absence of this support, many schools, especially those serving relatively small numbers of meals to free and reduced price students, may find it financially impossible to continue any form of school meal program, putting service to low-income students in those areas in jeopardy.

The proposal jeopardizes the Administration's efforts to improve the nutrition and health of the nation's children. The link between diet and health is clear, and yet the American diet does not meet the Dietary Guidelines for Americans. Even small dietary changes can dramatically improve health and have great value. Nevertheless, the proposed changes would eliminate all authority to establish even minimal nutrition standards for any food assistance program. All school meal program nutritional requirements -- providing one-third of recommended dietary allowances and meeting the Dietary Guidelines for Americans -- would be removed. In essence, the proposed bill ignores the consensus view that major improvements in the health of Americans will come from preventive health measures, including improvements in nutrition.

The proposed bill makes no provision for State accountability or stewardship of Federal funds. There are no requirements or vehicles for State reporting of activities, Federal oversight of operations, or reporting to Congress and the American public on the services provided or results achieved with the multi-billion dollar block grant.

The block grant will require massive redistribution of food benefits among the States. The proposed formula for distributing grant funds among the States bears little relationship to the existing distribution of program funds. With the overall reduction in funding, most States would lose but a few States would gain Federal funding. In some instances, the gains and losses may be substantial: California stands to gain the most -- more than \$800 million; Texas loses the most -- more than \$1 billion.

States would also be limited to spending no more than five percent of their grant on program administration. The Federal share of State administrative expenses for food assistance programs now averages about eight percent, with substantial variations among States. This will thus effectively reduce Federal support for administrative costs by more than one-third. Because the bill does not require States to contribute any of their own funds to program administration -- while current law requires them to contribute about half of the cost of administering the Food Stamp Program -- the actual reduction in total administrative support could be much greater.

The cap on administrative spending will force States to look for ways to reduce administrative costs and is likely to push them in the direction of providing assistance in the form of cash rather than coupons, electronic benefits, or WIC vouchers. This will weaken the link between food assistance benefits, food consumption, and improved nutrition. USDA's research indicates that cash-out reduced expenditures on food in the short-run by 5 to 20 percent in three of the four demonstration sites in which cash-out was tested. Over a longer period, food expenditures may fall even further.

NOTE: There are likely to be several technical issues in implementing the grant allocation method required by the proposed bill. Most obvious among these is the absence of a single source of reliable and precise information on the income distribution of families in all of the States and outlying territories. The most obvious source is the Current Population Survey, which is updated annually. Sample sizes for many States are small, and some areas, such as Puerto Rico, are not included. The alternative, the decennial census, is only updated every ten years. Even small differences in State shares have large fiscal implications for States: a difference as small as one tenth of one percent can translate into gains or losses of \$35 million for individual States.

Section 502

Current Law:

The Federal government is responsible for the production and distribution of coupons to State Agencies who then provide coupons to households eligible for food stamps. The Food Stamp Act also establishes requirements for approving retail food stores, a procedure for redeeming coupons, and penalties for stores or recipients that violate program rules.

Republican Proposal:

USDA would make available to States, including Puerto Rico and the territories, coupons for use in authorized food stores. States wishing to participate in a coupon program would purchase these coupons at face value from USDA.

The current requirements for approving retailers and penalties for noncompliance remain substantially unchanged, with some minor differences.

Administration Proposal:

The Administration Proposal does not change current law..

Analysis:

The cap on administrative expenses is likely to force States to seek alternatives to the relatively costly and cumbersome coupon-based system. Maintaining the current capacity to produce and redeem coupons on a smaller scale for those States who elect to retain a coupon system would not be cost effective for the Federal Government. No funds are made available to support coupon printing and related expenses at the Federal level.

The cap is also likely to force States to seek funding from the Federal government or the private sector should they pursue EBT and choose to participate in the nationwide the nationwide EBT system recommended by the Vice President's National Performance Review. Given the constraint on administrative costs, States are not likely to have many funds of their own to contribute to EBT development and operations nor much incentive to pursue EBT.

NOTE: The bill language directs the Secretary to issue regulations regarding submission of applications to become an authorized retailer but is silent with regard to what entity (Federal or State government) would receive and approve applications. This is currently a Federal responsibility.

NOTE: Some recent changes in the Food Stamp Act relating to retailer authorization have not been picked up in the bill language.

Section 503

Current Law:

Commodities are purchased by USDA as a mechanism to eliminate surpluses and support prices. These surplus commodities are donated to States and other institutions, such as schools, to supplement benefits provided under various Federal food assistance programs.

Republican Proposal:

Section 503 permits USDA to sell surplus commodities to States to provide food assistance to economically disadvantaged people.

Administration Proposal:

The Administration Proposal does not change current law.

Analysis:

Eliminating USDA's authority to buy commodities for donations to States eliminates the ability to provide responsive, short-term support to agricultural markets. It also diminishes the value of assistance by prohibiting USDA from using its superior purchasing power to acquire non-surplus commodities on behalf of schools. Furthermore it threatens the network of private emergency food assistance providers, who rely on government-donated commodities and administrative funding to support distribution of privately donated food to low-income households.

Section 504

Current Law:

Not applicable.

Republican Proposal:

Contains definitions of key terms for the Food Assistance Block Grant.

Administration Proposal:

There is no similar provision in the Administration Proposal.

Analysis:

Most of these definitions are not significantly different from current law, with three major exceptions:

- o The proposed bill restricts food assistance to economically disadvantaged families and individuals. The definition of the economically disadvantaged (anyone whose family income is below the LLSIL) differs from the eligibility requirements used by every existing program and virtually assures that some families on assistance now will become ineligible while others become eligible for assistance. Use of this single definition effectively eliminates much of the targeting built into existing program eligibility rules. The LLSIL definition is more generous than current food stamp eligibility limits and could substantially expand eligibility for some; the limit is less

generous than current WIC and Child Nutrition program limits and would require termination of assistance for some women and their infants and children.

- o Section 501 requires non-exempt individuals to work for the State for at least 32 hours per month or face reductions in benefits. The bill modifies the definition of an individual subject to work requirements to exclude parents of children under age 18 (current law only excludes parents of children under age 6) and to include individuals between the ages of 60 and 62, individuals complying with work requirements of other programs, individuals who are already employed, and individuals receiving unemployment compensation, all of whom are excluded from current Food Stamp Program work requirements. In effect, these changes will require some work for the State from all non-elderly, able-bodied single individuals or childless couples regardless of their current employment status. This creates a significant disincentive to work: *even individuals employed full-time would have to set aside the equivalent of one day a week to work for the State.* Furthermore, because these work requirements apply to all non-exempt recipients of food assistance, someone whose only food assistance is through a soup kitchen or food bank would face the same work requirement.

- o The definition of a retail food store omits recent changes that require stores to carry on a continuous basis food from at least four of the categories of staple foods (meat, poultry or fish; breads or cereals; vegetables or fruits; and dairy products) and perishable foods from at least two of these categories.

Section 505

Current Law:

Not applicable.

Republican Proposal:

Section 505 eliminates all statutory authority for food assistance programs, including any surplus commodity donations, as well as demonstration projects and nutrition education related to food assistance programs.

Administration Proposal:

There is no similar provision in the Administration Proposal.

Analysis:

See Section 501 for a detailed discussion of the implications of these changes on food assistance programs.

The proposal eliminates the Department's ability to design and operate programs tailored to the specific nutritional needs of target populations. This approach ignores the clear evidence of the link between diet and health and the disconnect between the average American diet and the Dietary Guidelines for Americans. The proposal effectively eliminates all authority for Federal initiatives to improve the diet and health of low-income Americans, especially children. All requirements to meet nutritional standards or deliver program benefits in an efficient manner are eliminated.

USDA support for elderly meals-on-wheels and congregate feeding would be eliminated.

The amount of commodities available to the needy would be significantly reduced because USDA would have authority only to sell bonus commodities to States. USDA currently purchases commodities that schools prefer and which are not in surplus, obtaining significant unit cost savings by virtue of high volume purchases. The variety of commodities available to the needy also would be diminished, as the emphasis on nutritional concerns and recipient preferences contained in the current food assistance legislation would no longer exist.

Eliminating Federal food assistance programs would remove a significant outlet for the commodities obtained under price-support and surplus-removal programs. This would result in: (1) diminished support to agricultural markets; (2) increased Federal storage costs; and, (3) possibly increased donations to foreign countries in lieu of distribution of such commodities domestically for use in providing food assistance to the needy. It would also significantly undermine the network of private emergency food assistance providers, who rely on government-donated commodities and administrative funding to support distribution of privately donated food to low-income households.

Eliminating commodity purchases for Federal domestic food assistance would severely limit USDA's ability to respond effectively to disasters. Over the last 10 years, there have been six major disasters -- affecting more than 10,000 households -- ranging from hurricanes and typhoons in South Carolina, Florida, Louisiana, Hawaii, Guam and the Virgin Islands to floods in Illinois, Iowa, Missouri, and Georgia to earthquakes in California. Federal inventory would no longer be widely dispersed and available for immediate access in disaster areas. Rather, commodities would have to be purchased and shipped to the disaster from distant Federal warehouses.

Section 506

Current Law:

Not applicable.

Republican Proposal:

Section 506 makes the block grant provisions effective as of the date of enactment and makes Section 505 (containing the repealers and amendments to all food assistance statutory authority) effective the first fiscal year at least six months after the fiscal year in which the act is passed.

Administration Proposal:

There is no similar provision in the Administration Proposal.

Analysis:

NOTE: It is unclear how the "general effective date" and the "special effective date" interact.

OTHER PROVISIONS:

Other aspects of the proposed welfare reform legislation have implications for nutrition programs.

- o Section 107 would permit States to deny housing assistance, including programs administered by the Farmers Home Administration (FmHA), to unwed parents ages 18-20.
- o Section 202 would require States to cash-out food assistance benefits for participants in AFDC-UP, and at least one parent in these families would be required to perform 32 hours of work and 8 hours of job search each week as a condition of eligibility. This single cash payment would be reduced to the extent that at least one parent does not meet this work/job search requirement.
- o Section 203 would permit States to use food assistance funds provided through the block grant to subsidize wages.
- o Section 301 makes some FmHA housing assistance program subject to a cap on aggregate growth on welfare spending. The cap limits growth in funding for welfare programs (including AFDC, housing assistance, and supplemental security income) to increases in inflation and the size of the poverty population.
- o Section 401 eliminates virtually all domestic assistance to non-citizens, with the exception of refugees and the elderly, and grandfathers current residents for one year.

NOTE: The Food Stamp Program was not included in the list of programs for which aliens are no longer eligible; this is apparently an unintentional oversight. There also is an apparent inconsistency in omitting any reference to the Food

Assistance Block Grant authorized in Title V while referring to statutes that are repealed in Title V.

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Preliminary Cost Estimate of Title V of the Personal Responsibility Act of 1995
(Dollars in millions)

	1996	1997	1998	1999	2000	Total
Current	40,764	43,029	44,962	47,042	49,260	225,057
Proposed	35,600	37,138	38,756	40,457	42,214	194,166
Difference	-5,164	-5,891	-6,206	-6,585	-7,046	-30,892
Percent	-12.7	-13.8	-13.8	-14.0	-14.3	-13.7

NOTES: Based on current service program level for food assistance programs in Department estimates of September 1994 (excluding projected costs of Food Program Administration but including anticipated Health Care Reform spending for WIC).

Proposed levels in 1997-2000 are increased from 1996 amount using the projected increase in total population and the cost of the Thrifty Food Plan for the preceding year.

Totals may not equal sum of columns due to rounding.

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**Effects of the Personal Responsibility Act:
Historical Illustration of Food Assistance Block Grant Adjustment
(Dollars in millions)**

Year	Actual Food Assistance	Adjusted Block Grant	Difference		Adjusted Block Grant	Difference	
			Total	Percent		Total	Percent
1984	\$19,551	\$19,551	N/A	N/A			
1985	19,851	20,196	\$345	1.7			
1986	20,051	20,776	725	3.6			
1987	20,337	21,369	1,032	5.1			
1988	21,119	22,759	1,640	7.8			
1989	21,697	23,603	1,906	8.8	\$21,697	N/A	N/A
1990	24,786	25,752	966	3.9	23,672	- \$1,114	- 4.5
1991	28,867	27,378	- 1,489	- 5.2	25,167	- 3,700	- 12.8
1992	33,520	28,950	- 4,570	- 13.6	26,612	- 6,908	- 20.6
1993	35,391	29,120	- 6,271	- 17.7	26,769	- 8,622	- 24.4
1994	36,837	30,372	- 6,465	- 17.6	27,920	- 8,917	- 24.2

Notes: Actual food assistance includes total Federal cost of all food assistance programs, excluding Food Program Administration. Block grant is adjusted by the change in total U.S. population and the Consumer Price Index for Food at Home in the preceding year (ending on July 1 for population and in May for the CPI).

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**Preliminary Estimates of the Effect of Title V of the Personal Responsibility Act of 1995
on Federal Support for Food Assistance by State
(Fiscal year 1996 dollars in millions)**

State	Level of Food Assistance		Difference	
	Current	Proposed	Total	Percent
Northeast Region				
Connecticut	\$297	\$248	- \$49	- 17
Maine	188	165	- 22	- 12
Massachusetts	608	573	- 36	- 6
New Hampshire	89	95	6	7
New Jersey	836	721	- 114	- 14
New York	3,101	2,648	- 453	- 15
Pennsylvania	1,617	1,470	- 147	- 9
Rhode Island	128	138	- 25	- 20
Vermont	76	64	- 12	- 16
North Central Region				
Illinois	1,741	1,469	- 272	- 16
Indiana	713	682	- 31	- 4
Iowa	297	264	- 33	- 11
Kansas	307	266	- 41	- 13
Michigan	1,390	1,120	- 270	- 19
Minnesota	508	480	- 27	- 5
Missouri	810	746	- 64	- 8
Nebraska	187	173	- 14	- 7
North Dakota	86	74	- 12	- 14
Ohio	1,768	1,287	- 480	- 27
South Dakota	99	94	- 5	- 5
Wisconsin	467	435	- 32	- 7
South Region				
Alabama	818	711	- 107	- 13
Arkansas	422	393	- 29	- 7
Delaware	92	61	- 31	- 33
District of Columbia	137	88	- 49	- 36
Florida	2,194	1,830	- 363	- 17
Georgia	1,209	933	- 275	- 23
Kentucky	740	575	- 164	- 22
Louisiana	1,141	752	- 389	- 34
Maryland	576	440	- 135	- 24
Mississippi	730	598	- 132	- 18

State	Level of Food Assistance		Difference	
	Current	Proposed	Total	Percent
North Carolina	930	850	- 81	- 9
Oklahoma	528	471	- 57	- 11
South Carolina	602	545	- 57	- 9
Tennessee	983	733	- 251	- 25
Texas	3,819	2,692	- 1,127	- 30
Virginia	783	610	- 173	- 22
West Virginia	405	302	- 103	- 25
West Region				
Alaska	97	84	- 13	- 14
Arizona	663	558	- 105	- 16
California	4,170	4,873	703	17
Colorado	412	415	3	1
Hawaii	215	205	- 10	- 5
Idaho	127	172	45	36
Montana	111	137	26	23
Nevada	145	151	6	4
New Mexico	361	320	- 41	- 11
Oregon	410	347	- 63	- 15
Utah	234	278	44	19
Washington	660	440	- 220	- 33
Wyoming	57	56	- 1	- 1
Territories/TTOs/Other				
Dept. of Defense	5	0	- 5	- 100
Indian Tribal Org.	122	85	- 37	- 30
American Samoa	5	5	*	- 3
Guam	31	30	- 1	- 3
Puerto Rico	1,478	1,638	160	11
Outlying Areas	2	2	*	- 3
Virgin Islands	39	38	- 1	- 3
Total	40,764	35,600	5,164	- 13

NOTE: The distribution of benefits among States under the proposed law is based on the States' relative share of persons with income below the 1991, 1992, and 1993 Lower Living Standard Income Levels in the March 1991, 1992, and 1993 Current Population Survey, respectively, averaged over the three years. The proportion for Puerto Rico is based on the number of persons with income below 130 percent of the U.S. poverty guidelines in the 1990 decennial census.

Individual cells may not sum to totals because of rounding.

NOV 23 1994

-- D R A F T --

Projected Distribution of Food Assistance Programs by State
(Fiscal Year 1996 dollars in millions)

State	Food Stamps	Child Nutrition	WIC	Other	Total
Alabama	\$550	\$183	\$81	\$4	\$818
Alaska	59	25	12	1	97
Arizona	469	143	43	7	663
Arkansas	252	115	51	4	422
California	2,627	1,073	436	34	4,170
Colorado	270	97	38	6	412
Connecticut	178	69	48	2	297
Delaware	57	24	10	1	92
District of Columbia	100	23	11	3	137
Florida	1,577	456	149	11	2,194
Georgia	797	283	122	6	1,209
Hawaii	158	34	22	1	215
Idaho	69	35	22	2	127
Illinois	1,252	325	151	13	1,741
Indiana	487	141	82	3	713
Iowa	175	82	36	4	297
Kansas	168	100	35	4	307
Kentucky	507	156	72	5	740
Louisiana	777	255	94	15	1,141
Maine	133	36	17	1	188
Maryland	404	117	50	4	576
Massachusetts	393	144	65	7	608
Michigan	1,017	226	123	24	1,390
Minnesota	288	165	54	1	508
Mississippi	491	177	58	4	730
Missouri	567	161	76	6	810
Montana	67	28	15	2	111
Nebraska	97	64	21	4	187
Nevada	104	27	13	1	145
New Hampshire	55	19	13	2	89
New Jersey	583	164	83	6	836
New Mexico	233	93	30	5	361
New York	2,177	613	290	22	3,101
North Carolina	579	245	101	5	930
North Dakota	44	29	11	1	86

State	Food Stamps	Child Nutrition	WIC	Other	Total
Ohio	1,325	275	159	8	1,768
Oklahoma	354	127	44	4	528
Oregon	285	82	39	3	410
Pennsylvania	1,185	269	155	9	1,617
Rhode Island	89	24	15	1	128
South Carolina	365	159	75	2	602
South Dakota	53	31	14	1	99
Tennessee	720	176	80	8	983
Texas	2,676	814	306	22	3,819
Utah	121	79	33	1	234
Vermont	48	16	11	1	76
Virginia	536	163	79	5	783
Washington	454	142	58	5	660
West Virginia	302	68	33	2	405
Wisconsin	281	118	63	5	467
Wyoming	32	16	8	1	57
Puerto Rico	1,143	178	156	1	1,478
Indian Tribal Org.	0	0	49	73	122
Virgin Islands	25	6	7	0	39
Guam	22	4	5	0	31
American Samoa	5	0	0	0	5
Dept. of Defense	0	4	0	1	5
Other Outlying Areas	0	0	0	2	2
Total	27,782	8,681	3,924	376	40,764

Notes: Based on current service program level for food assistance programs in Department estimates of September 1994. The Food Stamp Program total includes Nutrition Assistance Program in Puerto Rico and American Samoa. The WIC total includes anticipated Health Care Reform spending. The grand total excludes Food Program Administration.

Totals may not equal sums of individual cells due to rounding.

For Internal Use Only

COMPARING THE CHILD SUPPORT PROVISIONS OF THE "WORK AND RESPONSIBILITY ACT OF 1994" AND THE "CONTRACT WITH AMERICA"

- **The Work and Responsibility Act has a comprehensive plan to improve child support enforcement, the Contract With America does not.**

The Work and Responsibility Act includes a comprehensive proposal to improve the child support enforcement system by establishing paternities, ensuring fair child support award levels, and collecting support that is owed. The Contract with America does not include a comprehensive plan to improve child support enforcement. It includes only three provisions that have a significant impact on the system - and these could have a detrimental effect. These provisions are in the "Personal Responsibility Act" and the "Family Reinforcement Act". (The Work and Responsibility Act has 140 pages devoted to child support enforcement, the Contract with America has 4.5).

- **The Republican bill imposes a cap on spending for child support programs, with potentially devastating results.**

The Personal Responsibility Act would impose a cap on aggregate spending for a number of social programs for the poor. These programs include Supplemental Security Income (SSI) for the disabled, AFDC, the at-risk child care program, low income housing, and child support enforcement. A cap would convert the programs - like SSI, AFDC, and child support enforcement - into non-entitlement programs. The funding level would then have to be set each year by appropriation. Budget constraints in future years and the expectation that some of these programs are projected to increase more rapidly than inflation (like SSI and the AFDC work program) could mean that these programs, including child support, would almost immediately face substantial cuts.

These projected cuts would have a devastating effect on the ability of child support enforcement programs, already faced with massive caseloads, to provide basic services. Since the child support program is cost efficient (nearly four dollars in child support is collected for every dollar invested) and since collections in AFDC cases reduce welfare costs, subjecting child support enforcement to this cap is especially shortsighted. And since the Contract with America also includes massive cuts in AFDC eligibility, the importance of effective child support enforcement for these families will only grow.

- **The Republican bill would deny benefits to children who do not have paternity established, even if the mother was willing to fully cooperate in efforts to establish paternity.**

The Personal Responsibility Act also proposes that children for whom paternity is not legally established would be ineligible for AFDC. Paternity establishment is a legal process, often through the courts, that takes as long as one or two years for the child support agency to complete. Thus, under the Republican proposal, even if the mother fully cooperated and gave the name and address of the father, the child could be denied benefits for the period of time it took to establish paternity. In a single year, 26 percent of new applicant children would be denied AFDC benefits because paternity was not established at the time of application.

This requirement applies to all new applicant children, even those who are now ten or fifteen years old. In cases where the child is older, states find it much more difficult and time consuming to establish paternity because often no contact has been maintained and the mother does not know where the father is. And if the father can not be located, the child would never receive benefits.

- The Republican bill would establish a national untested work program for non-custodial parents.

The Family Reinforcement Act contains only one child support enforcement measure of any significant consequence. It would establish work requirements for non-custodial parents with child support arrearages. If non-custodial parents did not get jobs or pay support after receiving notice, they would be required to enter a work program and work at least 35 hours per week. There is almost no experience with such work programs of this nature and certainly nothing approaching this scale. About 1.3 million non-custodial parents of children receiving AFDC are in arrears, so implementing such a program on a national scale would create overwhelming implementation problems. (And this would compound the states' administrative difficulties in placing an estimated 1.5 million AFDC recipients in work slots by the year 2001 under the Republican work program.) While it might increase collections, no one can predict whether it would be cost-effective or what other impacts it might have. For instance, since the proposal does not provide for an administrative system to order people to work and enforce such orders, the courts would bear this responsibility. Increasing the caseload of already overburdened courts would limit their ability to deal with criminal and other types of cases.

- The Administration's plan is a comprehensive plan, based upon proven and widely accepted reform initiatives.

The Work and Responsibility Act takes an entirely different approach to child support enforcement. It is a comprehensive proposal that reflects a growing consensus among child support professional on how to constructively reform the system and dramatically increase both paternity establishment and collections. It is based heavily on the recommendations of the U.S. Commission on Interstate Child Support Enforcement and best state practices that have already proven to be successful.

The Work and Responsibility Act includes tough paternity establishment requirements, building on the in-hospital paternity establishment programs already enacted as part of OBRA 1993, and further streamlining the paternity establishment process. Economic incentives will encourage states to establish paternities for all births, regardless of welfare status. Mothers must cooperate in establishing paternity under new strict requirements prior to receiving welfare benefits. However, unlike the Republican proposal, a child whose mother has fully cooperated would get benefits as soon as she has provided full information and requirements would then be imposed on the state to establish paternity quickly. This is a much more balanced and fair approach.

The Work and Responsibility Act ensures that child support awards are fair and reflect the current ability of the noncustodial parent to pay support. Child support distribution rules will support families who move from welfare to work and promote family reunification.

The Work and Responsibility Act modernizes the child support system, requiring states to have central child support registries and tracking systems so that enforcement action can be taken immediately when payments are missed. It includes a National Clearinghouse to help track parents across state lines and immediately impose wage withholding orders when someone goes to work. It provides for simpler administrative enforcement remedies and tough enforcement tools such as license revocations for those parents who have the ability to pay but refuse to do so. Finally, it provides sufficient funding for the program through a new funding formula that uses performance-based incentives to encourage states to improve their programs.

The Work and Responsibility Act also focuses on efforts to get non-custodial parents to work by providing funds for education and training programs through the JOBS program, at state option. Non-custodial parents can be required to work off the support they owe, but unlike the Republican plan, states are given flexibility in designing programs to meet these goals.

In short, the Contract with America does almost nothing to improve child support collections for the average family. The child support provisions it does include are untested and could have a negative impact on millions of children and families. It would undoubtedly result in reduced funding for state programs, detrimentally affecting the ability of programs to collect child support. The Work and Responsibility Act is vastly more comprehensive and reflects a consensus that child support enforcement can be dramatically improved if the states have the tools and resources to do the job.

Comparison of Work and Responsibility Act and the Personal Responsibility Act

DRAFT

	Work and Responsibility Act	Personal Responsibility Act
WORK		
Job Search/ Training Requirements	Employable recipients required to participate in job search, education, and training activities immediately.	None. State option.
Work Requirements	Work required of ALL employable persons after 2 years.	Fifty percent of all recipients must eventually be in workfare or other work activity.
Sanctions and Benefit Cut-offs	No benefits for persons who refuse to work in subsidized job or who refuse a private sector job offer. Persons willing to work who cannot find a private sector job can get help, but only if willing to work for benefits.	No benefits for persons who refuse to work or who refuse a private sector job offer. All persons permanently cut off after 5 years (state option 2 years) even if they are willing to work but can't find a job, or unable to work due to disability.
Protections for Disability	Persons with disabilities or parents caring for disabled child exempted until able to work.	None.

RESPONSIBILITY

Child Support Enforcement	Dramatic improvements in child support, including central state registries, license revocations, etc.	Few child support provisions and a cap which would actually reduce resources for enforcement (child support bill promised later.)
Paternity Establishment	No AFDC benefits until state certifies applicant has cooperated fully in paternity establishment. State then required to locate father within 1 year.	No AFDC benefits for child until paternity has been established - whether or not mother has cooperated fully and whether or not state has made a serious effort to locate the father.
Fraud	Improved information systems and data collection to reduce welfare fraud and catch those who owe child support.	None.
Performance Measures	New state performance measures based on placement rather than process.	No changes.

DRAFT

TEEN PREGNANCY, REACHING THE NEXT GENERATION

Teen Parents	Mothers under 18 must live at home, identify their child's father, and stay in school to get benefits. Comprehensive case managers for teens.	Children born to mother under 18 (state option under 21) permanently denied aid for their entire childhood.
Teen Pregnancy Prevention Initiative	Community based pregnancy prevention initiatives in 1000 schools. Comprehensive pregnancy prevention demonstrations.	None
Family Caps	State option to provide no additional benefits for children conceived while the mother is on welfare.	State requirement to provide no additional benefits for children conceived while the mother is on welfare.
Phase-in	Youngest recipients phased-in first.	States encouraged to phase-in recipients with oldest children.

OTHER PROVISIONS

Legal Immigrants	Sponsors held financially accountable for legal immigrants.	Legal immigrants barred from virtually all public benefits.
Nutrition Cuts/ Block Grants	None	Food stamps, WIC, child nutrition programs converted into single block grant with very few conditions and cut by 12%. State option for AFDC block grant.
Benefit Protections	Eligible persons can always enroll.	Entitlement to AFDC, SSI, and nutrition programs ended. Programs become discretionary. Aid might be denied because annual budget is exhausted.

To: Bruce Reed
Kathi Way

From: *WJ* David T. Ellwood

Re: Attached summary of Personal Responsibility Act

Date: November 17, 1994

Leon Panetta asked for the attached summary of the Personal Responsibility Act. The analysis is very preliminary.



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

~~CONFIDENTIAL~~ MEMORANDUM
DPS

To: Leon Panetta
Carol Rasco
Alice Rivlin

From: Donna E. Shalala

Subject: Welfare Provisions in Republican Contract With America

This accompanying paper describes the Personal Responsibility Act (or PRA) contained as part of the Republicans' Contract With America, indicating both the key provisions and the likely impact they will have. Understanding the differences between this proposal and the original Republican plan (HR 3500) will be crucial as we begin to work with Congress to fulfill the Administration's longstanding commitment to welfare reform.

cc: Laura Tyson, Robert Rubin

Brief Description and Analysis of the Personal Responsibility Act

The Personal Responsibility Act (or PRA) is the welfare reform bill contained as part of the Republicans' Contract With America. The memo briefly describes its key provisions and gives a preliminary analysis.

It is important to understand that there are major differences between the original House Republican welfare reform plan introduced last year (HR 3500) and the Personal Responsibility Act. Like the Administration's Work and Responsibility Act, HR 3500 built on the Family Support Act of 1988 and required participants to engage in training and placement services for up to two years. It then required them to work if they had not found private sector employment.

In contrast, while the PRA does require work for a portion of the caseload, it does not require people to participate in the education or training services necessary to prepare them for work. Indeed, it removes the requirements and structure of the JOBS program which was the key element of the Family Support Act. The PRA also does not create a "two years and you work" framework or contain any child support enforcement provisions, although there are a limited set of child support enforcement proposals in other parts of the contract. Instead, its focus is simply reducing the welfare caseload, in large part by dramatically limiting eligibility for children born to unmarried mothers and an unconditional cutoff of assistance (including any sort of work opportunity) after five years.

Section-by-Section Analysis

The Personal Responsibility Act contains the major welfare reform provisions of the Contract With America. It has seven titles as listed below and runs 53 pages:

I. Reducing Illegitimacy (16 pages)--This section denies cash aid to all children born to unmarried teenagers under age 18. The child is barred from aid for the entire 18 years of childhood unless the mother marries the father or another man who legally adopts the child. There are no exceptions, even for rape or incest. States have the additional option of permanently denying both cash and housing aid to children born to unmarried mothers who are between the ages of 18 and 20. The federal money saved by this provision is to be returned to the states for use in pregnancy prevention programs, orphanages, or similar programs, but cannot be used for direct support of the children or families. A family cap is required in every state.

The bill also denies cash benefits to children born to mothers of any age for whom paternity has not been established. In other words, even if the mother had cooperated fully in providing information needed to help locate the father, the child would still remain ineligible for cash aid. (The mother could continue to receive her portion of the grant.) Both the mother and child would remain eligible for Medicaid. Just over 50% of children on AFDC are born out-of-wedlock, and in roughly two thirds of these cases, paternity has not been

established. The provision seems to be effective immediately. If so this provision alone appears to render roughly one-third (3 million children) of all children currently on AFDC ineligible for aid.

II. Requiring Work (8 pages)--This section requires that a certain percentage of the caseload be required to work at least 35 hours per week (or 30 hours plus 5 hours of job search) rising from 2% initially to 50% after the year 2002. This applies to all persons regardless of the size of the grant they receive or the current state-by-state variation in AFDC benefits. For example, under PRA, some families in Mississippi would be required to work 140 hours for a \$120 monthly grant, plus whatever nutrition assistance was available. The legislation appears unclear as to whether states are required to provide child care either during work or program participation.

All other federal requirements for participation in education and training activities are eliminated, effectively making the JOBS program, which was the core of the Family Support Act of 1988, optional, although states are allowed to impose rules of their own. After 24 months of aid (including at least 12 months of being required to work), states may permanently terminate eligibility. After an absolute maximum of 60 months, states must unconditionally and permanently terminate eligibility. No exceptions are allowed, even for persons suffering from illness or disability, advanced age or responsibility for a disabled child. Families would be cut off after 2 to 5 years even if they are were willing to work for their benefit.

III. Capping the Aggregate Growth of Welfare Spending (3 pages)--This section caps the aggregate growth of AFDC, SSI, housing assistance and JOBS. It also reclassifies AFDC and SSI as discretionary rather than entitlement programs; thus benefits would not be guaranteed. The cap is set at current expenditures, plus inflation and the growth in the poverty rate. However, because the expenditures would be discretionary, money would have to be separately appropriated each year. The bill does not specify what happens to persons who are qualified for one of these programs when the cap has been exceeded: there could be an across-the-board benefit cut, or new applicants could be placed on a waiting list. Because these provisions apply to both AFDC and SSI, large numbers of disabled and elderly Americans, as well as young parents, would be affected.

IV. Restricting Welfare for Aliens (5 pages)--This provision eliminates the eligibility of most *legal* immigrants for 60 Federal programs including AFDC, SSI, non-emergency Medicaid, foster care, nutrition programs and housing assistance. The provision is retroactive in the sense that current beneficiaries under age 75 would have their current benefits taken away after a one-year grace period. Some exemptions are included, for refugees, for example. We estimate that approximately 1.5 million legal residents would be affected.

V. Consolidating Food Assistance Programs (15 pages)--This repeals essentially all food and nutrition programs, including Food Stamps, WIC, school lunch and other programs, replacing them with a \$35.6 billion discretionary appropriation paid out as a block grant with a very limited set of "strings." (It must be spent on "nutrition assistance" for persons who are economically disadvantaged, at least 20 percent must go for school lunch, breakfast, milk, or

similar programs, etc.) It also requires that many recipients of state food aid work. Our preliminary estimate is that this \$35.6 billion figure is 12% less than the aggregate \$40.4 billion projected to be spent on such programs in FY 1996. The distribution formula would also significantly redistribute the current flow of nutrition funds to states, with low AFDC benefit states hit the hardest.

VI. Expanding Statutory Flexibility of States (5 pages)--This allows states to convert AFDC into a federal block grant equal to 103% of the 1994 federal expenditures. The only requirement is that the money be used to fund a system of cash payments to needy families with dependent children. No state maintenance of effort is required. It contains numerous other smaller provisions such as an allowance to pay interstate migrants at the old state's benefit level, an allowance to require school attendance of all children, "married couple transition benefits," and microenterprise changes.

VII. Drug Testing for Welfare Recipients (1 page)--This requires all persons determined by the state to be addicted to drugs or alcohol to participate in treatment (if available) and be periodically tested for drugs.

Overall Effects

Results are still preliminary, but initial work suggests the following:

- o Burdens on states would increase dramatically. States could lose at least \$5 billion a year in federal matching funds for AFDC, although states do retain the option of taking a block grant for their current AFDC allotment. In addition, states would be asked to design their own nutrition programs to replace food stamps, WIC, and other existing programs for \$5 billion per year less than is currently provided by the federal government. Close to \$5 billion per year now going to support legal immigrants on SSI, AFDC, and food stamps would be lost. Demands on state child welfare systems are also likely to increase.
- o A major effect of the bill would be to reduce the number of children receiving aid by making them ineligible for benefits. Because of the paternity establishment, teen parent, and unconditional 60 month cutoff provisions of the PRA, millions of children would be dropped from AFDC, whether or not their parents were able or willing to work. While further analysis is needed to determine the effects of the bill over time, nearly a third of children on AFDC appear to be ineligible immediately, and ultimately at least 60% of children would be cut off. Thus 5-6 million children would eventually be affected.



NOV 17 1994

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

~~CONFIDENTIAL~~ MEMORANDUM

SES

NOV 17 1994

To: Leon Panetta
Carol Rasco
Alice Rivlin

From: 
Donna E. Shalala

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In contrast, while the PRA does require work for a portion of the caseload, it does not require people to participate in the education or training services necessary to prepare them for work. Indeed, it removes the requirements and structure of the JOBS program which was the key element of the Family Support Act. The PRA also does not create a "two years and you work" framework or contain any child support enforcement provisions, although there are a limited set of child support enforcement proposals in other parts of the contract. Instead, its focus is simply reducing the welfare caseload, in large part by dramatically limiting eligibility for children born to unmarried mothers and an unconditional cutoff of assistance (including any sort of work opportunity) after five years.

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established. The provision seems to be effective immediately. If so this provision alone appears to render roughly one-third (3 million children) of all children currently on AFDC ineligible for aid.

II. Requiring Work (8 pages)--This section requires that a certain percentage of the caseload be required to work at least 35 hours per week (or 30 hours plus 5 hours of job search) rising from 2% initially to 50% after the year 2002. This applies to all persons regardless of the size of the grant they receive or the current state-by-state variation in AFDC benefits. For example, under PRA, some families in Mississippi would be required to work 140 hours for a \$120 monthly grant, plus whatever nutrition assistance was available. The legislation appears unclear as to whether states are required to provide child care either during work or program participation.

All other federal requirements for participation in education and training activities are eliminated, effectively making the JOBS program, which was the core of the Family Support Act of 1988, optional, although states are allowed to impose rules of their own. After 24 months of aid (including at least 12 months of being required to work), states may permanently terminate eligibility. After an absolute maximum of 60 months, states must unconditionally and permanently terminate eligibility. No exceptions are allowed, even for persons suffering from illness or disability, advanced age or responsibility for a disabled child. Families would be cut off after 2 to 5 years even if they are were willing to work for their benefit.

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IV. Restricting Welfare for Aliens (5 pages)--This provision eliminates the eligibility of most *legal* immigrants for 60 Federal programs including AFDC, SSI, non-emergency Medicaid, foster care, nutrition programs and housing assistance. The provision is retroactive in the sense that current beneficiaries under age 75 would have their current benefits taken away after a one-year grace period. Some exemptions are included, for refugees, for example. We estimate that approximately 1.5 million legal residents would be affected.

V. Consolidating Food Assistance Programs (15 pages)--This repeals essentially all food and nutrition programs, including Food Stamps, WIC, school lunch and other programs, replacing them with a \$35.6 billion discretionary appropriation paid out as a block grant with a very limited set of "strings." (It must be spent on "nutrition assistance" for persons who are economically disadvantaged, at least 20 percent must go for school lunch, breakfast, milk, or

similar programs, etc.) It also requires that many recipients of state food aid work. Our preliminary estimate is that this \$35.6 billion figure is 12% less than the aggregate \$40.4 billion projected to be spent on such programs in FY 1996. The distribution formula would also significantly redistribute the current flow of nutrition funds to states, with low AFDC benefit states hit the hardest.

VI. Expanding Statutory Flexibility of States (5 pages)--This allows states to convert AFDC into a federal block grant equal to 103% of the 1994 federal expenditures. The only requirement is that the money be used to fund a system of cash payments to needy families with dependent children. No state maintenance of effort is required. It contains numerous other smaller provisions such as an allowance to pay interstate migrants at the old state's benefit level, an allowance to require school attendance of all children, "married couple transition benefits," and microenterprise changes.

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Results are still preliminary, but initial work suggests the following:

- o Burdens on states would increase dramatically. States could lose at least \$5 billion a year in federal matching funds for AFDC, although states do retain the option of taking a block grant for their current AFDC allotment. In addition, states would be asked to design their own nutrition programs to replace food stamps, WIC, and other existing programs for \$5 billion per year less than is currently provided by the federal government. Close to \$5 billion per year now going to support legal immigrants on SSI, AFDC, and food stamps would be lost. Demands on state child welfare systems are also likely to increase.
- o A major effect of the bill would be to reduce the number of children receiving aid by making them ineligible for benefits. Because of the paternity establishment, teen-parent, and unconditional 60 month cutoff provisions of the PRA, millions of children would be dropped from AFDC, whether or not their parents were able or willing to work. While further analysis is needed to determine the effects of the bill over time, nearly a third of children on AFDC appear to be ineligible immediately, and ultimately at least 60% of children would be cut off. Thus 5-6 million children would eventually be affected.

Welfare Reform - "Contract with America"

Five-Year Net Savings: "approximately" \$40 billion

Five-Year Savings (in billions)

Denial of "welfare" to non-citizens (AFDC, SSI, Food Stamps, and public housing) <i>NET Medicaid</i>	22	
Cap on welfare entitlements (AFDC, SSI, child care, CSE, public housing, and work programs)	18	23
Nutrition program discretionary block grant (Food Stamps, WIC, school lunches) <i>11 2/3 cut</i>	11	19
Paternity establishment requirements	2	
Total	53	

Five-Year Costs (in billions)

Work program (State discretion to design; must meet participation requirements)	9.9
State options (Not specified as to which options are included in figure)	2
Total	11.9

Note - These are not HHS or OMB estimates.

Brief Description and Preliminary Analysis of the Personal Responsibility Act

The Personal Responsibility Act (or PRA) is the welfare reform bill contained as part of the Republicans' Contract With America. The memo briefly describes its key provisions and gives a preliminary analysis.

It is important to understand that there are major differences between the original House Republican welfare reform plan introduced last year (HR 3500) and the Personal Responsibility Act. Like the Administration's Work and Responsibility Act, HR 3500 built on the Family Support Act of 1988 and required participants to engage in training and placement services for up to two years. It then required them to work if they had not found private sector employment.

In contrast, while the PRA does require work for a portion of the caseload, it does not require people to participate in the education or training services necessary to prepare them for work. Indeed, it removes the participation requirements of the JOBS program which was a key element of the Family Support Act. The PRA also does not create a "two years and you work" framework or contain any child support enforcement provisions, although there are a limited set of child support enforcement proposals in other parts of the contract. Instead, its focus is simply reducing the welfare caseload, in large part by dramatically limiting eligibility for children born to unmarried mothers and an unconditional cutoff of assistance (including any sort of work opportunity) after five years.

Section-by-Section Analysis

The Personal Responsibility Act contains the major welfare reform provisions of the Contract With America. It has seven titles as listed below and runs 53 pages:

I. Reducing Illegitimacy (16 pages)—This section denies cash aid to all children born to unmarried teenagers under age 18. The child is barred from aid for the entire 18 years of childhood unless the mother marries the father or another man who legally adopts the child. There are no exceptions, even for rape or incest. States have the additional option of permanently denying both cash and housing aid to children born to unmarried mothers who are between the ages of 18 and 20. The federal money saved by this provision is to be returned to the states for use in pregnancy prevention programs, orphanages, or similar programs, but cannot be used for direct support of the children or families. A family cap is required in every state.

The bill also denies cash benefits to children born to mothers of any age for whom paternity has not been established. In other words, even if the mother had cooperated fully in providing information needed to help locate the father, the child would still remain ineligible for cash aid. (The mother could continue to receive her portion of the grant.) Both the mother and child would remain eligible for Medicaid. Just over 50% of children on AFDC are born out-of-wedlock, and in roughly two thirds of these cases, paternity has not been

established. The provision seems to be effective immediately. If so this provision alone appears to render roughly one-third (3 million children) of all children currently on AFDC ineligible for aid.

II. Requiring Work (8 pages)--This section requires that a certain percentage of the caseload be required to work at least 35 hours per week (or 30 hours plus 5 hours of job search) rising from 2% initially to 50% after the year 2002. This applies to all persons regardless of the size of the grant they receive or the current state-by-state variation in AFDC benefits. For example, under PRA, some families in Mississippi would be required to work 140 hours for a \$120 monthly grant, plus whatever nutrition assistance was available. The legislation appears unclear as to whether states are required to provide child care either during work or program participation.

All other federal requirements for participation in education and training activities are eliminated, effectively making the JOBS program, which was the core of the Family Support Act of 1988, optional, although states are allowed to impose rules of their own. After 24 months of aid (including at least 12 months of being required to work), states may permanently terminate eligibility. After an absolute maximum of 60 months, states must unconditionally and permanently terminate eligibility. No exceptions are allowed, even for persons suffering from illness or disability, advanced age or responsibility for a disabled child. Families would be cut off after 2 to 5 years even if they are were willing to work for their benefit.

III. Capping the Aggregate Growth of Welfare Spending (3 pages)--This section caps the aggregate growth of AFDC, SSI, housing assistance and JOBS. It also reclassifies AFDC and SSI as discretionary rather than entitlement programs; thus benefits would not be guaranteed. The cap is set at current expenditures, plus inflation and the growth in the poverty rate. However, because the expenditures would be discretionary, money would have to be separately appropriated each year. The bill does not specify what happens to persons who are qualified for one of these programs when the cap has been exceeded: there could be an across-the-board benefit cut, or new applicants could be placed on a waiting list. Because these provisions apply to both AFDC and SSI, large numbers of disabled and elderly Americans, as well as young parents, would be affected.

IV. Restricting Welfare for Aliens (5 pages)--This provision eliminates the eligibility of most *legal* immigrants for 60 Federal programs including AFDC, SSI, non-emergency Medicaid, foster care, nutrition programs and housing assistance. The provision is retroactive in the sense that current beneficiaries under age 75 would have their current benefits taken away after a one-year grace period. Some exemptions are included, for refugees, for example. We estimate that approximately 1.5 million legal residents would be affected.

V. Consolidating Food Assistance Programs (15 pages)--This repeals essentially all food and nutrition programs, including Food Stamps, WIC, school lunch and other programs, replacing them with a \$35.6 billion discretionary appropriation paid out as a block grant with a very limited set of "strings." (It must be spent on "nutrition assistance" for persons who are economically disadvantaged, at least 20 percent must go for school lunch, breakfast, milk, or

similar programs, etc.) It also requires that many recipients of state food aid work. Our preliminary estimate is that this \$35.6 billion figure is 12% less than the aggregate \$40.4 billion projected to be spent on such programs in FY 1996. The distribution formula would also significantly redistribute the current flow of nutrition funds to states, with low AFDC benefit states hit the hardest.

VI. Expanding Statutory Flexibility of States (5 pages)--This allows states to convert AFDC into a federal block grant equal to 103% of the 1994 federal expenditures. The only requirement is that the money be used to fund a system of cash payments to needy families with dependent children. The bill language does not specifically say whether states that take this option will still have to implement the requirements of the other titles, though it appears that all requirements of AFDC are eliminated for states that take the block grant. No state maintenance of effort is required.

This section contains numerous other smaller provisions such as an allowance to pay interstate migrants at the old state's benefit level, an allowance to require school attendance of all children, "married couple transition benefits," and microenterprise changes.

VII. Drug Testing for Welfare Recipients (1 page)--This requires all persons determined by the state to be addicted to drugs or alcohol to participate in treatment (if available) and be periodically tested for drugs.

Overall Effects

Results are still preliminary, but initial work suggests the following:

- o Burdens on states would increase dramatically. States could lose at least \$5 billion a year in federal matching funds for AFDC, although states do retain the option of taking a block grant for their current AFDC allotment. In addition, states would be asked to design their own nutrition programs to replace food stamps, WIC, and other existing programs for \$5 billion per year less than is currently provided by the federal government. Close to \$5 billion per year now going to support legal immigrants on SSI, AFDC, and food stamps would be lost. Demands on state child welfare systems are also likely to increase.
- o A major effect of the bill would be to reduce the number of children receiving aid by making them ineligible for benefits. Because of the paternity establishment, teen parent, and unconditional 60 month cutoff provisions of the PRA, millions of children would be dropped from AFDC, whether or not their parents were able or willing to work. While further analysis is needed to determine the effects of the bill over time, nearly a third of children on AFDC appear to be ineligible immediately, and ultimately at least 60% of children would be cut off. Thus at least 5 million children would eventually be affected. If states adopted a cut off of children born to mothers age 18-21, or imposed a 2 year cutoff, the impacts would be even greater. Note, however, these effects could be significantly mitigated if states instead accepted the block grant,

though then state behavior would be unknown. Since no state maintenance of effort is required, some states might significantly cut back their own expenditures and reduce support for the poor.



CENTER ON BUDGET AND POLICY PRIORITIES

FOR IMMEDIATE RELEASE:
Tuesday, November 22, 1994

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"CONTRACT" WOULD ULTIMATELY DENY BENEFITS TO FIVE MILLION POOR CHILDREN, REPORT FINDS

The Personal Responsibility Act (PRA) in the House Republican "Contract with America" would deny AFDC benefits to at least half the families and children that would receive aid under current law, according to a report released today by the Center on Budget and Policy Priorities.

The Center found that if the bill's provisions were fully in effect today, at least 2.5 million families and more than five million children currently receiving assistance would be ineligible for benefits. This would result from a strict time limit on welfare receipt and provisions denying aid to children born to young unmarried mothers, children whose paternity is not legally established, and children born when their parents are receiving welfare.

Cuts in a Wide Range of Poverty Programs Total Much Larger than in the Early 1980s

The report also noted that the PRA contains reductions in a range of benefit programs for the poor that substantially exceed the reductions enacted during the early 1980s. Among the programs subject to cuts, according to the Center, are the Supplemental Security Income (SSI) program for the elderly and disabled poor, child care assistance for low-income working families that are not on welfare, child support enforcement, and the school lunch program. The "entitlement" status of these programs would also be ended.

According to the report, the net effect would be a reduction in benefits for low-income families and individuals of about \$57 billion over the four-year period from 1996 to 1999, with the cuts growing with each passing year. By 1999, the cuts in basic entitlement programs for the poor would be double the combined effects of the cuts in poverty programs enacted during President Reagan's first two years.

The bill also would alter a key feature of the safety net under which programs such as food stamps and free school lunches for poor children expand during recessions when unemployment and poverty rise, the study noted. Under the PRA, some low-income families or elderly people could be denied benefits during such periods. Alternatively, low-income families could be placed on waiting lists or benefits for all eligible families could be cut across-the-board.

— more —

The Center's analysis also examined the new work requirements that the bill establishes. By 2001, an estimated 1.5 million recipients would be required to work 35 hours a week for their aid. In the typical state, these work slots would "pay" \$2.42 an hour for a mother in a family of three, the report said, well below the \$4.25-an-hour minimum wage. In Mississippi, recipients would be "paid" 79 cents an hour.

Time Limits

Of particular note, according to the report, is the PRA's time limit. Unlike President Clinton's proposal and other bills (including earlier Republican bills) that allowed or required states to provide work slots to families that reached a time limit, the PRA would end eligibility for both work slots and cash aid. Mothers who accumulated five years on welfare over their lifetime (or as little as two years, at state option) would be permanently barred from receiving either further cash aid or a work slot. Mothers willing to work but unable to find an unsubsidized job to support their children — including mothers who had faithfully worked nearly full-time for several years in a work slot — would be denied aid once they had passed the time limit.

There would be no exceptions or extensions to the time limit, the report noted. This means, for example, that families headed by parents who are temporarily disabled or caring for disabled children would be removed from the rolls upon reaching the time limit. Children receiving AFDC who live with elderly grandparents would be subject to the time limit as well.

In addition, in a state choosing a two-year time limit, a mother who received welfare for two years in her early twenties, left AFDC and worked for 10 years but then needed assistance during a recession would be ineligible for any further aid, as would her children. Recent studies show that most people who enter the AFDC program leave within two years, often because they find jobs, the Center said. The same data, however, show that many of those who leave welfare subsequently return, often because they lose the low-wage jobs they obtain.

"The PRA differs in important ways from — and is much less balanced than — other recent welfare reform plans, including an earlier plan offered by a majority of House Republicans," said Isaac Shapiro, the Center's acting co-director and co-author of the report. "The Act begins to dismantle basic features of the safety net, even for poor parents who want to work and have met all work requirements imposed on them."

Draw line if jobs available — or at least say
for some other plan at state option

Sweeping Provisions

In addition to the time limit, the bill's provisions include:

- A denial of both cash and housing benefits throughout their childhoods to poor children born to young unmarried mothers. States could use the savings to support programs such as orphanages. An unmarried mother who had a child 10 years ago as a teenager, but who applies for AFDC after losing her job, would be ineligible for aid under this provision.
- A denial of benefits for children whose paternity has not been legally established; this includes 29 percent of all children currently on AFDC. These children would be ineligible regardless of whether their mothers were cooperating with state efforts to establish paternity. Paternity establishment is usually neither swift nor certain, the report said, and state bureaucracies frequently take one to two years to establish paternity in a case *after* a mother has provided the relevant information. The children in question would be denied benefits during this lengthy process. Children whose fathers cannot be located would never have paternity established and, therefore, would never be eligible for assistance.

Looking at all of the provisions together, the report said, the PRA's effect would be to disqualify more than half the low-income children who would be eligible for aid under current law. Five to six million poor children would be rendered ineligible for any cash assistance. On average, 9.5 million children received AFDC in 1993. Similarly, at least 2.5 million of the five million *families* now receiving assistance would be made wholly ineligible for AFDC if the PRA were fully in effect.

Many families made ineligible for assistance would likely be unable to provide basic necessities for their children. There is a strong risk, the report warned, that an already-overburdened foster care system would then be asked to find foster care and institutional placements for large numbers of children whose parents were forced to give them up because they were destitute.

create more
probs & solve

Reductions in Other Safety Net Programs

The Act would reduce other programs for the poor in addition to AFDC. It would: merge federal food assistance programs for poor households into a block grant and set the block grant's funding level several billion dollars below the levels needed to maintain current benefits; place a number of other major programs for low-income households under an expenditure cap that would require large cuts in these programs; and make poor legal immigrants ineligible for nearly all government benefits and services.

The PRA would cut about \$18 billion over four years from food assistance programs, the Center said. Virtually all domestic food programs, including food stamps and the school lunch program, would be consolidated into a block grant. The bill would set a ceiling on how much could be appropriated for the block grant, placing this ceiling several billion dollars a year below the funding level needed to maintain current levels of food assistance.

A substantial majority of the cuts in food assistance would be targeted on families that are now eligible for food stamps. Assistance to these families would be reduced almost \$4 billion a year, according to the Center's analysis. Currently, the average food stamp allotment is just 75 cents per person per meal. About two-thirds of food stamp beneficiaries are children or elderly or disabled people.

In addition, the PRA would impose a cap on total expenditures for an array of major programs for the poor: the SSI program for the elderly and disabled poor; the child support enforcement program (which helps establish paternity); a key child care program for working poor families not on welfare; low-income housing programs; and AFDC. The cap governing these programs would be set at a level well below what the programs would cost under current law. This would require these programs to be cut \$18 billion in the three-year period from 1997 to 1999, according to estimates from the House Republican conference. The cuts would grow larger with each passing year, found the Center.

The bill also would convert low-income benefit programs that are now entitlements, such as AFDC and SSI, into non-entitlement programs. Eliminating the entitlement status of these programs would weaken their ability to cushion families and the elderly against economic shocks or other unexpected developments. If funding proved insufficient during a fiscal year for SSI or AFDC — as could occur during an economic downturn when poverty mounted or if a greater-than-expected number of poor elderly people applied for SSI — either benefits would have to be reduced, some eligible people would have to be denied assistance, waiting lists would have to be created, or additional state funds would have to be spent.

Food stamp-type assistance and school lunch programs would lose entitlement status as well. Funding for free school meals for poor children and food stamp-type assistance would no longer expand automatically during recessions when unemployment and poverty climbed.

Legal Immigrants Hit Hardest

The PRA also would make most *legal* immigrants ineligible for nearly all health, education, job training, housing, social service, and income assistance programs, the study said. (*Illegal* immigrants are already ineligible for most programs.) For example, legal immigrants disabled on the job in the United States would be ineligible for SSI benefits. Non-citizen

migrant farm worker families legally in the United States could not have their children treated at a migrant health center. Legal immigrants who are children would be denied access to foster care payments if their parents died and could not be screened for lead poisoning.

Legal immigrant children also would be ineligible for immunization programs. These programs currently cover immigrants partly to help avoid the spread of contagious diseases that could infect children who are U.S. citizens. Legal immigrants are subject to the same taxes as U.S. citizens.

Net Budgetary Impacts

Overall, the bill would reduce safety net programs \$57 billion over four years, the Center said, noting that cuts of this magnitude are unprecedented in programs for the poor. The cuts in AFDC, SSI, food stamps and Medicaid would be double the size of the cuts made in these programs by the budgets enacted in 1981 and 1982, when the previous deepest reductions in poverty programs were made. The programs targeted for cuts represent a small fraction of federal spending: AFDC, SSI, and food stamps combined account for 4 percent of federal expenditures.

An Unbalanced Proposal

"People across the political spectrum agree that welfare needs fundamental reform," Shapiro said. "There is also wide support for further efforts to reduce the federal budget deficit."

"The PRA, however, does not strike a responsible balance between these goals and the need to maintain a basic safety net beneath poor children, the elderly, the disabled, and other vulnerable groups. The bill would make deep cuts in vital programs without helping welfare recipients earn their way out of poverty. Increases in poverty, homelessness, and hunger for millions of children almost certainly would result, and states would likely be saddled with significant added costs as they face the destitution created by these harsh policies."

The Center on Budget and Policy Priorities conducts research and analysis on a range of government policies and programs, with an emphasis on fiscal policy issues and on issues affecting low- and moderate-income households. It is supported primarily by foundation grants.

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The Personal Responsibility Act

An Analysis

Summary

Dan Bloom
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 **CENTER ON BUDGET
AND POLICY PRIORITIES**

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Contents

Included in this packet are:

- The summary of the Center on Budget and Policy Priorities' analysis of the Personal Responsibility Act.
- An appendix on the overall impact of the Personal Responsibility Act on children, including a description of how the Center estimated the numbers of children and families who would be denied AFDC benefits.

The Center's full report on the PRA will be available the week of November 28th.

The Personal Responsibility Act: Summary

A new welfare reform proposal, the Personal Responsibility Act (PRA), is part of the "Contract with America" unveiled in September 1994 by Republican members of the House of Representatives and congressional candidates. The PRA differs in important ways from other recent welfare reform plans. Key elements of the bill include the following:

- The PRA proposes deep cuts in a broad range of programs for low-income households and eliminates the entitlement status of most major low-income benefit programs, including the Supplemental Security Income program for the elderly and disabled poor and the food stamp program. The effect would be a net reduction in low-income programs of at least about \$57 billion over the four-year period from 1996 to 1999, with the cuts escalating over time.
- The bill would deny Aid to Families with Dependent Children and housing benefits to many poor children born to young unmarried mothers for their entire childhood, diverting these funds to support programs such as orphanages for poor children. In addition, children whose paternity has not been established — 29 percent of all children currently receiving AFDC — would be denied benefits even if their mothers were fully cooperating with state efforts to track down absent fathers and establish paternity.
- The bill would establish extremely stringent time limits and work requirements. States would be required to terminate both cash assistance and work opportunities for families who had received AFDC for a total of

five years; regardless of their circumstances, these families could never receive assistance again. States would have the option of ending welfare assistance for families after they receive aid for a total of two years. The PRA would *not* provide work opportunities for parents who reach these time limits and are unable to find jobs even if the parents fully complied with work requirements while on assistance and made faithful efforts to find employment. During the period in which they would receive aid, a large fraction of recipients would be required to work their benefits off at "wages" that would equal \$2.42 an hour in the typical state and range as low as \$0.79 an hour in Mississippi.

- In combination, various PRA provisions that would prevent certain categories of children from receiving AFDC benefits and the mandatory time limit would ultimately deny assistance to a *substantial majority* of the children who would be eligible for AFDC under current law. If the provisions were fully in effect today, more than five million children would be denied AFDC. At least 2.5 million fewer families would receive AFDC benefits.

The Personal Responsibility Act represents a dramatic departure from the principle of "mutual responsibility" that has guided bipartisan welfare reform efforts such as the Family Support Act of 1988. Under this principle, welfare recipients are expected to move toward self-sufficiency by participating in education or training, by working, or by looking for work, while government agrees to maintain a basic safety net beneath poor children and to provide services and supports to help recipients improve their prospects in the labor market.

The PRA largely abandons the government's side of this bargain. The bill would deny basic income support to numerous poor families, including many families in which the parents comply with all program rules and are willing to work but cannot find a job. The bill also would weaken the safety net through deep cuts in programs that provide food, cash, and housing assistance to the elderly and disabled poor, as well as poor families with children. Further, the bill undercuts programs to improve the earnings prospects of poor parents.

The PRA encompasses far more than what is usually labeled "welfare reform." Under this rubric, it proposes sweeping changes that would begin to dismantle the basic features of the safety net that provide vital support to people in need.

Budget Provisions Would Reduce Benefits for Low-Income People

In addition to making specific cuts in AFDC, the PRA includes three provisions that would make substantial cuts in a wide range of programs for low-income families and individuals. The bill would: (1) merge federal food assistance programs into a block grant and set the block grant's funding level several billion dollars below what is needed to maintain current benefits; (2) place a number of other major programs for low-income households under a spending cap that would require large cuts in these programs and end their entitlement status; and (3) make poor *legal* immigrants ineligible for nearly all government benefits and services.

Food Assistance Programs

The PRA would cut an estimated \$18 billion over four years from food assistance programs. Virtually all domestic food programs, including food stamps, WIC, and the school lunch program, would be consolidated into one block grant, thereby ending their "entitlement" status. The bill would set a ceiling on how much could be appropriated for the block grant each year, placing this ceiling several billion dollars a year below current funding levels. (Backup materials to the PRA estimate the reductions from these provisions as \$11 billion over the four-year period, but this estimate appears to be significantly understated.)

A substantial majority of the cuts in food assistance would come from programs targeted on the families that now receive food stamps; assistance to these families would likely be cut almost \$4 billion a year. The food stamp program currently provides an average benefit of 75 cents per person per meal, and more than 90 percent of food stamp households live in poverty. *Many working poor - starve the children of the working poor*

In addition, ending the entitlement status of programs such as free school meals for poor children and food stamps means these programs would no longer expand automatically during recessions when unemployment and poverty rise and more people qualify for such benefits. During economic downturns, states would have to reduce benefit levels, establish waiting lists, make some categories of needy families or individuals ineligible for benefits, spend additional state funds, or implement some combination of these approaches.

The New Caps and the End of Entitlement Status

The PRA would impose a cap on aggregate spending for an array of important programs for the poor: Supplemental Security Income (SSI); AFDC; the child support enforcement program (which helps establish paternity, locates absent parents, and collects child support from them); the at-risk child care program (which subsidizes child care for low-income working families that are at risk of going onto the AFDC

program if they cannot secure affordable child care); and low-income housing programs. The cap governing these programs would be set at a level well below what the programs would cost under current law.

The impact of these caps would first be felt in fiscal 1997. According to estimates from the House Republican Conference, the caps would cut spending by \$18 billion in the three-year period covering 1997 to 1999. The magnitude of the cuts would grow each year.

The bill also would convert the programs in this group that are now entitlements — such as AFDC, SSI, and the child support enforcement program — into non-entitlement programs whose funding level is set each year through the appropriations process. Since the budget constraints governing non-entitlement programs are likely to become much more severe in coming years — especially if much tighter discretionary spending caps are enacted to help balance the budget by 2002 — subjecting these programs to the appropriations process may result in deeper cuts over time than those described here.

Eliminating the entitlement status of these programs would also undercut their ability to cushion families and the elderly against economic shocks or other unexpected developments. If funding proved insufficient during a fiscal year for AFDC or SSI — as could occur during an economic downturn or if a greater-than-expected number of poor elderly people applied for SSI — either benefits would have to be reduced, some eligible people would have to be denied assistance, additional state funds would need to be spent, or waiting lists would be created.

Ending these programs' entitlement status also is problematic because the PRA's formula for adjusting the cap from year to year is flawed. The formula for setting the cap includes an adjustment for changes in the size of the poverty population, but because of data availability problems, this adjustment would lag almost three years behind the actual change in the number of poor people. Had the PRA been in effect in recent years, the cap governing these programs would have been subject to a downward poverty adjustment in 1990, 1991, and 1992 — years in which unemployment rose — to reflect the decrease in the number of poor people three years earlier in 1987, 1988, and 1989, which were recovery years.

Legal Immigrant Provisions

Under current law, *illegal* immigrants are ineligible for benefits under most major federal programs. Certain categories of low-income *legal* immigrants, however, are generally permitted to participate in federally-assisted programs. The legal immigrants allowed to participate include many permanent residents who have "green

cards" as well as some categories of immigrants fleeing oppression abroad. Legal immigrants are subject to the same taxes in this country as citizens are.

The PRA would make most *legal* immigrants ineligible for about 60 federally-funded health, education, job training, housing, social service, and income security programs. The main means-tested aid the PRA would allow these legal immigrants to receive would be emergency medical services. Denying AFDC, SSI, and most Medicaid services to these legal immigrants would result in benefit reductions totaling approximately \$18 billion from fiscal years 1996 to 1999.

A few examples illustrate how broadly these blanket cuts would reach:

- Poor immigrants granted political asylum or parole in the United States because they face danger of persecution in their country of origin would be denied all subsistence aid except emergency medical services.
- Legal immigrants disabled on the job in the United States would be denied SSI benefits; non-citizen migrant farm workers legally in the United States could not have their children treated at migrant health centers; and legal immigrants who are children would be denied access to foster care payments if their parents died.
- Some programs indirectly help American citizens by assisting immigrants. Immunization and preventive health programs cover immigrants partly to help avoid the spread of contagious diseases that could infect U.S. citizens. Pre-natal care and nutrition benefits are provided to pregnant women partly to reduce the likelihood that their children — who will be U.S. citizens — will be born with significant health problems and need costly health and special education services. All such assistance, too, would be ended.

Net Effects

The reductions in the three provisions described above would total \$54 billion from 1996 to 1999. In combination with other provisions in the bill, the net reductions in low-income programs under the PRA would total about \$57 billion over four years. The cuts would grow rapidly, equaling \$21 billion in 1999 alone.

By 1999, the cuts in basic entitlement programs for the poor — AFDC, SSI, food stamps, and Medicaid — would be double the combined effects of the cuts in these program enacted during President Reagan's first two years.

This would exact a steep price from programs that represent a small portion of federal spending. AFDC, SSI and food stamps combined account for about nine percent of total spending on mandatory programs (excluding deposit insurance) and about four percent of all federal spending.

The estimate here of the net reductions in programs under the PRA — \$57 billion over *four* years (fiscal years 1996 to 1999) differs significantly from the House Republican Conference estimate of about \$40 billion over *five* years (fiscal years 1995 to 1996). One part of the explanation is that the estimates for particular provisions — such as the reductions resulting from the food assistance block grant requirement — are higher here.

A second part of the explanation is that the Conference considers fiscal 1995 in their estimates even though the PRA would not begin to take effect until fiscal 1996. Naturally, the estimates for fiscal 1995 are therefore zero. So the Conference cost estimates are themselves *four* year estimates. Under either method, *five* year estimates that would include fiscal 2000 would be more than one-quarter higher since the size of the reductions escalate each year. Because of data limitations, however, precise estimates for the year 2000 are unavailable.

Denying Assistance to Poor Children

The PRA includes several sweeping provisions that would deny cash aid, and in some cases housing assistance, to poor children and their families. The bill would deny benefits to children born to young unmarried mothers, to children for whom legal paternity has not been established, and to children whose parents received welfare at any time during the 10 months prior to the child's birth.

Denying Aid to Children Born to Young Unmarried Mothers

The PRA would establish a complicated set of AFDC rules for children born to young, unmarried mothers. Under the PRA:

- Families in which a young unmarried mother had a child before her 18th birthday would be denied AFDC and housing assistance. Because the food stamp program is repealed and put into a discretionary block grant, these families also could be denied food assistance if their state chose to target them for some of the cuts it would have to make in food benefits.
- States would have the option of denying cash aid and/or housing assistance to families in which an unmarried mother had a child before her 21st birthday.

- In general, as long as their mothers remained unmarried, these children would remain ineligible for cash assistance *throughout all of their childhoods*. Such children could become eligible for assistance only if their parents married or if they were adopted. The mother could receive assistance if she had a subsequent child when she was older, but the first child would remain ineligible.
- Women who, prior to the passage of this legislation, had children outside marriage when they were young would be ineligible for assistance once the bill took effect. Consider a mother who had a child when she was 17 years old, has worked ever since, and has never received AFDC. She is now 27 years old and her child is 10. If after implementation of this legislation she lost her job due to a company cutback and applied for AFDC, she and the child would not be eligible to receive aid.

XXX
Incentive
to have
2nd child
after 21?

← retroactive

Because children born to young, unmarried mothers would generally be ineligible for assistance throughout their childhoods, a large proportion of AFDC families would be affected. More than one in ten families currently receiving AFDC was begun by an unmarried mother under the age of 18. In states that took the option to deny assistance to children born to unmarried mothers under 21, the number of children denied assistance would generally more than double.

Paternity Establishment

Children for whom legal paternity has not been established would also be denied cash assistance under this bill. Such children would remain ineligible even if their mother was cooperating with state officials by providing all the information she had about the father. (The mother would be eligible for AFDC benefits, as long as she cooperated with the child support agency. Also, if the family included a mother and two children, one of whom had paternity established, that child would be eligible for an AFDC grant.)

Some 29 percent of *all* children receiving AFDC — or 2.8 million children — do not have paternity established. If this PRA provision were now in effect, these children, with very limited exceptions, would be ineligible for assistance.

This provision would apply to children of all ages and to those already receiving welfare. So a mother with a ten-year-old child who had not had contact with the child's father for many years would be required to establish paternity in order for the child to remain eligible for assistance. If the mother cooperated fully but the father could not be located, the child would never be eligible to receive assistance.

The process of paternity establishment often takes a long time even if a mother is cooperating. The state agencies charged with helping families establish paternity and child support orders are often overburdened and unable to assist families in a timely manner. Many child support caseworkers are responsible for as many as 1,000 cases. Under federal regulations, a state child support agency has 18 months to establish paternity *after* the father is located, and states often take longer than that; under the PRA, children would be denied AFDC in the meanwhile.

Furthermore, state paternity establishment rates vary widely. At one extreme, West Virginia established paternity in 85 percent of the cases that needed paternity established. Oklahoma, by contrast, establishes paternity in only three percent of its cases that year. These data suggest that state processes, rather than the cooperation of mothers, largely determine state paternity establishment rates. Under the PRA, however, children living in states which have poor records of establishing paternity would be especially likely to be denied eligibility for AFDC.

Finally, while the PRA would deny AFDC benefits to children for whom paternity was not established, the bill would also place the child support enforcement system under the outlay cap described earlier. This would make it likely that this already-overburdened program would be faced with reduced federal resources.

Child Exclusion

The bill also includes a "child exclusion" provision (sometimes called a "family cap") that denies AFDC to children born to families already receiving welfare or to families that received welfare at any time during the 10 months prior to the child's birth. This child exclusion provision would deny assistance even to some poor children who were conceived while the family was working and not on welfare. Consider the case of a married pregnant woman who has one child. Suppose her husband deserts the family, and she receives assistance from the AFDC program to meet basic needs during the latter months of pregnancy. Her newborn would be ineligible for assistance throughout his or her childhood even though the child was conceived while the mother was married and not on welfare.

Child exclusion proposals are often based on the belief that AFDC families are large. Some 73 percent of AFDC families, however, include two or fewer children. Families receiving AFDC are no larger than other families with children, and the size of the average AFDC family has dropped sharply over the past two decades. Furthermore, research has shown that both benefit levels and the benefit increase associated with an additional child have little bearing on the likelihood that a woman will have another child.

Orphanages and Adoptions

The bill allows states to use the money saved from denying assistance to children born to young unmarried mothers to support orphanages and promote adoption. The bill will likely drive some parents to relinquish their children not because the parents are abusive or neglectful, but because they are destitute. Their destitution may simply reflect the fact that they live in a high unemployment area and cannot find a job.

The Relationship Between AFDC and Out-of-Wedlock Births

The above provisions stem in large part from the view that welfare is the primary factor behind out-of-wedlock childbearing in general and teen childbearing in particular. While there is strong, justifiable concern about the rise in the proportion of children living in poor families without their fathers, research does not suggest that welfare is the primary factor behind out-of-wedlock childbearing. Out-of-wedlock childbearing is a complex, society-wide phenomenon not limited to teenagers, the poor, or welfare recipients.

This summer, a statement by 76 leading researchers addressed this issue. It said:

As researchers who work in the area of poverty, the labor market, and family structure, we are concerned that the research on the effect of welfare on out-of-wedlock childbearing has been seriously distorted. As researchers, we are deeply concerned about the rising rates of out-of-wedlock childbearing and the high incidence of poverty and welfare use among single-parent families. However, the best social science research suggests that welfare programs are not among the primary reasons for the rising numbers of out-of-wedlock births.

...ending welfare for poor children born out-of-wedlock does not represent serious welfare reform, and would inflict harm on many poor children. *We strongly urge the rejection of any proposal that would eliminate the safety net for poor children born outside of marriage. Such policies will do far more harm than good* [emphasis in the original text].

Work and Time Limit Provisions

Like several other recent bills, the PRA would impose a time limit on AFDC receipt and establish new work requirements for AFDC recipients. However, the new

Optional Block Grant of the AFDC Program

The PRA gives states the option to receive a block grant instead of federal support for AFDC programs, including cash assistance and administrative funds, JOBS, emergency assistance, and AFDC child care. A state would be required to spend this block grant on a program "to provide benefits to needy families with dependent children." A state would not have to meet any other standards to receive this block grant and would not be required to match the federal funds with state dollars.

The amount of a state's block grant would be permanently frozen at 103 percent of the amount the state received in fiscal year 1994 for its AFDC program. No adjustment would be allowed in future years for inflation, changes in the state's poverty population, or other factors. Since the PRA ends the entitlement of AFDC and places the program under a spending cap, there is no assurance that states would even receive their full allocation as prescribed by the bill. It is unclear how many states would elect this option.

bill's time limit and work provisions differ in important ways from those contained in other welfare reform proposals, including some earlier Republican proposals. Moreover, the PRA would likely lead to cuts in some programs which can help welfare recipients earn their way off welfare and out of poverty.

A Different Kind of Time Limit

Under the PRA, each state would be required to place a time limit on AFDC receipt. At most, a state could provide AFDC to a family for five years; after that point, the family would be permanently removed from the welfare rolls. States would be permitted to remove families permanently from AFDC after two years, as long as the parent spent one of these years in a work program.

The PRA's time limit would be cumulative; that is, the "clock" would not be reset if an individual left AFDC, even for an extended period. Thus, in a state choosing the more restrictive option, a mother who received welfare for two years in her early twenties, left the rolls and worked for 10 years, and then needed assistance during a recession would be ineligible for any aid (as would her children).

One of the key differences between the PRA's time limit structure and the time limits proposed in some other bills, such as the Clinton Administration's Work and Responsibility Act of 1994, is in the definition of what would happen to families that use up their allotted months of AFDC receipt. Under the administration's plan, recipients who had received two years of cash assistance would be required to work. If a parent was unable to find an unsubsidized job, she would be provided a subsidized

work slot and would be paid at least the federal minimum wage for the hours she worked. As long as a parent was willing to work, she would be given access to a work slot.

By contrast, under the PRA, the time limit would *not* be defined as the point after which a recipient would be required to work; instead, time spent in a work position would itself count toward the two- to five-year time limit. Upon reaching the time limit, a family would be *permanently* barred from receiving *both AFDC and a work slot*. The PRA's time limit provisions would require states to remove families from the AFDC rolls even if the parent was willing to work and had performed faithfully in a work slot for a long period of time but was unable to find a job due to adverse economic conditions or poor basic skills.

There would be no exceptions or extensions to the time limit; for example, families headed by parents who are temporarily disabled or caring for disabled children would be removed from the rolls upon reaching their state's time limit. In fact, children receiving AFDC who live with elderly grandparents would also be subject to the time limit.

Recent studies show that two-thirds of the families who enter the AFDC program for the first time leave within two years, often because the parents find jobs. However, the same data show that many of those who leave welfare subsequently return, often because they lose the low-wage jobs they obtain. This means a large fraction of AFDC recipients would eventually reach the PRA's time limit and be denied assistance. One recent study found that 48 percent of the current AFDC caseload has accumulated at least five years of welfare receipt. (This accumulation often occurs in more than one spell; only about 14 percent of first-time welfare recipients stay on AFDC for five or more years in one continuous spell.)

The PRA's Work Program

Although the PRA would not offer jobs to recipients who reach their state's time limit and are unable to find work, it would require states to impose work requirements on a growing proportion of AFDC recipients while they received assistance. An estimated 1.5 million work slots would be required by the year 2001. The conditions of the work program are exceptionally stringent:

- Most recipients placed in these slots would be required to work 35 hours per week in exchange for their welfare grants;¹ since the maximum AFDC

¹ The PRA would allow state work programs to provide work supplementation (a program that uses
(continued...)

grant for a family of three in the median state is \$366, this means most recipients would be working at far less than the federal minimum wage of \$4.25 an hour. In the median or typical state, the work slot "wage" would equal \$2.42 an hour. In Mississippi, recipients would be "paid" 79 cents an hour.

- The PRA establishes no exemptions from the work requirement. For example, states could require parents caring for disabled children or infants to work full-time.

The PRA's work provisions would likely impose a large administrative and financial burden on states. Federal matching funding for the administrative and child care costs associated with the work program (an estimated \$6,000 per year per slot) would be included under the aggregate spending cap the PRA would establish for an array of key low-income programs. This means the federal share of the work program would need to be funded through cuts in the other capped programs. If Congress decided not to cut the other programs, it would be necessary to reduce the size of the work program or pass more of its cost onto states. In any case, states would need to find enough money to finance their share of administering the work program and providing full-time child care to participants. The administrative challenge of developing 1.5 million or more work slots would be enormous, considering that less than 20,000 AFDC recipients nationwide are currently in work positions.

Absence of Strategies to Increase Employability or "Make Work Pay"

Many AFDC mothers lack employment-related skills; fewer than half have graduated from high school. Women with low levels of skills face high unemployment rates and earn low wages when they work. Jobs that are temporary or part-time and without benefits are often their only option. This suggests that many recipients need help finding and holding jobs that allow them to support their families.

Rigorous studies have shown that adequately funded programs offering a mix of employment-oriented education and training services can increase the number of recipients who find jobs, reduce the number receiving AFDC and, in some cases, save money for taxpayers. The PRA, however, provides no additional support for such programs. The existing Job Opportunities and Basic Skills (JOBS) program — which provides federal funding for state education and training programs for welfare recipients — would receive no new funding under the bill, and states would not be

¹ (...continued)

welfare grants to subsidize wages paid to recipients by employers) instead of or in addition to work experience. However, this option has been available to states for some time but has rarely been used. Of those participating in JOBS, 0.1 percent nationwide are in work supplementation programs.

required to provide parents with these services. In fact, faced with the new requirement to create a rapidly-growing number of work positions, states might be forced to divert funding from JOBS training services to pay for the high cost of the work slots.

By contrast, most other recent welfare reform proposals would expand funding for work preparation services and require states to provide such services to large fractions of their welfare caseloads.

Finally, the PRA does not contain measures to "make work pay" even though many adults who leave welfare for work obtain low-wage jobs that are insufficient to support a family. In this respect, too, the PRA differs from other proposals. The previous House Republican bill supported by a large majority of Republicans would have allowed states to change the current rules under which recipients who work lose up to one dollar in benefits for each additional dollar they earn. Similarly, a bill introduced by the Mainstream Forum — a group of moderate and conservative House Democrats — would have mandated such a change and greatly expanded child care subsidies for working poor families.

Indeed, the PRA would likely reduce assistance for the working poor. For example, it places under the outlay cap — and thereby makes susceptible to cuts — a key child care program for working poor families that are not on welfare. Since the cap would be set below current levels, funding for child care services for low-income working families could be lowered even as cash assistance for many poor families with children was being withdrawn. Furthermore, some of the nutrition assistance programs that would be merged into the PRA's nutrition assistance block grant and then cut back, such as the food stamp program, provide important supports to many low-income working families.

The Overall Impact on Poor Children

The Personal Responsibility Act includes numerous provisions that would deny AFDC benefits to poor children and their families. These features include the denial of housing and cash assistance to families in which the child was born to a young unmarried mother, the denial of assistance to children for whom paternity has not been established, and the child exclusion and time limit provisions.

To estimate the total number of children and families who would be denied benefits under the PRA, one cannot simply add up the independent effects of the different provisions (such as 48 percent of the families being denied AFDC because of the time limit plus 29 percent of the children denied benefits because of the paternity establishment provision). Some of the provisions would affect many of the same

people. For example, some of the children who would be denied benefits under the paternity establishment provision would also be affected by the time-limit provision.

An analysis of the effect of the various provisions makes clear, however, that the impact of the numerous provisions to deny AFDC benefits to poor children and families would be dramatic.

roughly support
to many families
at the moment
5 or 6 kids in street

If the PRA were fully in effect today, *well over half of the children who would be eligible for aid under current law would be denied assistance.* This translates into more than five million — and perhaps as many as six million — poor children who would not be receiving AFDC.

- At least half of all families receiving assistance today would be denied AFDC if the PRA were fully in effect. This translates into at least 2.5 million families who would receive no cash assistance.

Among those families faced with large benefit reductions or made completely ineligible for assistance, it is likely that many parents would be unable to provide basic necessities for their children. Because food assistance is also cut substantially and would no longer be an entitlement, some children made ineligible for AFDC might not be assured even a minimal safety net to help them meet their nutrition needs. An already-overburdened child welfare system would likely be asked to find foster care and institutional placements — temporary and permanent — for many children whom their parents are forced to relinquish.

An Imbalanced Approach

The public and policymakers from across the political spectrum agree that the AFDC program needs fundamental reform. There is also wide support for further efforts to reduce the federal budget deficit. The PRA, however, fails to strike a responsible balance between these goals and the important need to maintain a basic safety net beneath poor children, the elderly, the disabled, and other vulnerable groups. The bill would make deep cuts in basic support without including strategies for improving employability or making work pay. Increases in poverty, homelessness, and hunger for millions of children would almost certainly result, and states would likely end up paying a greater share of the costs of programs for the poor.

Appendix: The Overall Impact of the AFDC Proposals On Children and Their Families

The Personal Responsibility Act includes numerous provisions that would deny AFDC benefits to poor children and their families. In combination, these features — the denial of housing and cash assistance to families in which the child was born to a young unmarried mother, the denial of assistance to children for whom paternity has not been established, and the child exclusion and time limit provisions — would have far-reaching consequences.

How Many Children Would Be Denied Benefits?

It is difficult to estimate the total number of children and families who would be denied AFDC benefits under the PRA with absolute precision, primarily because the various provisions would affect many of the same people.² For example, some of the children who would be denied benefits under the paternity establishment provision would also be affected by the time limit proposal. Similarly, some of the children who would be denied assistance because they were born to a young unmarried mother would also have been ineligible because they did not have paternity established. Because of these "interactions," one can not simply add the number of children that would be denied aid by each provision independently to determine the total number of children affected. (For a description of the assumptions about the behavioral responses to PRA provisions and caseload effects, see the box on page X.)

² This analysis assumes that states do not choose the AFDC block grant option.

Even though we were unable to determine the precise extent of these interactions, it is nevertheless clear that the PRA would ultimately deny basic cash assistance to *substantially more than half of the children* who would be eligible for aid under current law. In 1993, an average of 9.5 million children received AFDC benefits each month. The PRA would ultimately deny AFDC to *at least half of all families* who would be eligible under current rules. In 1993, an average of almost five million families received benefits each month.

The steps toward this conclusion begin with an examination of the mandatory time limit provision that would remove entire families — that is, poor adults and their children — from the AFDC program, regardless of individual circumstances such as parents' ability to find jobs.

- As noted, the PRA mandates that states terminate assistance to families that accumulate 60 months of AFDC receipt. While about two-thirds of families who enter the welfare system for the first time leave welfare in less than two years, most eventually return to the program when they again need assistance.³ As a result, nearly half of all families now receiving AFDC benefits would be affected by the time limit if it were currently in place. (For a discussion of recent research on how long families receive welfare, see box on page XI.)
- Approximately 48 percent of families currently receiving AFDC have accumulated at least 60 months of welfare receipt, with many accumulating this time over several welfare spells.⁴
- If the five-year time limit had been implemented before these families first received welfare, an estimated 2.4 million families and at least 4.6 million children now receiving AFDC would be ineligible.⁵
- The PRA gives states the option to set the time limit at as little as two years. Many additional families would be denied benefits if any states

³ LaDonna Pavetti, "The Dynamics of Welfare and Work: Exploring the Process by Which Women Work Their Way Off Welfare," Doctoral Thesis prepared for Harvard University, 1993.

⁴ Harold Beebout, Jon Jacobson, and LaDonna Pavetti, "The Number and Characteristics of AFDC Recipients Who Will Be Affected By Policies To Time-Limit AFDC Benefits," presented at the Annual Research Conference of the Association for Public Policy and Management, October 1994 (cited with permission of the author).

⁵ In fact, the number of children who would be affected is likely to be higher than 4.6 million because larger families are more likely than smaller ones to remain on welfare for long periods of time.

exercised the more restrictive option. Approximately 73 percent of families currently receiving AFDC — or 3.6 million families — have accumulated more than 24 months of welfare receipt.⁶

While the time limit would always eliminate AFDC benefits for entire families, the other PRA provisions would sometimes affect entire families and sometimes just the children in the families. Large numbers of additional children are likely to be affected by these other provisions as well.

- Some 29 percent of children — or 2.8 million children — currently receiving AFDC do not have paternity established. These children would be denied assistance under the PRA.⁷
- About 12 percent of families currently receiving AFDC were begun by an unmarried mother under the age of 18; all children born to unmarried mothers under age 18 are denied AFDC under the PRA.^{8,9} This provision would affect many more families if states opted to deny AFDC to families in which an unmarried mother gave birth before her 21st birthday (the PRA would give states this option).
- Additional children would be denied assistance because they were subject to the child exclusion provision. Poor legal immigrant families would also be denied assistance under the provisions denying numerous forms of aid to legal immigrants.

⁶ Beebout, *op. cit.*

⁷ U.S. Department of Health and Human Services, *Characteristics and Financial Circumstances of AFDC Recipients*, FY 1992.

⁸ If the family consists of only an unmarried mother and a child she had prior to her 18th birthday, both she and the child would be ineligible for assistance. If she has an additional child when she passes her 18th birthday, she and the second child would be eligible for assistance.

⁹ According to the May 1994 General Accounting Office report, *Families on Welfare: Teenage Mothers Least Likely to Become Self-Sufficient*, some 42 percent of all families on AFDC were begun by a mother under the age of 20. The report also notes that about two-thirds of those mothers who started families as teens never married. Thus, approximately 28 percent of families now on AFDC were begun by an unmarried mother under age 20. In 1992, approximately 44 percent of all births to unmarried teen mothers were among teens under the age of 18. The 12 percent estimate in the text was computed by multiplying this 44 percent figure by the estimate that 28 percent of all families receiving AFDC were begun by an unmarried mother under the age of 21. The data on overall births to unmarried teens by the age of the mother is from the National Center for Health Statistics report, *Advance Report of Final Natality Statistics*, 1992.

Even after adjusting for overlap among these categories of families and children who would be denied assistance, when those people affected by these provisions are combined with the 48 percent of families who would be wholly ineligible for aid because their family hit the mandatory five year time limit, the effects are striking:

- Well over half of the poor children who would be eligible for assistance under current law would be denied aid once these provisions were fully implemented. This translates into more than 5 million poor children — and perhaps as many as 6 million children — who would not receive cash assistance to help them meet their most basic needs.
- At least half of all families who would be eligible for assistance under current law would be denied AFDC once the PRA was fully implemented. This translates into at least 2.5 million families with children who would receive *no* AFDC cash assistance.

It is interesting to note that even without the time limit provision, a large proportion of children who would be eligible for assistance under current law would be denied aid under the PRA. The paternity establishment provision alone would deny aid to 29 percent of children who would otherwise be eligible. In combination with other provisions, it is likely that at least 35 percent of children who would receive AFDC would be made ineligible by this bill even without the time limit provision.

What Would the Consequences Be?

The consequences for the millions of poor families and children who would lose their benefits would be serious. Most obviously, families that are already quite poor would become even poorer.

- Currently, for a single-parent family of three with no other income, AFDC benefits in the median state total \$4,400 a year, or 37 percent of the poverty line.
- Families that become wholly ineligible due to the time limit provision or the provision denying assistance to young unmarried mothers and their children would, of course, receive no AFDC income.¹⁰

¹⁰ Under current law, the vast majority of AFDC families also receive food stamps. For the typical single-parent family of three with no other income and who lives in the median state, food stamps lift the family's annual income to \$7,580, or 64 of the poverty line. Under the PRA, the Food Stamp Program is repealed and placed within the nutrition assistance block grant. No family currently receiving food stamps
(continued...)

- Most of the children denied AFDC under the PRA would live in families that would eventually become wholly ineligible for assistance, but in other cases only the children in the family would lose assistance. If one child in a typical AFDC family were denied AFDC benefits, the income of the family would drop to \$3,530 — a 20 percent drop in income. A single-parent family consisting of a mother and one child, would suffer a 28 percent drop in their cash income if the child became ineligible for assistance. More than four out of 10 AFDC cases include two or fewer recipients.

Among those families faced with large benefit reductions or those made completely ineligible for any assistance, it is likely that many parents would be unable to provide basic necessities for their children. Some rent would go unpaid and food budgets would be cut back — homelessness and hunger could increase, particularly among families made wholly ineligible for assistance. Because the food stamp program is repealed under this bill and the money converted to a block grant, children made ineligible for AFDC might not be assured even the minimal safety net of food stamps to help them meet their nutrition needs.

Research Underscores Harmful Effects of Childhood Poverty

Each of these proposals to deny AFDC eligibility to some children would intensify child poverty, which research has found to be harmful to children in identifiable ways. One recent study found that "Poor children are more likely to be low height-for-age [i.e., shorter than nonpoor children of the same age], low weight-for-height [i.e. thinner than other children of the same height], and to score poorly on indicators of cognitive and socioemotional development than middle- and upper-income children. Long-term economic disadvantage is also associated with deficits in rates of growth in height."¹¹ In short, this study showed that poverty can dramatically affect the physical and emotional health of children.

Furthermore, poor children are more likely to drop out of high school than more affluent children. Among children with single and married parents, among blacks and whites, and among families in which the mother is and is not a high school graduate,

¹⁰ (...continued)
would be guaranteed to receive any nutrition assistance, let alone a food stamp increase if their AFDC benefits fell.

¹¹ Jane Miller and Sanders Korenman, "Poverty, Nutritional Status, Growth and Cognitive Development of Children in the United States," Princeton University's Office of Population Research Working Paper Series. June 1993.

poor children are far more likely to drop out of school than nonpoor children. For example, among white two-parent families with a mother who has graduated from high school, poverty increases the likelihood that children will not graduate high school by 8 percentage points.¹²

Some Parents Would be Forced to Give Up Their Children

Under the PRA, an already overburdened child welfare system would likely be asked to find foster care and institutional placements (temporary and permanent) for children whose parents — in the face of AFDC and other cuts — determine that they are unable to feed, clothe, and house their children. Yet the child welfare system is already overwhelmed with the task of finding appropriate placements for children who have been abused and neglected; as a result, children often languish in inadequate care for long periods of time. In 1993, about 460,000 children were in foster care, an increase of more than 70 percent from 1982.¹³ The system now would also have to find placements for children whose parents are not abusive or neglectful, but who live in families which lack the income to care for them.

To place the massive cuts in AFDC eligibility into perspective, it is interesting to note that the number of children who will ultimately be denied basic cash assistance is more than 10 times the number currently in foster care. The child welfare system could face a substantial increase in their caseload which could mean that it will have fewer resources to devote to assisting abused and neglected children.

In addition to an increased reliance on temporary out-of-home placements, some parents could be forced to relinquish their children permanently. In fact, the sponsors of the PRA appear to understand that this might occur. The bill allows states to spend the money saved by the provision denying benefits to families in which the child is born to a young unmarried mother on orphanages and programs to foster adoption.

This increased emphasis on taking children from their parents and moving them to foster care or other out-of-home arrangements including orphanages is in contrast to the direction the child welfare system has taken to try to help families stay together, and to limit use of institutional care. The child welfare system has largely moved away from group care settings, especially for younger children, in recognition that such

¹² Data are from tabulations of the Panel Study of Income Dynamics and are reported in *Wasting America's Future: The Children's Defense Fund Report on the Costs of Child Poverty* by Arloc Sherman. Some 4.8 percent of white children living in nonpoor, two-parent families in which the mother has graduated from high school drop out of high school. Among children in families that have these same characteristics except that they are poor, some 12.3 percent do not finish high school.

¹³ Data are from the Child Welfare League of America.

settings deny children the individual attention and continuity of care critical to their development. Proposals to institutionalize children are also in direct contrast to the growing movement, based on clinical experience, to help families in crisis work out their problems so children can stay with their parents rather than be placed in foster care.

Many who talk about such provisions often assume that the children taken from their parents would be newborn babies whose parents are unable to care for them. Many of the children affected by these provisions, however, would not be infants, but children already attached to their parents.

- Some 45 percent of young women under age 18 who have children outside of marriage do not go onto AFDC in the year following the birth of the child.¹⁴ Many of these families eventually need cash assistance, but when they do their children are no longer infants. The provision that denies assistance to families in which a child is born to a young unmarried mother applies to all families that *apply* for AFDC after the date the provision takes effect. Therefore, a 27 year-old mother with a 10-year-old child who has never before received welfare benefits — but who loses her job and applies for AFDC after the bill's passage — would be ineligible for assistance. unless
mother
child
- Many of the children affected by the time limit proposal will certainly be older, as the time limit applies to families that have already received assistance for five years.
- The paternity establishment requirement would also deny assistance to children of any age if their paternity was not established. Establishing the paternity of older children is often quite difficult and may, in many cases, be impossible. The reduction in the AFDC grant in conjunction with other benefit reductions could lead some families to lose a significant percentage of their incomes.

If a denial in benefits forces mothers to give up their children either temporarily or permanently, the consequences could be serious. Psychologists have long recognized the importance of children's attachments to their caregivers (generally

¹⁴ 1994 *Green Book*, Committee on Ways and Means, U.S. House of Representatives, pg. 454.

parents) and have noted that disruptions in the relationship between the child and the caregiver places the child at risk for serious developmental problems.¹⁵

While many parents may ultimately be forced to relinquish their children on either a temporary or permanent basis, it is also important to recognize that it is likely that many parents will take extreme measures to keep their families together. Some may move to dangerous, or more dangerous, neighborhoods to save on rent. Food budgets might be cut back placing children at nutritional risk. Some mothers might be forced to rely on an abusive boyfriend for help in meeting their children's basic needs. It is, of course, impossible to know what mothers would do when faced with a sharp reduction in or total elimination of cash assistance. It does seem plausible, however, that many mothers would be faced with difficult choices — either break-up their family or make decisions that might otherwise seem unwise such as living in an unsafe apartment to save rent.

Policies Would Cause Far More Harm than Good

In short, the negative consequences of the PRA would likely be extreme. Poverty would deepen, homelessness and hunger could rise, temporary and permanent out-of-home placements and institutionalization of children could increase. Some might argue that this is the price that must be paid to reduce out-of-wedlock childbearing and increase employment among welfare recipients. But, does the research support the view that these policies are likely to work?

Research has shown that most welfare recipients leave AFDC in less than two years — many leaving to take low-wage, unstable jobs. This research suggests that the most pressing problem is not forcing AFDC recipients to leave welfare for work, but helping them move into jobs that are more secure and providing them the necessary supports so they are able to meet their families' needs.

The evidence also indicates that welfare is not the primary cause of out-of-wedlock childbearing in general or teen pregnancy in particular. In June 1994, a group of 76 leading researchers issued a statement on the relationship between welfare and out-of-wedlock childbearing.¹⁶ The researchers concluded that welfare was not the primary cause of out-of-wedlock childbearing:

¹⁵ Barbara M. Newman and Philip R. Newman, *Development Through Life: A Psychosocial Approach*. Brooks/Cole Publishing Company, 1991. Children's attachment to their caregivers typically occurs in the first one to two years of life.

¹⁶ The statement was organized by Sheldon Danziger, professor of social work and public policy at the University of Michigan. The Center on Budget and Policy Priorities provided technical assistance to the researchers in this effort.

As researchers who work in the area of poverty, the labor market, and family structure, we are concerned that the research on the effect of welfare on out-of-wedlock childbearing has been seriously distorted. As researchers, we are deeply concerned about the rising rates of out-of-wedlock childbearing and the high incidence of poverty and welfare use among single-parent families. However, the best social science research suggests that welfare programs are not among the primary reasons for the rising numbers of out-of-wedlock births.

Most research examining the effect of higher welfare benefits on out-of-wedlock childbearing and teen pregnancy finds that benefit levels have no significant effect on the likelihood that black women and girls will have children outside of marriage and either no significant effect, or only a small effect, on the likelihood that whites will have such births. Indeed, cash welfare benefits have fallen in real value over the past 20 years, the same period that out-of-wedlock childbearing increased. Thus, the evidence suggests that welfare has not played a major role in the rise in out-of-wedlock childbearing.

The researchers' statement also addressed on the issues raised by proposals to deny welfare benefits to families in which the child was born outside of marriage. The researchers concluded that such a policy would be ill-advised:

...ending welfare for poor children born out-of-wedlock does not represent serious welfare reform, and would inflict harm on many poor children. We strongly urge the rejection of any proposal that would eliminate the safety net for poor children born outside of marriage. Such policies will do far more harm than good [emphasis in the original text].

Assumptions Used for Impact Analysis

When estimating how many recipients would be affected by the provisions in the PRA, we calculated how many recipients in the *current* caseload would be affected if the provisions were "fully implemented" today. In order for many of these provisions to be "fully implemented," they would need to have been enacted many years before current AFDC recipients ever went on to welfare. Most notably, under the time-limit provision in the PRA, families that accumulate 60 months of total AFDC use are terminated from the program. Since many of these families accumulate 60 months of total welfare receipt over a number of spells spanning many years, to be "fully implemented" today, this provision would have had to be in place years ago.

Furthermore, this analysis assumes that the provisions would produce no behavioral response. It is impossible to determine precisely what behavioral responses the PRA provisions would elicit and what the size of those responses would be. It is possible that the time limit provision coupled with a stringent work requirement would affect recipients' labor market behavior and reduce the number of families that reach the five year time limit. On the other hand, research shows that more than half of the families that will ever hit the time limit will do so in more than one welfare spell. This suggests that many of those who will be affected by the time limit provision have succeeded in leaving welfare but have been unable to remain off the rolls. There is nothing in the bill that improves supports to families once they leave the welfare rolls and enter low-wage jobs. This would argue that these families would be unlikely to have substantially greater success at remaining off of welfare than under current law, particularly given the deteriorating prospects of low-skilled workers.

Similarly, it is difficult to estimate the behavioral effects of the paternity establishment provision, the child exclusion proposal, or the provision denying aid to young unmarried mothers and their children. There are several reasons, however, why these effects might be modest:

- Research indicates that welfare is not among the primary causes of teen childbearing in general or out-of-wedlock childbearing in particular. Research also suggests that the benefit increment associated with having an additional child has little effect on the likelihood that a welfare recipient will have another child.
- State paternity establishment systems appear to have a substantial impact on state success at establishing paternity. This suggests that it is states, not recipients, who will have to change their behavior if paternity establishment rates are to improve substantially. While the bill does impose more stringent paternity establishment performance standards on states, it is likely that fewer resources will be available for child support enforcement since the child support enforcement system is placed under the outlay cap. Furthermore, the bill does not impose additional penalties on states that do not meet the paternity establishment performance standards — currently states do not generally suffer a financial penalty if they fail to meet the paternity establishment performance standards. In fact, states may benefit from poor paternity establishment performance — as long as a child who would otherwise be receiving AFDC does not have paternity established, states do not have to pay their portion of the child's AFDC grant.

While the behavioral effects may be modest, it is also plausible that they will be larger. Whether the effects are large or small, it is likely that they will take years to be realized. In the meantime, many children would be denied aid under the bill's provisions. Given the difficulty in estimating the size of behavioral effects and the likelihood that such effects take time to be achieved, this analysis assumes *no* behavioral response to these changes in the AFDC program and should be thought of as a benchmark for how many children and families these provisions could affect.

If two-thirds of those who enter the welfare system for the first time leave AFDC in less than 2 years, how can 48 percent of the current caseload have accumulated at least 60 months of AFDC use?

The way in which families use the welfare system is quite complicated. Some apply for aid when a temporary crisis hits, receive assistance for a short period of time, and never receive aid again. Most families who ever receive AFDC receive assistance for relatively short periods of time, but cycle on and off the rolls, often between jobs. A third relatively small group receives welfare for one long, continuous spell.

There are at least three ways to look at the AFDC caseload. First, one can look at a group of families who are entering the welfare system for the first time and determine how long they will remain on welfare *without leaving*. Second, one can look at that same group of families entering the AFDC system and determine how many total months of welfare receipt they will *accumulate over their lifetimes*, even if the families cycle on and off welfare. Finally, one can look at the current AFDC caseload at a *point in time* — take a “snap-shot” of the caseload — and determine how many months of welfare receipt these families have already accumulated. As is described below, these three ways of looking at AFDC recipients provide different kinds of information.

If one looks at a group of families entering the welfare system for the first time, research has shown that some 64 percent will leave AFDC within two years. Another 14 percent will remain on the rolls without leaving for at least five years.

However, if one asks the question, “Of those entering the welfare system for the first time, what percent will *eventually* accumulate at least five years of AFDC receipt?” one finds that some 35 percent will eventually accumulate at least five years of welfare receipt. More than half of those who accumulate at least five years of AFDC receipt will do so over multiple spells; the others will receive welfare for at least five years without leaving.

Finally, one can ask, “Of those receiving AFDC at a point in time, how many have already received assistance for a *total* of at least five years, either in a single spell or in multiple spells?” The answer to this question is that about 48 percent of those currently receiving welfare have already accumulated at least five years of AFDC receipt. It is important to note that the current caseload includes more long-term recipients than the group of families that *ever* receive AFDC benefits. This can best be understood by the following well-known analogy:

Consider a hospital room that has two beds in it. One bed is occupied by a single individual for an entire month. A different person every week uses the second bed. If you looked at the hospital room on any given day, you would conclude that one-half of the patients in that room were “long term” patients. However, if you looked over the entire month, you would see that four-fifths of the people who used that hospital room were “short term” patients.

The AFDC program is similar to the hospital room. Some families remain on the program for long periods of time while most receive assistance for short periods of time, although they often return to the program after leaving. When one looks at the caseload at a point in time, a larger proportion of the families have received aid for extended periods of time than when one considers all of the families that the AFDC program has ever assisted.

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Memorandum

TO: Alice Rivlin
FROM: Belle Sawhill *Belle*
RE: Welfare Reform -- Update

We have a meeting with DPC and HHS on welfare reform strategy on Tuesday. This note provides some background for our discussions. To save time I am sending it simultaneously to my staff and to Bob Greenstein, who may have additional comments or corrections.

Republican Legislation

The House Republican "Contract With America" contains a Gingrich-blessed welfare reform bill -- The Personal Responsibility Act. It is far more conservative than the earlier House Republican bill (H.R. 3500) but less draconian than the Talent-Faircloth bill. We expect Congress to act upon it early in the new year, with hearings in early January and a committee markup possible in February (probably in Ways and Means but could be a new "Empowerment" Committee).

Important provisions in the Personal Responsibility Act would:

- o Eliminate AFDC payments for unwed mothers under 18 (under 21 at State option). Children born out-of-wedlock would remain permanently ineligible for benefits unless the mother married the father or another man who adopts them. (Savings from this provision are to be returned to the States as block grants to provide services, but not cash benefits, for unwed teen mothers and their children.)
- o End all AFDC benefits to a family after a total of five years on the rolls.
- o Allow States to end AFDC benefits to families after two years, if one of the years was spent participating in a work program.
- o Deny benefits to children for whom paternity has not been established even if the mother cooperates. (HHS is concerned that, as drafted, this provision could render ineligible one-third of children currently on AFDC.)
- o Allow States to offer training and other services during

first two years but not require them to do so.

- o Require that States move recipients to work programs after two years of benefits. (States are allowed to design their own work programs, subject to rising participation requirements.)
- o Cap spending growth in several anti-poverty entitlements (AFDC, SSI, JOBS, CSE, public housing assistance), with adjustments for inflation and increases in the poverty population.
- o Convert Food Stamps, WIC, school lunch and other nutrition programs into a discretionary block grant to each State, with a five percent overall cut from FY 1995 funding levels. Because of spending increases in the baseline, this could result in as much as a twelve percent cut from projected FY 1996 funding levels. (The block grant contains set-asides for WIC and the school lunch program, which is likely to translate into a significant reduction in Food Stamps.)
- o End eligibility of non-citizens for dozens of Federal programs, including AFDC, SSI, Food Stamps, WIC, public housing, education, job training, and child welfare services.

The attached "side-by-side" compares the Personal Responsibility Act to the Work and Responsibility Act, and the attached memo from the Secretary provides further details.

By Republican estimates, the Personal Responsibility Act saves approximately \$40 billion over five years (see attached table for details).

The direction the Republican Senate may take is not yet clear and may be more moderate or at least different. Senator Kassebaum has proposed that the Federal government devolve responsibility for AFDC, Food Stamps, and WIC to the States in return for full Federal assumption of Medicaid.

ISSUES AND RECOMMENDATIONS

How Should Welfare Reform Be Treated in the Budget?

Normally, because it has already been proposed, we would include the costs and financing of welfare reform in the FY1996 budget with some reasonable level of detail. Indeed, if we fail to do this, we will be subject to the criticism that we didn't fully pay for our bill. However, there are at least two reasons not to include detailed figures in the budget. First, any offsets we identify, above and beyond those already shared with Congress

last year, are likely to be used to pay for the tax cuts proposed in Contract with America. Second, these offsets are likely to become as contentious as the program itself so if we can avoid making them specific at this early stage, we are better off.

Recommendation: Include only a description of the proposal and summary figures on program costs in the budget. The write-up could emphasize that we submitted a fully paid for bill last year, mention the major offsets (remaining from last year), and state that we intend to work with the Congress should any additional financing be needed. Simultaneously, work could go on at the staff level to identify such offsets so that we will have them ready to offer to our congressional allies at an appropriate time. (See below for more on specific offsets.)

What Specific Program Cost Number should be included in the Budget?

Last year's bill was estimated to cost \$9.3 billion. We know that CBO would score the same bill at a higher price -- probably around \$11.8 billion. One option would be to use the same number of \$9.3 billion in this year's budget but to tighten up the program in ways that help to insure that CBO would score it closer to this figure. (Possible options here include a cap on AFDC childcare costs, allowing states more flexibility to target older mothers, lower match rates for state child support enforcement). An alternative would be to ignore this scoring problem on the grounds that our bill is not likely to be the vehicle for mark-up in any case. Still, a third option would be to scale back the size of the program more drastically to less than \$9.3 billion (CBO scoring) -- perhaps by eliminating child care for the working poor and some of the demonstration programs.

Recommendation: Include a program costing \$9.3 billion using estimates that are as credible (and hopefully close to CBO's) as possible. Note that this will require considerable tightening of the existing program and will not be easy. Also, if we need to worry about 10-year and not just 5-year numbers, we have an added challenge to keep program costs within the bounds of existing offsets.

Should We Overfinance the Program?

Overfinancing the program would enable us to say that "welfare reform" saves money. However, for this statement to be credible we would have to target means-tested programs in our financing package and live with the consequences both substantively and politically. Substantively, we would have to reduce aid to some very vulnerable groups and politically, we would be criticized by our liberal allies for "financing welfare reform on the backs of the poor" or out-Gingriching Gingrich. Moreover, coming up with enough offsets to more than pay for the

program would not be easy. Finally, to make the claim that welfare reform saved money we would need to put the offsets in the budget, or send them up in a single package, running the risk, once more, that they would be grabbed for other purposes.

Recommendation: Do not overfund the program initially but have enough low-income offsets on hand to fully pay for (or slightly overfund) the existing package so that we have the option of arguing that welfare reform is a saver. Consider tightening the program in ways that will enable us to say it saves money over the longer run by getting people off the rolls. Note that the latter strategy probably requires having some kind of eventual cutoff in the WORK program or a tougher set of sanctions for not working.

What specific offsets should be considered as additions to the financing package?

OMB staff in the HR division have done a first cut at staffing out a number of options. To make further progress on fully understanding and pricing these options, we will need help from HHS. They may also have additional ideas to put on the table. At present, the most promising options consistent with the above strategy of targeting low-income programs, appear to be: 1) deeming more sponsor income to legal aliens applying for different forms of assistance, 2) reducing benefits for disabled children, and 3) tightening up on the EITC. Each of these options has the advantage of being something the Congress is likely to do if we don't in the next year. An alternative strategy would be to target "welfare for the wealthy" such as farm subsidies, school lunch subsidies for higher income families, the Dependent Care Tax Credit, and other items from outside the HR division (see Greenstein list).

Recommendation: Ask HHS or other divisions to come up with some specific ideas and better pricing of existing ideas once a general strategy is agreed to. Talk to Treasury about the EITC.

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Welfare Reform - Administration and "Contract With America"

Provision	Administration	Contract w/ America
Time Limit (Cash Benefits)	For phased-in (born after 1971), general limit of two years of AFDC benefits before work requirement.	Must "move to work" after two years of benefits. State option to end all benefits after two years, if at least one year in work program. States must drop families from AFDC after a total of five years of benefits (even if no participation in work program.)
Time Limit (WORK)	No overall limit. 1 year limit on each placement slot, with job search afterwards. Reassessment after two years.	Two years of work program for any individual or family.
WORK program	Work for wages, 15-35 hours a week. (States decide time.) State flexibility on job placement method. Requires 400,000 to be in program by 2000.	State allowed to design own program that meets requirements for hours (average 35 hours/week or 30 hours/week plus 5 hours job search) and participation (100,000 in 1996 rising to 1.5 million in 2001.) "Sense of the Congress" that States give highest priority to participation by mothers with older preschool and school age children.

<p>Minor Moms</p>	<p>Denies AFDC to unmarried parents under 18 (and their kids) if they do not live with parent or specified other adults.</p>	<p>Denies AFDC to unmarried mothers (and their kids) under 18. Permits unmarried 18 year-old mothers to receive benefits if they live at home. State option to deny benefits (and housing benefits) to all unmarried mothers under 21. Children born to these women are permanently ineligible for benefits unless mother marries father or someone who adopts child. Savings returned to States as block grant to provide services, not cash assistance, for minor moms (none could go for abortion or abortion counseling).</p>
<p>Family Cap</p>	<p>State option to deny or pay reduced benefits to child conceived while mother on AFDC.</p>	<p>No benefit increase for children born out-of-wedlock while mother on AFDC.</p>
<p>Paternity</p>	<p>Mothers required to give name of possible father (or fathers) along with specified info about them. CSE agency required to certify mother's cooperation. States required to establish paternity or impose sanction within a year after or face Federal matching payment reduction. States encouraged to improve procedures, including at hospitals.</p>	<p>Paternity establishment required before a child is eligible for AFDC, with exceptions for rape, incest, and physical danger. (HHS believes that, as drafted, this provision could render ineligible as many as one-third of children currently on AFDC.) States required to establish paternity in 90% of cases. States encouraged to improve procedures, including at hospitals.</p>

<p>Child Support Enforcement</p>	<p>Requires States to give "full faith and credit" to child support orders from other States. Requires States to maintain automated central child support registries. Requires States to review and adjust all orders in registry every three years in streamlined process. Requires States to operate centralized, automated central payment center for collection and disbursement of child support payments. Requires HHS to set up national "new hire" directory, to which info in child support registry would be matched. Requires States to toughen restrictions for certain licences for those delinquent on child support. Allows States to provide employment and training services for debtor noncustodial parents.</p>	<p>Requires States to give "full faith and credit" to child support orders from other States. Provides Federal assistance in "developing a uniform child support/visitation order" to streamline enforcement. Requires noncustodial parents receiving State aid to participate in State job-search program if delinquent on child support. (Note - included in "Family Reinforcement Act" with tax credits, not welfare reform bill.)</p>
<p>State Opt-Out</p>		<p>States may opt out of AFDC and convert their AFDC funds into a fixed annual block grant.</p>
<p>Learnfare</p>	<p>State option to use monetary incentives and penalties to encourage AFDC mothers under 21 to complete high school or GED and participate in parenting education activities.</p>	<p>States may reduce AFDC payments up to \$75/month to mothers under 21 who have not completed high school or GED. Payments can also be reduced if dependent child does not maintain minimum school attendance.</p>

<p>Assistance to Aliens</p>	<p>Extend permanently the 5 year income deeming provision for SSI and apply it to Food Stamps and AFDC as well. Deeming to continue for 5 additional years for aliens with sponsors whose income is greater than median income.</p>	<p>Deny AFDC, SSI, Food Stamps, housing assistance, education, job training, WIC, and child welfare services to non-citizens except: refugees (for their first 6 years in the US) and those over 75 who are lawfully admitted to the US and have resided in US for at least five years. (Emergency medical assistance will continue to be provided.) Ends benefits to those currently in US and otherwise program eligible one year after enactment.</p>
<p>Spending Cap</p>		<p>Caps spending growth in AFDC, SSI, work program, and numerous public housing programs at FY 1995 funding level, with adjustments for inflation and growth in poverty population. <u>Becomes capped entitlement.</u></p>
<p>Nutrition Block Grant</p>		<p>Consolidates Food Stamps, WIC, school lunches, and other nutrition programs into a <u>discretionary block grant</u> to each State. Funded at 95% of aggregate total of FY 1995 funding. Includes setasides for WIC and school food service programs.</p>

<p>Other Provisions</p>	<p>Numerous: Including increasing child care assistance, providing teen pregnancy prevention grants, and requirements for performance standards.</p>	<ul style="list-style-type: none"> o AFDC beneficiaries who a State identifies as drug- or alcohol-addicted must enroll in treatment program and participate in random drug testing to receive benefits. o State adoption agencies are encouraged to decrease wait for adoption and prohibited them from discrimination in placements. o Allows States to offer a temporary 50% transition benefit to certain recipients who marry and would become ineligible for AFDC but whose incomes remain below 150% of poverty line.
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Welfare Reform - "Contract with America"

Five-Year Net Savings: "approximately" \$40 billion

Five-Year Savings (in billions)

Denial of "welfare" to non-citizens (AFDC, SSI, Food Stamps, and public housing)	22
Cap on welfare entitlements (AFDC, SSI, child care, CSE, public housing, and work programs)	18
Nutrition program discretionary block grant (Food Stamps, WIC, school lunches)	11
Paternity establishment requirements	2
Total	53

Five-Year Costs (in billions)

Work program (State discretion to design; must meet participation requirements)	9.9
State options (Not specified as to which options are included in figure)	2
Total	11.9

Note - These are not HHS or OMB estimates.

Change in Family Income As a Result of The Contract with America's Tax and Welfare Provisions

Family Economic Income Classes	Family Pre-Tax Income (in billions)	Current Law After-Tax Income (in billions)	After Tax, After PRA Disposable Income (in billions)	Percentage Change in After Tax Income	Total Change in Average Disposable Income per Family
0-10,000	\$85.3	\$78.9	\$73.3	-7.1%	-\$376
10,000-20,000	\$274.5	\$248.7	\$244.5	-1.7%	-\$228
20,000-30,000	\$396.4	\$341.7	\$346.0	1.3%	\$269
30,000-50,000	\$880.3	\$728.0	\$740.4	1.7%	\$554
50,000-75,000	\$1,068.6	\$864.5	\$879.8	1.8%	\$879
75,000-100,000	\$854.6	\$679.4	\$693.6	2.1%	\$1,434
100,000-200,000	\$1,147.9	\$903.4	\$924.4	2.3%	\$2,386
200,000 and over	\$1,180.3	\$905.3	\$932.8	3.0%	\$11,458
TOTAL	\$5,887.9	\$4,749.9	\$4,834.8	1.8%	

HHS/ASPE staff analysis based on Department of Treasury, Office of Tax Analysis preliminary analysis of Tax Proposals in "The Contract with America", Jan. 10, 1995 and very preliminary HHS analysis of the Personal Responsibility Act (PRA) Changes in the "Contract."

Hypothetical Impact in FY 1993 if an AFDC Block Grant Provision Similar to the Block Grant Option in the Personal Responsibility Act Had Been Adopted in FY 1988 Using FY 1987 Funding Levels

State	FY 1993: Actual Federal Payments (in millions)	Block Grant: 103% of FY 87 Level (in millions)	Difference	Percentage Change	# Poor Children ages 0-17 (in thousands)	Pmt Per Poor Child (actual dollars)
Alabama	\$79	\$57	(\$22)	-28%	321	\$246
Alaska	\$60	\$29	(\$31)	-51%	23	\$2,649
Arizona	\$204	\$65	(\$139)	-68%	245	\$834
Arkansas	\$53	\$42	(\$11)	-21%	180	\$297
California	\$3,205	\$2,157	(\$1,048)	-33%	2,340	\$1,370
Colorado	\$102	\$70	(\$32)	-31%	155	\$658
Connecticut	\$207	\$124	(\$83)	-40%	163	\$1,269
Delaware	\$23	\$15	(\$8)	-35%	27	\$853
Dist. of Columbia	\$88	\$52	(\$36)	-41%	49	\$1,816
Florida	\$521	\$302	(\$219)	-42%	925	\$563
Georgia	\$307	\$189	(\$119)	-39%	488	\$630
Hawaii	\$76	\$38	(\$38)	-50%	79	\$966
Idaho	\$24	\$18	(\$7)	-28%	75	\$323
Illinois	\$491	\$487	(\$4)	-1%	854	\$575
Indiana	\$158	\$111	(\$47)	-30%	285	\$552
Iowa	\$113	\$110	(\$3)	-3%	136	\$835
Kansas	\$85	\$56	(\$29)	-34%	110	\$774
Kentucky	\$166	\$110	(\$56)	-34%	274	\$608
Louisiana	\$141	\$129	(\$12)	-8%	478	\$295
Maine	\$76	\$62	(\$15)	-19%	73	\$1,043
Maryland	\$197	\$147	(\$51)	-26%	283	\$696
Massachusetts	\$454	\$303	(\$152)	-33%	261	\$1,743
Michigan	\$775	\$777	\$2	0%	569	\$1,362
Minnesota	\$250	\$198	(\$52)	-21%	216	\$1,160
Mississippi	\$75	\$69	(\$6)	-8%	294	\$256
Missouri	\$191	\$146	(\$45)	-24%	322	\$593
Montana	\$37	\$30	(\$7)	-19%	53	\$700

NOTES:

The table estimates, for FY 1993, the hypothetical impact of a mandatory AFDC block grant provision similar to the block grant option in the Personal Responsibility Act, assuming implementation of the provision in FY 1988. The level of the block grant for each State is set at 103 percent of FY 1987 Federal payments for AFDC benefits, administration and Emergency Assistance, unadjusted for inflation.

The Family Support Act was not in effect during FY 1987. To avoid overstating the impact of a block grant, Federal payments for AFDC work activities (WIN/JOBS) and AFDC-related child care are not included in either column.

Hypothetical Impact in FY 1993 if an AFDC Block Grant Provision Similar to the Block Grant Option in the Personal Responsibility Act Had Been Adopted in FY 1988 Using FY 1987 Funding Levels

State	FY 1993: Actual Federal Payments (in millions)	Block Grant: 103% of FY 87 Level (in millions)	Difference	Percentage Change	# Poor Children ages 0-17 (in thousands)	Fmt Per Poor Child (actual dollars)
Nebraska	\$47	\$41	(\$6)	-13%	83	\$566
Nevada	\$28	\$10	(\$17)	-63%	74	\$378
New Hampshire	\$32	\$12	(\$20)	-62%	41	\$778
New Jersey	\$394	\$298	(\$96)	-24%	338	\$1,166
New Mexico	\$94	\$45	(\$49)	-52%	155	\$607
New York	\$2,227	\$1,268	(\$959)	-43%	1,226	\$1,816
North Carolina	\$268	\$154	(\$114)	-43%	452	\$593
North Dakota	\$25	\$14	(\$9)	-41%	25	\$924
Ohio	\$635	\$522	(\$114)	-18%	646	\$984
Oklahoma	\$144	\$84	(\$59)	-41%	250	\$576
Oregon	\$151	\$92	(\$58)	-39%	131	\$1,151
Pennsylvania	\$566	\$506	(\$61)	-11%	570	\$994
Rhode Island	\$75	\$50	(\$25)	-33%	49	\$1,553
South Carolina	\$93	\$86	(\$7)	-7%	328	\$284
South Dakota	\$19	\$17	(\$3)	-14%	47	\$417
Tennessee	\$166	\$95	(\$71)	-43%	315	\$528
Texas	\$385	\$207	(\$178)	-46%	1,416	\$272
Utah	\$67	\$51	(\$15)	-23%	89	\$753
Vermont	\$43	\$31	(\$12)	-27%	21	\$2,015
Virginia	\$138	\$117	(\$20)	-15%	274	\$504
Washington	\$368	\$239	(\$129)	-35%	219	\$1,678
West Virginia	\$99	\$87	(\$12)	-12%	155	\$634
Wisconsin	\$292	\$348	\$55	19%	241	\$1,215
Wyoming	\$21	\$11	(\$10)	-49%	21	\$994
U.S. TOTAL	\$14,537	\$10,179	(\$4,358)	-30%	16,441	\$883

NOTES:

The table estimates, for FY 1993, the hypothetical impact of a mandatory AFDC block grant provision similar to the block grant option in the Personal Responsibility Act, assuming implementation of the provision in FY 1988. The level of the block grant for each State is set at 103 percent of FY 1987 Federal payments for AFDC benefits, administration, and Emergency Assistance, unadjusted for inflation.

The Family Support Act was not in effect during FY 1987. To avoid overstating the impact of a block grant, Federal payments for AFDC work activities (WIN/JOBS) and AFDC-related child care are not included in either column.

Republicans take up welfare-reform cause

Deep cuts, key changes are possible

By Leslie Phillips and Richard Wolf USA TODAY

When President Clinton pledged to "end welfare as we know it," he didn't bargain on a Republican Congress.

Now, two years after Clinton's election, Republicans stand poised to steal his thunder by seeking to wipe out elements of the welfare state dating back to the New Deal and the 1960s war on poverty.

The depth of the possible cuts only now are becoming clear. In the House, rejuvenated Republicans are intent on bringing to the floor within the first 100 days of the new Congress a measure that would end welfare's status as an entitlement to all who qualify, and substitute a reduced program subject to annual budget cuts.

That proposal, entitled the "Personal Responsibility Act," caps welfare spending, places time limits on benefits, calls on states to set up work programs and denies welfare payments to illegal immigrants.

Despite its controversial elements — such as capping Supplemental Security Income payments to the elderly and disabled and combining popular nutrition programs into one block grant to states — the measure is given a good chance of passing the GOP-controlled House next year.

What happens then is less clear. The Senate, despite a similar GOP edge, is not likely to eliminate welfare as an entitlement program because of the influence of moderate Republicans. And Clinton, who favors time limits on welfare and a transition to workfare, could veto a bill seen as draconian.

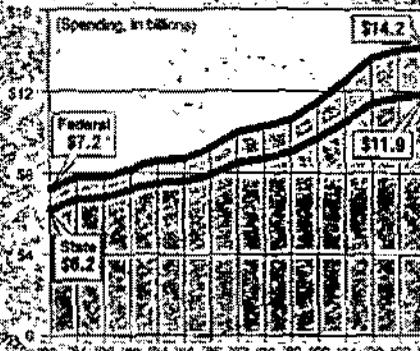
Still, House Republicans are poised to control the public debate after two years of stalling by a White House more concerned with health-care reform than welfare reform.

"It's important to jump-start this and move quickly," says Rep. James Talent, R-Mo. "The least we are going to achieve is focusing attention on this issue. The more that happens, the

Aid-to-the-poor programs under GOP scrutiny

The incoming Republican congressional majority is planning cutbacks in federal assistance to the poor. Among programs targeted is Aid to Families with Dependent Children, the nation's primary welfare program, in which the federal and state governments split costs. Also under review are Food Stamps, public housing, Medicaid, Supplemental Security Income and nutrition programs. History of spending on those programs:

Aid to Families with Dependent Children



Number of families on AFDC



Average monthly family payment

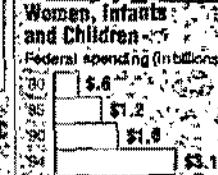


Most families on AFDC for five years or less



NUTRITIONAL PROGRAMS

Women, Infants and Children



Participating



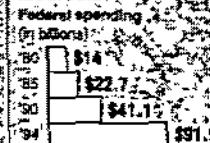
Food Stamps



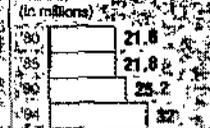
Recipients



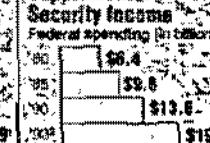
Medicaid



Participants



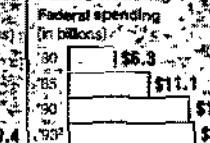
Supplemental Security Income



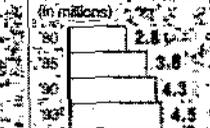
Participants



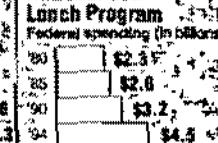
Public housing



Households participating



National School Lunch Program



Participants



Source: Department of Health and Human Services, Congressional Research Service, U.S. Census Bureau. 1 - Excludes, 2 - Most recent year available. By Stephen Gray, USA TODAY

States lead way in putting parents back to work

By Patricia Edmunds USA TODAY

As congressional Republicans draw their blueprints for welfare reform, they may borrow key elements from some pioneering state efforts. Massachusetts, New Jersey and Wisconsin "really have been leaders" in welfare reform, says Doug Becharov of the conservative American Enterprise Institute.

Massachusetts, where Gov. William Weld's plan shifted money into child care and health care, allowing tens of thousands of welfare-recipients to take jobs.

New Jersey, where a family

led adults to go to work, school or job training within 90 days of signing up for welfare benefits; and a "Learnfare" program requires parents ages 18-19 to attend school or lose part of their welfare payments.

Illinois, where young mothers newly on Aid to Families with Dependent Children were assigned counselors to coach them through school and job training programs, and had their monthly benefits slashed if they failed to participate.

Michigan, where a "social con-

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