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STATEMENT BY
DONNA SHALALA
SECRETARY

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

BEFORE THE
COMMITTEE ON FINANCE
U.S. SENATE

JULY 13, 1994

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Thank you Mr. Chairman and members of the Committee for the invitation to appear before you today. I am very pleased that the Finance Committee is holding a hearing on the Work and Responsibility Act of 1994 so soon after its introduction.

I am joined here today by two of the key architects of this legislation, Dr. Mary Jo Bane, HHS Assistant Secretary for Children and Families, and Dr. David Ellwood, HHS Assistant Secretary for Planning and Evaluation. Together with Bruce Reed, Deputy Assistant to the President for Domestic Policy, Drs. Bane and Ellwood have co-chaired a task force appointed by the President that sought the advice of several hundred experts, welfare recipients, and service providers in the design of this visionary plan.

Welfare as we know it has become a national tragedy. More than 14 million Americans depend on monthly AFDC checks that now cost taxpayers more than \$22 billion dollars each year. In the

last five years alone, well over 3 million recipients have been added to the AFDC rolls. Almost 30 percent of all births are to unmarried mothers. And nearly one in four children currently lives in poverty. Too many children grow up in households where none of the adults are working.

As you've pointed out numerous times, Mr. Chairman, a central part of the problem is the growth in the number of births to young, unmarried mothers. As one of this country's most visionary thinkers on social policy, you have long recognized the need for reform. And we are now on the threshold of change, largely because, for many years, you have kept this issue firmly in the national spotlight. For that, you deserve the gratitude of every American.

President Clinton, and many of us -- both inside and outside of his Administration -- have worked long and hard to put together this legislation. And we are proud of the result.

The Work and Responsibility Act of 1994 will fundamentally change this country's approach to helping young parents move from dependence to independence. And, equally important, it will improve the quality of life for millions of young children. America's children -- increasingly our poorest citizens -- deserve a chance to grow up to opportunity, not poverty and hopelessness.

If there is one thing that stands out the most from our nationwide hearings on this issue, it is that our current system doesn't work and nobody likes it -- least of all the people who

depend most on it for help -- welfare recipients themselves. So as Congress debates this issue, we know it won't be about whether or not we need welfare reform -- we all agree on that. The question is how best to go about it.

As the distinguished Chairman knows from his years of research and leadership on social policy, there is no magic solution for the complex problem of chronic welfare dependency. But that should not deter us from meeting this challenge head-on.

This issue has become even more urgent in light of some disturbing trends: more and more children today are born to teenage mothers and outside of marriage. Almost half of all single mothers receiving AFDC -- about 42 percent -- are or have been teenage mothers.

The welfare system will continue to be part of the problem rather than part of the solution unless dramatic changes are made. We believe we have put on the table a bold, balanced plan that will really make a difference.

Under our plan, by the year 2000, almost one million people who would otherwise be on welfare will either be working or completely off welfare. Even using conservative assumptions, our projections show that more than 330,000 adults who would otherwise have been on welfare will have left the rolls by that time. About 222,000 adults will be working part-time in unsubsidized jobs. And 394,000 adults will be in subsidized jobs in the WORK Program -- up from 15,000 in work experience programs now. In addition, another 873,000 recipients in the year 2000

will be in time-limited education or training programs leading to employment. And by that time, federal child support collections will have more than doubled, from \$9 billion to \$20 billion.

Let me add that we hope to proceed on welfare reform in a bipartisan manner. In fact, there are many similarities between our bill and the two major Republican alternatives in the House and Senate. Both share the President's vision for reform, making public assistance a transitional program leading to mandatory work. Both provide funding for education, training, child care, and job creation. And both recognize that it will require an investment of time and money to move young mothers toward self-sufficiency.

Our welfare reform strategy has three overarching principles: work, responsibility, and reaching the next generation.

WORK

Under the President's welfare reform plan, welfare will be about a paycheck, not a welfare check. To reinforce and reward work, our approach is based on a simple compact. Support, job training, and child care will be provided to help people move from dependence to independence. But time limits will ensure that anyone who can work, must work -- in the private sector if possible, in a temporary, subsidized job if necessary. These reforms will make welfare a transitional system leading to work.

As a crucial ingredient of reform, support will be provided to help people keep jobs once they get them. Tax credits, health care and child care will make it possible for everyone who works to be better off than they were on welfare, and for even workers in entry-level jobs to support their families.

The key to ensuring the success of this transition from welfare to work is expanding on the success of the Job Opportunities and Basic Skills or JOBS program. JOBS is the cornerstone of the Family Support Act of 1988 (FSA), that was championed by Chairman Moynihan and then-Governor Bill Clinton.

FSA paved the way for our reforms by introducing the expectation that welfare should be a transitional period of preparation for self-sufficiency, and by recognizing the need for investment in education, training, and employment services for welfare recipients.

However, the JOBS Training program created by the FSA did not change the welfare system as much as was intended. Because of its broad exemption policy and relatively low participation rates, only a small portion of the AFDC caseload is actually required to participate in the JOBS program. Only 16 percent of mandatory participants engaged in work or training activities in fiscal year 1992. Since only 43 percent of the adult caseload are considered mandatory participants, the actual percentage of the caseload involved in the JOBS program is even smaller. In reality, few recipients, especially those at-risk of long-term

welfare dependency, are moving toward employment that will enable them to leave AFDC.

The FSA has worked best where states have used it to change the culture of the welfare office to one focusing on moving people quickly toward work and independence. The Riverside County GAIN program, for example, has significantly increased recipients' hours of work and earnings.

The President's Work and Responsibility Act seeks to change this by replacing AFDC with a new transitional assistance program that includes four key elements: a personal employability plan; training, education and placement assistance to move people from welfare to work; a two-year time limit; and work requirements. We also propose a significant narrowing of the participation exemptions contained in current law.

Making Welfare a Transition to Work: Building on the JOBS Program

Our philosophy is simple and fair: all parents who receive cash support must do something to help themselves. The JOBS program will be the centerpiece of the public assistance system.

From day one, the new system will focus on making young mothers self-sufficient. Each applicant will sign an agreement to move quickly toward independence in return for assistance. Working with a caseworker, each recipient will develop an employability plan -- a work and training agreement -- designed

to move that person into an unsubsidized job as quickly as possible. Participants who are job-ready will immediately be engaged in a job search and anyone offered a job will be required to take it. We expect that many recipients will be working well before they hit the two-year time limit.

Several mechanisms will integrate the JOBS program with other education and training programs to expand access to the system and reduce the administrative burden on States. Our plan also will ensure that even those unable to participate in education, training or work still meet certain expectations.

It is important to note that our proposal defers only people with a disability or those who need to care for a disabled child; mothers with infants under one year old; and certain people living in remote areas. AFDC mothers who have additional children while on assistance will be deferred for only 12 weeks after the child's birth.

In contrast, current law allows much broader exemptions for women with any child under three, young mothers under 16, and women in their second and third trimesters of pregnancy.

By the year 2000, these changes will move us from a situation in which almost three quarters (73 percent) of the target group are neither working nor expected to participate in training, to one in which more than three quarters (77 percent) of the phased-in group are either off welfare, working, or in a mandatory time-limited placement and training program.

In short, JOBS participation will be greatly expanded

through increased participation rates, and JOBS participants will participate in more work experience, education, and training programs. To achieve this, we have given states and localities flexibility in designing the exact mix of JOBS program services. Employability plans may be adjusted as a family's situation changes. But parents who refuse to stay in school, or look for work or attend job training programs will be sanctioned, generally by losing their share of the AFDC grant.

In addition, the Federal cap on JOBS spending will be increased from \$1 billion to \$1.7 billion in fiscal year 1996. Over the five-year period between 1996 and the year 2000, we will increase JOBS spending by \$2.8 billion--a 56 percent increase over current spending. The capped entitlement for JOBS will rise further if the national unemployment rate reaches 7 percent or higher.

As members of this committee know, the current JOBS program is hampered by many States' inability to draw down the full amount of available Federal funds. In fact, States spent only slightly more than two-thirds (68 percent) of the total available Federal JOBS allotment in fiscal year 1992. To help States draw down their full allotment, the Federal match rate will be increased -- by five percentage points over the current JOBS match rate in 1996, rising to 10 percentage points over the current JOBS match rate by the year 2000. The minimum Federal match will be 70 percent in that year.

Specific examples best illustrate the impact of these changes: In fiscal year 1994, we estimate that New York will spend \$68 million in State monies on JOBS, which will allow it to draw down \$95 million in Federal JOBS funding. Under the new match rate, New York could maintain its current level of spending and draw down \$119 million in Federal funds in fiscal year 1996. The same amount of State funds (\$68 million) could draw down \$127 million in fiscal year 1997 and \$152 million in fiscal year 1999 -- that is a 60 percent increase between fiscal year 1994 and fiscal year 1999. We estimate that Louisiana would experience a 74 percent increase in Federal JOBS funding between fiscal year 1994 and fiscal year 1998 under this new match, while Oregon would experience a 33 percent increase over the same period. Kansas would experience a 48 percent increase in Federal funds between fiscal year 1994 and fiscal year 1998 under the new match rate. For your information, I have attached to my testimony a summary of the increased amount of federal JOBS funding that states represented on the Committee could expect under our proposal.

In addition, a single match rate for direct program costs, administrative costs and work-related supportive services will replace the current system's varying match rates. Provisions also have been incorporated that address unemployment--during periods of high State unemployment, the State match for JOBS (and WORK and At-Risk Child Care) would be reduced.

As you know, President Clinton was the first person to propose national time limits on welfare benefits. The cumulative two-year time limit on benefits will give both recipients and caseworkers a structure of continuous movement toward fulfilling the objectives of the employability plan and, ultimately, finding a job. We believe that only with time limits will recipients and caseworkers know without a doubt that welfare has changed forever. And only then will the focus really be on work and independence.

States will, however, be permitted to grant a limited number of extensions for completion of an education or training program, or for those who are learning-disabled, illiterate, or facing other serious obstacles to employment. And in order to encourage States to meet their responsibilities, we require them to grant extensions to persons who have reached the time limit but who have not been provided employment-related services specified in their employability plan. Extensions in all of these categories will be limited to 10 percent.

The WORK Program: Work not Welfare After Two Years.

If the time limit is reached, welfare ends and people are expected to work. We recognize that some recipients will reach the end of the two-year limit without having found a job, despite their best efforts -- and we are committed to providing them with the opportunity to support their families if they are willing to

work. Each State will be required to operate a WORK program that makes paid work assignments available to recipients who have reached the time limit for cash assistance.

The WORK program is different from "workfare" (or CWEP) programs. Workers will receive a paycheck based on the hours they actually work. They will not be guaranteed a welfare check and sent out to a work site. Those who do not show up for work will not get paid. This is a straight-forward and radical end to the status quo.

To move people into unsubsidized private sector jobs as quickly as possible, participants will be required to perform an extensive job search before entering the WORK program, and after each WORK assignment. No single WORK assignment will last more than 12 months and participants will typically be paid the minimum wage. States will be allowed to pursue any of a wide range of strategies to provide work for those who have reached the two-year limit, including subsidized private-sector jobs, public-sector positions, contracts with for-profit placement firms, agreements with non-profit agencies, and microenterprise and self-employment efforts.

To create a further incentive to find an unsubsidized job, participants in subsidized WORK positions will not receive the Earned Income Tax Credit; ensuring that any unsubsidized job will pay more than a subsidized work assignment. Anyone who turns down a private sector job will be removed from the rolls, as will

people who refuse to make good faith efforts to obtain available jobs.

The WORK program will begin in 1998, and it should cost \$1.2 billion in Federal dollars during the first five years. By 2000, the WORK program should serve approximately 394,000 participants, which is a dramatic expansion from the 15,000 in work experience programs today.

Supporting Working Families: The EITC, Health Care Reform, and Child Care

We recognize that a fundamental flaw in the current welfare system is that it does little to encourage work. Those who work often lose benefits dollar for dollar, face burdensome reporting requirements, and cannot save for the future because of asset limitations.

Moving people from welfare to work also means making work pay in this country -- ending the perverse incentives that lead countless people to opt for welfare over work, even though they want to enter the workforce.

Today, 70 percent of those on welfare leave the system within 2 years -- but the vast majority of them return, often because the low paying jobs they get do not come with essential benefits like health care and child care. We need to concentrate on two key goals: moving people off welfare and helping them stay off.

To "make work pay," this Administration has focused on three critical components -- providing tax credits for the working poor, ensuring access to health insurance, and making safe child care available. We are also proposing to allow states to change earnings disregard policies to reward work and the payment of child support.

Congress has already passed the first crucial element of welfare reform by expanding the EITC, a key initiative of the Clinton Administration. The EITC is essentially a pay raise for the working poor. It means that a family with two children and a single minimum-wage worker will earn the equivalent of \$6.00 an hour with a \$4.25 an hour job. The EITC ensures that a family with a full-time worker earning minimum wage would, with the help of food stamps, no longer be poor.

We believe that low-income individuals could benefit from receiving the EITC throughout the year, instead of in a lump-sum payment at the end of the year. Our proposal will allow up to four States to conduct demonstrations promoting the use of the advance EITC payment option by shifting the outreach and administrative burden from employers to selected public agencies.

The critical policy, of course, is guaranteed health care security for Americans. This Committee has shown great leadership in moving the health care reform debate to the floor of the U.S. Senate. I would only underscore that we can't succeed with sweeping welfare reform unless we succeed in passing health care reform first.

Some studies suggest that 7 to 15 percent of the current welfare caseload -- at least one million adults and children -- are on welfare to qualify for Medicaid. And a 1994 Urban Institute study found that over a 20-month period, only 8 percent of those who were on AFDC and went to work were able to find a job with health insurance.

We believe that people should not have to choose welfare over work just to get health coverage for their families. And when Congress passes health care reform, our hope is that this perverse incentive to stay on welfare will end.

The third ingredient in our strategy to make work pay is affordable, accessible, high quality child care for families on cash assistance and the working poor. Parents must have dependable child care in order to work or to prepare themselves for work. Our proposal would significantly expand child care spending. We continue to guarantee one year of transitional child care for those who leave welfare for work, and will extend child care assistance to those participating in the new WORK program. Our proposal also will significantly expand the At-Risk Child Care program for the working poor from \$300 million per year now to over \$1 billion by the year 2000.

As mentioned earlier, we will make the child care match rates consistent with the new enhanced JOBS (and WORK) match rate, allowing States to draw down increased child care funds. For example, we estimate that New York will spend a total of \$85 million in fiscal year 1994 on IV-A child care, transitional

child care, and At-Risk child care. Under the current matching rates, New York would draw down the same amount (\$85 million) in Federal funds for these child care programs for that year. Under the proposed match rate, the same amount of State dollars invested in child care in fiscal year 1999 would draw down \$189 million in federal dollars -- an increase of 123 percent. Louisiana would experience a 57 percent increase in Federal child care funding between fiscal year 1994 and fiscal year 1999 if it maintained its fiscal year 1994 spending on child care, and federal dollars for child care would increase by 52 percent in Oregon over the same period. Kansas would experience a 38 percent increase in Federal child care funding between fiscal year 1994 and fiscal year 1999. For your information, I have attached to my testimony a summary of the increased amount of federal child care funds that states represented on the Committee could expect under our proposal.

Finally, we address quality and supply through a special provision in the At-Risk program. We will help States create seamless child care coverage for persons who leave welfare for work, and allow them to administer all federal child care funds through one agency.

Together, these elements will help ensure that the millions of recipients who leave welfare within two years will not fall back into the system. And it will be clear that work and responsibility are at the core of our values and the heart of our policies.

RESPONSIBILITY

The second pillar of our plan is responsibility: the responsibility of parents for their children; the responsibility of the system to deliver performance, not process; and the responsibility of the government to provide accountability for taxpayers.

Parental Responsibility.

We believe that mothers and fathers must be held responsible for the support of their children. Men and women must understand that parenthood brings serious obligations and that these obligations will be enforced.

While many improvements have been made to the current system, it still fails to ensure that children receive adequate support from both parents. The potential for child support collections is approximately \$48 billion per year. Yet only \$14 billion is actually paid, leading to an estimated collection gap of about \$34 billion. We are proposing the toughest child support system ever to make sure fathers pay their child support. It is simply not acceptable for non-custodial parents to walk away from the children they helped bring into this world.

Establishing awards in every case is the first step toward ensuring that children receive financial support from noncustodial parents. Paternity must be established for every

out-of-wedlock birth, regardless of welfare status. Our proposal would greatly expand outreach and public education programs that encourage voluntary paternity establishment, and build on existing hospital-based programs. The genetic testing process will be further streamlined for cases where paternity is contested.

In addition, mothers who apply for AFDC benefits must cooperate fully with paternity establishment procedures prior to receiving benefits. Except in rare circumstances in which paternity establishment is inappropriate, parents who refuse to cooperate will be sanctioned, generally by losing their share of AFDC benefits. We are proposing to systematically apply a new, stricter definition of cooperation in every AFDC case.

The child support agency -- which has the most expertise and most at stake -- will administer this new cooperation requirement within each State. When mothers have fully cooperated, the State must establish paternity and will be given one year to do so or risk losing a portion of its Federal match for AFDC benefits. Performance-based incentives will encourage States to improve their paternity establishment rates for all out-of-wedlock births, regardless of welfare status.

Fair awards also are crucial to getting support to children who need it. Periodic updating of awards will be required for both AFDC and non-AFDC cases, so that awards accurately reflect the parents' current income. In addition, a National Guidelines Commission will be established to assess the desirability of

uniform national child support guidelines or national parameters for State guidelines.

Many enforcement tools will allow States to collect support more effectively. The state-based child support enforcement system will continue, but with changes to move it toward a more uniform, centralized, and service-oriented program. All states will maintain a central registry and centralized collection and disbursement capabilities. The registry will maintain current records of all support orders and operate in conjunction with a centralized payment center for the collection and distribution of child support payments.

Centralized collection also will vastly simplify withholding for employers since they will have to send payments only to one source. In addition, this change will ensure accurate accounting and monitoring of payments.

The federal role will be expanded to ensure more efficient location of the noncustodial parent and enforcement of orders, particularly in interstate cases. In order to coordinate activity at the federal level and to track delinquent parents across state lines, a National Clearinghouse will be established. This Clearinghouse will consist of an expanded Federal Parent Locator Service, the National Child Support Registry, and the National Directory of New Hires. A stronger federal role in interstate enforcement will make interstate procedures more uniform throughout the country.

Enforcement measures will include revocation of professional, occupational and drivers' licenses to make delinquent parents pay child support; expanded wage withholding; improved use of income and asset information; expanded use of credit reporting; and authority to use the same wage garnishment procedures for federal and non-federal employees.

Our proposal also recognizes the problem absent parents sometimes face in getting work and their genuine desire to help support their children. We propose allowing states to allocate up to 10 percent of their JOBS and WORK funds for programs for non-custodial parents. States also will be allowed to require non-custodial parents with delinquent child support payments to work off what they owe.

The proposal contains several other measures aimed at encouraging parental responsibility. In addition, we are proposing a limited number of parenting, access and visitation, and child support assurance demonstrations.

States can choose to lift the special eligibility requirements for two-parent families in order to encourage parents to stay together. States also will be given the option to limit additional benefits for additional children conceived by mothers on AFDC (the "family cap"). States that choose this option will be required to allow families to "earn back" the lost benefit amount through disregarded income from earnings or child support.

Performance: Not Process.

The Administration's plan demands greater responsibility from the welfare office itself. Unfortunately, the current system too often focuses on simply sending out welfare checks. Instead, the welfare office must become a place that is about helping people find work and earn paychecks as quickly as possible. Our plan offers several provisions designed to help agencies reduce paperwork and focus on results.

The Secretary will phase in an outcome based system with funding incentives and penalties directly linked to the performance of states and caseworkers in service provision, job placement, and child support collection. In order to better coordinate and simplify program administration, we have also proposed several changes in program rules designed to simplify and standardize disparate Food Stamp and AFDC policy rules.

Accountability for Taxpayers.

To eliminate fraud and ensure that every dollar is used productively, welfare reform will coordinate programs, automate files, and monitor recipients. We propose several new fraud control measures. States will be required to verify the income, identity, alien status, and Social Security numbers of new applicants. A national public assistance clearinghouse will follow individuals whenever and wherever they use welfare,

monitoring compliance with time limits and work. A national "new hire" registry will monitor earnings to check AFDC eligibility and identify non-custodial parents who switch jobs or cross state lines to avoid paying child support. Anyone who refuses to follow the rules will face tough new sanctions, and anyone who turns down a job offer will be dropped from the rolls.

REACHING THE NEXT GENERATION

It is absolutely critical that our reforms send a strong message to the next generation. All young people must understand the importance of staying in school, living at home, preparing to work, and building a real future. And they must realize that having a child is an immense responsibility - not an easy route to independence.

Preventing Teen Pregnancy.

We recognize that welfare dependency could be significantly reduced if more young people delayed childbearing until both parents were ready and able to assume the responsibility of raising children. And we are committed to doing everything we can to prevent teenage pregnancy in the first place.

I don't have to tell you how big a challenge that is. And it would be naive to suggest that government can do it alone. We are well aware that reducing the incidence of unmarried teen

pregnancy will require the involvement of every sector of our society.

The link between unmarried teen births and poverty is clear: According to an Annie E. Casey Foundation study, approximately 80 percent of the children born to teen parents who dropped out of high school and did not marry are poor. In contrast, only 8 percent of children born to married high school graduates aged 20 or older are poor.

We are proposing a number of measures, including a national campaign against teen pregnancy designed to send a clear and unambiguous message to young people about delayed sexual activity and responsible parenting. As part of that effort, we would create a national clearinghouse to provide communities and schools with models, materials, training and technical assistance. The clearinghouse will distribute what is known and evaluate new approaches.

Our legislation also would set up new grant programs to test community-based approaches to reducing teen pregnancy. And because we need to pay particular attention to areas where the risks are greatest, we are proposing grants to set up programs in roughly 1000 middle and high schools.

We are also proposing to fund larger, more comprehensive demonstrations to simultaneously address the broader health, education, safety and employment needs of young people. These grants are intended to galvanize local efforts and inspire communities to work together.

We are absolutely committed to promoting abstinence-based programs in the schools as a key to preventing teen pregnancy. And we are equally determined to build our strategy on the best available research.

Phasing-in Young People First.

We have chosen to phase in the plan by starting with young people: those born after 1971. We chose this strategy not because young single mothers are easiest to serve, but because they are so important to our future.

The younger generation of welfare recipients is our greatest concern. Younger recipients are likely to have the longest stays on welfare. They also are the group for which there is the greatest hope of making a profound difference. We strongly believe that the best way to end welfare as we know it is to reach the next generation; to devote energy and new resources to young people first, rather than spreading our efforts so thinly that little real help is provided to anyone.

This proposal represents a radical change in how we think about and administer welfare. But to get it right requires a solid and well planned implementation strategy. Even if resources were plentiful, the lessons we learned from the Family Support Act, as well as from our site visits and discussions with state administrators, have convinced us that attempting to implement a time-limited transitional assistance program for the

entire caseload at once would create enormous difficulties. We believe these difficulties could be avoided and the changes we envision successfully implemented by adopting this phase-in strategy.

Moreover, recent evidence from several programs serving teen mothers suggests that this population needs special attention and can be reached. By phasing in the plan with the youngest recipients first, we send a strong message of responsibility and opportunity to the next generation.

But let me be very clear about our proposal. Our legislation requires states to phase-in reform with recipients born after 1971. This implementation strategy limits the initial mandatory caseload to about one-third of the total in 1996, helping cash-strapped states enact meaningful WORK programs with time limits that can really be enforced. By the year 2000, this phase-in strategy means that half of all AFDC recipients, about 2.4 million people, will be in the new system. And by the year 2004, two-thirds will be subject to the new rules.

However, states will have the option to define the phased-in group more broadly, allowing them to apply time limits and other new rules to a larger percentage of the caseload if they wish. In addition, states will be required to serve volunteers from the non phase-in group to the extent that federal JOBS funds are available. At state option, these volunteers also may be subjected to the two-year time limit in exchange for access to services. And of course, the Family Support Act will continue to

allow states to provide education and training for other AFDC recipients currently participating in JOBS. We believe that this approach creates a realistic partnership with the states, and sets up a meaningful path to real welfare reform.

A Clear Message for Teen Parents.

The proposal includes several incentives for young parents designed to promote responsible behavior. Minor parents will be required to live in their parents' households unless that environment is unsafe. Minor parents are still children themselves and they ought to live with adults who can offer supervision and guidance. The welfare system should not encourage young people who have babies to leave home, set up separate households and receive separate checks. In cases where there is a problem such as danger of abuse, states will be encouraged to find a responsible adult with whom the teen parent can live.

In order to meet the special needs of teen parents, any custodial parent under age 20 will be provided case management services. Although virtually all teen parents will be required to stay in school and participate in JOBS, the 24-month clock will not begin to run until the parent turns age 18. States also will have the option of using monetary incentives combined with sanctions as inducements to encourage young parents to remain in school or GED class.

In the end, Mr. Chairman, this is not about dollars and data. It is about values. For too long, the welfare system has been sending all the wrong messages. The Work and Responsibility Act is designed to get the values straight. It translates our values about work, responsibility, family and opportunity into a framework for action. It places new expectations and responsibilities on recipients, and on federal and state governments alike.

That is the message you started to send with the Family Support Act. It is time to fully realize that vision, and to build a bold new future based on the core values we all share.

We believe that this issue is critical -- that welfare reform is about nothing less than our vision of what kind of country we are and want to be. Do we want to be a country that encourages work over dependency? Do we want to be a country that expects our young people to act responsibly? Do we want to be a country that rewards hard work and fair play and accepts nothing less? Do we want to be a country that helps provide a brighter future for our children?

The Work and Responsibility Act of 1994 answers those questions with a resounding YES. We believe this bill will truly strengthen America's families and communities.

Mr. Chairman, you and the members of this committee have shown real leadership on this issue. I look forward to working with all of you as you begin your work on this historic

legislation. Thank you for your attention and I would be pleased to answer any questions you may have at this time.

JOBS PROGRAM

EFFECT OF CHANGE IN MATCH RATES
ON OUTLAYS OF FEDERAL DOLLARS
(millions)

	ESTIMATED FY 1994 STATE OUTLAYS	ESTIMATED FY 1994 FEDERAL OUTLAYS	ESTIMATED FY 1996 FEDERAL OUTLAYS	PERCENTAGE INCREASE	ESTIMATED FY 1997 FEDERAL OUTLAYS	PERCENTAGE INCREASE	ESTIMATED FY 1998 FEDERAL OUTLAYS	PERCENTAGE INCREASE	ESTIMATED FY 1999 FEDERAL OUTLAYS	PERCENTAGE INCREASE
Arkansas	3.5	5.3	7.0	31%	8.2	54%	8.7	63%	9.3	74%
Delaware	1.4	2.2	2.8	15%	2.8	15%	2.8	26%	3.1	38%
Iowa	3.9	6.6	8.1	24%	8.1	24%	8.9	36%	9.8	50%
Kansas	5.1	7.0	9.0	28%	9.6	38%	10.5	48%	11.5	63%
Louisiana	7.2	17.4	22.9	32%	24.9	43%	28.1	61%	30.3	74%
Maine	3.4	4.3	7.4	74%	7.4	74%	8.1	91%	9.0	110%
Michigan	41.0	59.4	76.2	28%	76.2	28%	83.3	40%	91.3	54%
Minnesota	9.5	15.1	17.7	17%	17.7	17%	19.3	28%	21.2	41%
Missouri	6.9	11.0	12.8	16%	12.8	16%	14.0	27%	15.4	39%
Montana	1.2	3.1	3.9	23%	3.9	23%	4.3	38%	4.9	56%
New Jersey	19.0	28.8	35.3	22%	35.3	22%	38.6	34%	42.3	47%
New York	68.1	94.9	118.7	25%	126.5	33%	138.3	46%	151.6	60%
North Dakota	0.8	1.8	2.4	28%	2.4	29%	2.6	43%	2.9	60%
Oklahoma	5.3	10.1	12.9	27%	15.1	49%	16.0	58%	17.1	69%
Oregon	6.4	12.0	13.3	10%	13.3	10%	14.5	21%	16.0	33%
Rhode Island	3.1	4.6	5.7	24%	5.7	24%	6.2	35%	6.8	49%
South Dakota	0.7	1.8	1.9	3%	1.9	3%	2.1	15%	2.3	28%
Utah	2.2	4.9	6.3	28%	7.4	50%	7.9	59%	8.4	69%
West Virginia	3.8	10.9	14.7	35%	14.7	35%	16.7	54%	19.2	77%
Wyoming	1.0	1.7	2.0	20%	2.0	20%	2.2	32%	2.4	45%

NOTE: FY 1998-1999 estimates assume states spend the lesser of their FY 1994 level of spending OR the level of spending subject to draw-downs. For the illustration under the enhanced match rate.

CHILD CARE PROGRAMS

EFFECT OF CHANGE IN MATCH RATES
ON OUTLAYS OF FEDERAL DOLLARS
(millions)

	ESTIMATED FY 1994 STATE OUTLAYS	ESTIMATED FY 1994 FEDERAL OUTLAYS	ESTIMATED FY 1996 FEDERAL OUTLAYS	PERCENTAGE INCREASE	ESTIMATED FY 1997 FEDERAL OUTLAYS	PERCENTAGE INCREASE	ESTIMATED FY 1998 FEDERAL OUTLAYS	PERCENTAGE INCREASE	ESTIMATED FY 1999 FEDERAL OUTLAYS	PERCENTAGE INCREASE
Arkansas	1.4	4.1	5.0	22%	5.2	27%	5.9	42%	6.6	61%
Delaware	4.2	4.2	6.8	64%	7.7	85%	8.4	103%	9.2	123%
Iowa	3.4	5.9	7.1	21%	7.1	21%	7.8	33%	8.6	46%
Kansas	7.1	10.5	13.2	26%	13.2	26%	14.5	38%	15.9	51%
Louisiana	8.2	22.8	28.3	15%	28.6	25%	32.1	41%	35.8	57%
Maine	1.6	2.6	3.3	29%	3.4	32%	3.7	45%	4.1	60%
Michigan	20.3	26.3	37.2	42%	37.8	44%	41.3	57%	45.3	72%
Minnesota	16.0	19.3	26.8	49%	29.7	54%	32.5	66%	35.6	85%
Missouri	14.3	22.0	26.5	21%	26.5	21%	29.0	32%	31.8	44%
Montana	1.3	3.2	3.8	19%	4.1	28%	4.6	43%	5.1	60%
New Jersey	18.7	18.7	30.6	64%	34.7	85%	38.0	103%	41.7	123%
New York	84.7	84.7	138.6	64%	156.8	85%	171.9	103%	188.5	123%
North Dakota	1.1	2.7	3.0	14%	3.0	14%	3.4	27%	3.8	42%
Oklahoma	12.4	29.5	34.5	17%	37.3	27%	41.6	41%	46.8	59%
Oregon	8.0	13.2	16.6	26%	16.6	26%	18.2	38%	20.0	52%
Rhode Island	5.0	5.9	8.7	48%	9.3	59%	10.2	74%	11.2	91%
South Dakota	1.3	2.9	3.4	17%	3.4	19%	3.8	32%	4.2	47%
Utah	4.5	13.2	15.1	14%	16.6	26%	18.5	40%	20.5	56%
West Virginia	2.2	6.9	7.9	14%	8.6	25%	9.6	39%	10.7	55%
Wyoming	1.5	2.9	3.2	11%	3.2	11%	3.5	21%	3.9	34%

DEPARTMENT OF HEALTH AND HUMAN SERVICES
ASSISTANT SECRETARY FOR PLANNING AND EVALUATION



WR - Testimony

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STATEMENT BY

DONNA SHALALA

SECRETARY

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

BEFORE THE

COMMITTEE ON FINANCE

U.S. SENATE

JULY 13, 1994

STATEMENT BY
DONNA SHALALA
SECRETARY
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
BEFORE THE
COMMITTEE ON FINANCE
U.S. SENATE
JULY 13, 1994

Thank you Mr. Chairman and members of the Committee for the invitation to appear before you today. I am very pleased that the Finance Committee is holding a hearing on the Work and Responsibility Act of 1994 so soon after its introduction.

I am joined here today by two of the key architects of this legislation, Dr. Mary Jo Bane, HHS Assistant Secretary for Children and Families, and Dr. David Ellwood, HHS Assistant Secretary for Planning and Evaluation. Together with Bruce Reed, Deputy Assistant to the President for Domestic Policy, Drs. Bane and Ellwood have co-chaired a task force appointed by the President that sought the advice of several hundred experts, welfare recipients, and service providers in the design of this visionary plan.

Welfare as we know it has become a national tragedy. More than 14 million Americans depend on monthly welfare checks that now cost taxpayers more than \$22 billion dollars each year. In

the last five years alone, well over 3 million recipients have been added to the AFDC rolls. Almost 30 percent of all births are to unmarried mothers. And nearly one in four children currently lives in poverty. Too many children grow up in households where none of the adults are working.

As you've pointed out, Mr. Chairman, a central part of the problem is the growth in the number of births to young, unmarried mothers. As one of this country's most visionary thinkers on social policy, you have long recognized the need for reform. And we are now on the threshold of change, largely because, for many years, you have kept this issue firmly in the national spotlight. For that you deserve our gratitude.

President Clinton, and many of us -- both inside and outside of his Administration -- have worked long and hard to put together this legislation. And I am proud of the result.

The Work and Responsibility Act of 1994 will fundamentally change this country's approach to helping young parents move from dependence to independence. And, equally important, it will improve the quality of life for millions of young children. America's children -- increasingly our poorest citizens -- deserve a chance to grow up to opportunity, not poverty and hopelessness.

If there is one thing that stands out the most from our nationwide hearings on this issue, it is that our current system doesn't work and nobody likes it -- least of all the people who depend most on it for help -- welfare recipients themselves. So

as Congress debates this issue, at least we know it won't be about whether or not we need welfare reform -- we all agree on that. The question is how best to go about it.

As the distinguished Chairman knows from his years of research and leadership on social policy, there is no magic solution for the complex problem of chronic welfare dependency. But that should not deter us from meeting this challenge head-on.

This issue has become even more urgent in light of some disturbing trends: more and more children today are born to teenage mothers and outside of marriage. Almost half of all single mothers receiving AFDC -- about 42 percent -- are or have been teenage mothers.

The welfare system will continue to be part of the problem rather than part of the solution unless bold changes are made. We believe we have put on the table a bold, balanced plan that will really make a difference.

Under our plan, by the year 2000, one million people will either be working or completely off welfare. Even using relatively conservative assumptions, our projections show that more than 330,000 adults who would otherwise have been on welfare will have left the rolls by that time. About 222,000 adults will be working part-time in unsubsidized jobs. And 394,000 adults will be in subsidized jobs in the WORK Program -- up from 15,000 in work experience programs now. In addition, another 873,000 recipients in the year 2000 will be in time-limited education or training programs leading to employment. And by that time,

federal child support collections will have more than doubled, from \$9 billion to \$20 billion.

Let me add that we hope to proceed on welfare reform in a bipartisan manner. In fact, there are many similarities between our bill and the two major Republican alternatives in the House and Senate. Both share the President's vision for reform, making public assistance a transitional program leading to mandatory work. Both provide funding for education, training, child care, and job creation. And both recognize that it will require an investment of time and money to move young mothers toward self-sufficiency.

Our welfare reform strategy has three overarching principles: work, responsibility, and reaching the next generation.

WORK

Under the President's welfare reform plan, welfare will be about a paycheck, not a welfare check. To reinforce and reward work, our approach is based on a simple compact. Support, job training, and child care will be provided to help people move from dependence to independence. But time limits will ensure that anyone who can work, must work -- in the private sector if possible, in a temporary, subsidized job if necessary. These reforms will make welfare a transitional system leading to work.

As a crucial ingredient of reform, support will be provided to help people keep jobs once they get them. Tax credits, health care and child care will make it possible for everyone who works to be better off than they were on welfare, and for even workers in entry-level jobs to support their families.

The key to ensuring the success of this transition from welfare to work is expanding on the success of the Job Opportunities and Basic Skills or JOBS program. JOBS is the cornerstone of the Family Support Act of 1988 (FSA), that was championed by Chairman Moynihan and then-Governor Bill Clinton.

FSA paved the way for our reforms by introducing the expectation that welfare should be a transitional period of preparation for self-sufficiency, and by recognizing the need for investment in education, training, and employment services for welfare recipients.

However, the JOBS Training program created by the FSA did not change the welfare system as much as was intended. Because of its broad exemption policy and relatively low participation rates, only a small portion of the AFDC caseload is actually required to participate in the JOBS program. Only 16 percent of mandatory participants engaged in work or training activities in fiscal year 1992. Since only 43 percent of the adult caseload are considered mandatory participants, the actual percentage of the caseload involved in the JOBS program is even smaller. In reality, few recipients, especially those at-risk of long-term

welfare dependency, are moving toward employment that will enable them to leave AFDC.

The President's Work and Responsibility Act seeks to change this by replacing AFDC with a new transitional assistance program that includes four key elements: a personal employability plan; training, education and placement assistance to move people from welfare to work; a two-year time limit; and work requirements. We also propose a significant narrowing of the participation exemptions contained in current law.

Making Welfare a Transition to Work: Building on the JOBS Program

Our philosophy is simple and fair: everyone who receives cash support must do something to help themselves. The JOBS program will be the centerpiece of the public assistance system.

From day one, the new system will focus on making young mothers self-sufficient. Each applicant will sign an agreement to move quickly toward independence in return for assistance. Working with a caseworker, each recipient will develop an employability plan -- a work and training agreement -- designed to move her into an unsubsidized job as quickly as possible. Participants who are job-ready will immediately be engaged in a job search and anyone offered a job will be required to take it. We expect that many recipients will be working well before they hit the two-year time limit.

Several mechanisms will integrate the JOBS program with other education and training programs to expand access to the system and reduce the administrative burden on States. Our plan also will ensure that even those unable to participate in education, training or work still meet certain expectations.

It is important to note that our proposal only defers people with a disability or those who need to care for a disabled child; mothers with infants under one; and certain people living in remote areas. AFDC mothers who have additional children while on assistance will be deferred for only 12 weeks after the child's birth.

In contrast, current law allows much broader exemptions for women with any child under three, young mothers under 16, and women in their second and third trimesters of pregnancy.

By the year 2000, these changes will move us from a situation in which almost three quarters (73 percent) of the target group are neither working nor expected to participate in training, to one in which more than three quarters (77 percent) of the phased-in group are either off welfare, working, or in a mandatory time-limited placement and training program.

In short, JOBS participation will be greatly expanded through increased participation rates, and JOBS participants will participate in more work experience, education, and training programs. To achieve this, we have given states and localities flexibility in designing the exact mix of JOBS program services. Employability plans may be adjusted as a family's situation

changes. But parents who refuse to stay in school, look for work or attend job training programs will be sanctioned, generally by losing their share of the AFDC grant.

In addition, the Federal cap on JOBS spending will be increased from \$1 billion to \$1.7 billion in fiscal year 1996. Over the five-year period between 1996 and the year 2000, we will increase JOBS spending by \$2.8 billion--a 56 percent increase over current spending. The capped entitlement for JOBS will rise further if the national unemployment rate reaches 7 percent or higher.

As members of this committee know, the current JOBS program is hampered by many States' inability to draw down the full amount of available Federal funds. In fact, States spent only slightly more than two-thirds (68 percent) of the total available Federal JOBS allotment in fiscal year 1992. To help States draw down their full allotment, the Federal match rate will be increased -- by five percentage points over the current JOBS match rate in 1996, rising to 10 percentage points over the current JOBS match rate by the year 2000. The minimum Federal match will be 70 percent in that year.

Specific examples best illustrate the impact of these changes: In fiscal year 1994, we estimate that New York will spend \$68 million in State monies on JOBS, which will allow it to draw down \$95 million in Federal JOBS funding. Under the new match rate, New York could maintain its current level of spending and draw down \$119 million in Federal funds in fiscal year 1996.

The same amount of State funds (\$68 million) could draw down \$127 million in fiscal year 1997 and \$152 million in fiscal year 1999 -- that is a 60 percent increase between fiscal year 1994 and fiscal year 1999. We estimate that Louisiana would experience a 74 percent increase in Federal JOBS funding between fiscal year 1994 and fiscal year 1998 under this new match, while Oregon would experience a 33 percent increase over the same period. Kansas would experience a 48 percent increase in Federal funds between fiscal year 1994 and fiscal year 1998 under the new match rate.

In addition, a single match rate for direct program costs, administrative costs and work-related supportive services will replace the current system's varying match rates. Provisions also have been incorporated that address unemployment--during periods of high State unemployment, the State match for JOBS (and WORK and At-Risk Child Care) would be reduced.

As you know, our welfare reform plan also includes the first time limits on welfare ever proposed. The cumulative two-year time limit on benefits will give both recipients and caseworkers a structure of continuous movement toward fulfilling the objectives of the employability plan and, ultimately, finding a job. We believe that only with time limits will recipients and caseworkers know unambiguously that welfare has changed forever. And only then will the focus really be on work and independence.

States will, however, be permitted to grant a limited number of extensions for completion of a GED, or for those who are

learning-disabled, illiterate, or facing other serious obstacles to employment. And in order to encourage States to meet their responsibilities, we require them to grant extensions to persons who have reached the time limit but who have not been provided employment-related services specified in their employability plan. Extensions in all of these categories will be limited to 10 percent.

The WORK Program: Work not Welfare After Two Years.

Once the time limit is reached, welfare ends and people are expected to work. We recognize that some recipients will reach the end of the two-year time limit without having found a job, despite their best efforts -- and we are committed to providing them with the opportunity to support their families if they are willing to work. Each State will be required to operate a WORK program that makes paid work assignments available to recipients who have reached the time limit for cash assistance.

The WORK program is different from "workfare" (or CWEP) programs. Workers will be receive a paycheck based on the hours they actually work. They will not be guaranteed a welfare check and sent out to a work site. Those who do not show up for work will not get paid. This is a straight-forward and radical end to the status-quo.

To move people into unsubsidized private sector jobs as quickly as possible, participants will be required to perform

extensive job search before entering the WORK program, and after each WORK assignment. No single WORK assignment will last more than 12 months and participants will typically be paid the minimum wage. States will be allowed to pursue any of a wide range of strategies to provide work for those who have reached the two-year time limit, including subsidized private-sector jobs, public-sector positions, contracts with for-profit placement firms, agreements with non-profit agencies, and microenterprise and self-employment efforts.

To create a further incentive to find an unsubsidized job, participants in subsidized WORK positions will not receive the Earned Income Tax Credit; ensuring that any unsubsidized job will pay more than a subsidized work assignment. Anyone who turns down a private sector job will be removed from the rolls, as will people who refuse to make good faith efforts to obtain available jobs.

The WORK program will begin in 1998, and it should cost \$1.2 billion in Federal dollars during the first five years. By 2000, the WORK program should serve approximately 394,000 participants, which is a dramatic expansion from the 15,000 in work experience programs today.

Supporting Working Families: The EITC, Health Care Reform, and Child Care

We recognize that a fundamental flaw in the current welfare system is that it does little to encourage work. Those who work often lose benefits dollar for dollar, face burdensome reporting requirements, and cannot save for the future because of asset limitations.

Moving people from welfare to work also means making work pay in this country -- ending the perverse incentives that lead countless people to opt for welfare over work, even though they want to enter the workforce.

Today, 70 percent of those on welfare leave the system within 2 years -- but the vast majority of them return, primarily because the low paying jobs they get do not come with essential benefits like health care and child care. We need to concentrate on two key goals: moving people off welfare and keeping them off.

To "make work pay," this Administration has focused on three critical components -- providing tax credits for the working poor, ensuring access to health insurance, and making safe child care available. We are also proposing to allow states to change earnings disregard policies to reward work and the payment of child support.

Congress has already passed the first crucial element of welfare reform by expanding the EITC, a key initiative of the Clinton Administration. The EITC is essentially a pay raise for the working poor. It means that a family with two children and a single minimum-wage worker will earn the equivalent of \$6.00 an hour with a \$4.25 an hour job. The EITC ensures that a family

with a full-time worker earning minimum wage would, with the help of food stamps, no longer be poor.

We believe that low-income individuals could benefit from receiving the EITC throughout the year, instead of in a lump-sum payment at the end of the year. Our proposal will allow up to four States to conduct demonstrations promoting the use of the advance EITC payment option by shifting the outreach and administrative burden from employers to selected public agencies.

The critical policy, of course, is guaranteed health care security for Americans. This Committee has shown great leadership in moving the health care reform debate to the floor of the U.S. Senate. I would only underscore that we can't succeed with sweeping welfare reform unless we succeed in passing health care reform first.

Studies show that 7 to 15 percent of the current welfare caseload -- at least one million adults and children -- are on welfare simply to qualify for Medicaid. And only 8 percent of those who leave welfare for work move into a job that provides health insurance.

We believe that people should not have to choose welfare over work just to get health coverage for their families. And when Congress passes health care reform, our hope is that this perverse incentive to stay on welfare will end.

The third ingredient in our strategy to make work pay is affordable, accessible, quality child care for families on cash assistance and the working poor. Parents must have dependable

child care in order to work or to prepare themselves for work. Our proposal would significantly expand child care spending. We continue to guarantee one year of transitional child care for those who leave welfare for work, and will extend child care assistance to those participating in the new WORK program. Our proposal also will significantly expand the At-Risk Child Care program for the working poor from \$300 million per year now to over \$1 billion by the year 2000.

As mentioned earlier, we will make the child care match rates consistent with the new enhanced JOBS (and WORK) match rate, allowing States to draw down increased child care funds. For example, we estimate that New York will spend a total of \$85 million in fiscal year 1994 on IV-A child care, transitional child care, and At-Risk child care. Under the current matching rates, New York would draw down the same amount (\$85 million) in Federal funds for these child care programs for that year. Under the proposed match rate, the same or even a slightly smaller amount of State dollars invested in child care in fiscal year 1999 would draw down \$189 million in federal dollars -- an increase of 123 percent. Louisiana would experience a 57 percent increase in Federal child care funding between fiscal year 1994 and fiscal year 1999 if it maintained its fiscal year 1994 spending on child care, and federal dollars for child care would increase by 52 percent in Oregon over the same period. Kansas would experience a 38 percent increase in Federal child care funding between fiscal year 1994 and fiscal year 1999.

Finally, we address quality and supply through a special provision in the At-Risk program. We will help States create seamless child care coverage for persons who leave welfare for work, and allow them to administer all federal child care funds through one agency.

Together, these elements will help ensure that the millions of recipients who leave welfare within two years will not fall back into the system. And it will be clear that work and responsibility are at the core of our values and the heart of our policies.

RESPONSIBILITY

The second pillar of our plan is responsibility: the responsibility of parents for their children; the responsibility of the system to deliver performance, not process; and the responsibility of the government to provide accountability for taxpayers.

Parental Responsibility.

We believe that mothers and fathers must be held responsible for the support of their children. Men and women must understand that parenthood brings serious obligations and that these obligations will be enforced.

While many improvements have been made to the current system, it still fails to ensure that children receive adequate support from both parents. The potential for child support collections is approximately \$48 billion per year. Yet only \$14 billion is actually paid, leading to a collection gap of about \$34 billion. We are proposing the toughest child support system ever to make sure fathers pay their child support. It is simply not acceptable for non-custodial parents to walk away from the children they helped bring into this world.

Establishing awards in every case is the first step toward ensuring that children receive financial support from noncustodial parents. Paternity must be established for every out-of-wedlock birth, regardless of welfare status. Our proposal would greatly expand outreach and public education programs that encourage voluntary paternity establishment, and build on existing hospital-based programs. The genetic testing process will be further streamlined for cases where paternity is contested.

In addition, mothers who apply for AFDC benefits must cooperate fully with paternity establishment procedures prior to receiving benefits. Except in rare circumstances in which paternity establishment is not in the child's best interest, anyone who refuses to cooperate will be denied AFDC benefits. We are proposing to systematically apply a new, stricter definition of cooperation in every AFDC case.

The child support agency -- which has the most expertise and most at stake will administer this new cooperation requirement within each state. When mothers have fully cooperated, the State must establish paternity and will be given one year to do so or risk losing a portion of its federal match for AFDC benefits. Performance-based incentives will encourage States to improve their paternity establishment rates for all out-of-wedlock births, regardless of welfare status.

Fair awards also are crucial to getting support to children who need it. Periodic updating of awards will be required for both AFDC and non-AFDC cases, so that awards accurately reflect the parents' current income. In addition, a National Guidelines Commission will be established to assess the desirability of uniform national child support guidelines or national parameters for State guidelines.

Many enforcement tools will allow States to collect support more effectively. The state-based child support enforcement system will continue, but with changes to move it toward a more uniform, centralized, and service-oriented program. All states will maintain a central registry and centralized collection and disbursement capabilities. The registry will maintain current records of all support orders and operate in conjunction with a centralized payment center for the collection and distribution of child support payments.

Centralized collection also will vastly simplify withholding for employers since they will have to send payments only to one

source. In addition, this change will ensure accurate accounting and monitoring of payments.

The federal role will be expanded to ensure more efficient location of the noncustodial parent and enforcement of orders, particularly in interstate cases. In order to coordinate activity at the federal level and to track delinquent parents across state lines, a National Clearinghouse will be established. This Clearinghouse will consist of an expanded Federal Parent Locator Service, the National Child Support Registry, and the National Directory of New Hires. A stronger federal role in interstate enforcement will make interstate procedures more uniform throughout the country.

Enforcement measures will include revocation of professional, occupational and drivers' licenses to make delinquent parents pay child support; expanded wage withholding; improved use of income and asset information; expanded use of credit reporting; and authority to use the same wage garnishment procedures for federal and non-federal employees.

Our proposal also recognizes the problem absent parents sometimes face in getting work and their genuine desire to help support their children. We propose allowing states to allocate up to 10 percent of their JOBS and WORK funds for programs for non-custodial parents.

The proposal contains several other measures aimed at encouraging parental responsibility. In addition, we are

proposing a limited number of time-limited parenting, access and visitation, and child support assurance demonstrations.

States can choose to lift the special eligibility requirements for two-parent families in order to encourage parents to stay together. States also will be given the option to limit additional benefits for additional children conceived by mothers on AFDC (the "family cap"). States that choose this option will be required to allow families to "earn back" the lost benefit amount through disregarded income from earnings or child support.

Performance: Not Process.

The Administration's plan demands greater responsibility from the welfare office itself. Unfortunately, the current system too often focuses on simply sending out welfare checks. Instead, the welfare office must become a place that is about helping people find work and earn paychecks as quickly as possible. Our plan offers several provisions designed to help agencies reduce paperwork and focus on results.

In order to better coordinate and simplify program administration, we have proposed several changes in program rules designed to simplify and standardize disparate Food Stamp and AFDC policy rules. Funding incentives and penalties will be directly linked to the performance of states and caseworkers in service provision, job placement, and child support collection.

Accountability for Taxpayers.

To eliminate fraud and ensure that every dollar is used productively, welfare reform will coordinate programs, automate files, and monitor recipients. We propose several new fraud control measures. States will be required to verify the income, identity, alien status, and Social Security numbers of new applicants. A national public assistance clearinghouse will follow individuals whenever and wherever they use welfare, monitoring compliance with time limits and work. A national "new hire" registry will monitor earnings to check AFDC and EITC eligibility and identify non-custodial parents who switch jobs or cross state lines to avoid paying child support. Anyone who refuses to follow the rules will face tough new sanctions, and anyone who turns down a job offer will be dropped from the rolls.

REACHING THE NEXT GENERATION

It is absolutely critical that our reforms send a strong message to the next generation. All young people must understand the importance of staying in school, living at home, preparing to work, and building a real future. And they must realize that having a child is an immense responsibility - not an easy route to independence.

Preventing Teen Pregnancy.

We recognize that welfare dependency could be significantly reduced if more young people delayed childbearing until both parents were ready and able to assume the responsibility of raising children. And we are committed to doing everything we can to prevent teenage pregnancy in the first place.

I don't have to tell you how big a challenge that is. And it would be naive to suggest that government can do it alone. We are well aware that reducing the incidence of teen pregnancy will require the involvement of every sector of our society.

The link between teen births and poverty is clear: According to an Annie E. Casey Foundation study, approximately 80 percent of the children born to teen parents who dropped out of high school and did not marry are poor. In contrast, only 8 percent of children born to married high school graduates aged 20 or older are poor.

We are proposing a number of measures, including a national campaign against teen pregnancy designed to send a clear and unambiguous message to young people about delayed sexual activity and responsible parenting. As part of that effort, we would create a national clearinghouse to provide communities and schools with models, materials, training and technical assistance. The clearinghouse will distribute what is known and evaluate new approaches.

Our legislation also would set up new grant programs to test community-based approaches to reducing teen pregnancy. And because we need to pay particular attention to areas where the

risks are greatest, we are proposing grants to set up programs in roughly 1000 middle and high schools.

We are also proposing to fund larger, more comprehensive demonstrations to simultaneously address the broader health, education, safety and employment needs of young people. These grants are intended to galvanize local efforts and inspire communities to work together.

We are absolutely committed to promoting abstinence-based programs in the schools as a key to preventing teen pregnancy. And we are equally determined to build our strategy on the best available research.

Phasing-in Young People First.

We have chosen to phase in the plan by starting with young people: those born after 1971. We chose this strategy not because young single mothers are easiest to serve, but because they are so important to our future.

The younger generation of welfare recipients is our greatest concern. Younger recipients are likely to have the longest stays on welfare. They also are the group for which there is the greatest hope of making a profound difference. We strongly believe that the best way to end welfare as we know it is to reach the next generation; to devote energy and new resources to young people first, rather than spreading our efforts so thinly that little real help is provided to anyone.

This proposal represents a radical change in how we think about and administer welfare. But to get it right requires a solid and well planned implementation strategy. Even if resources were plentiful, the lessons we learned from the Family Support Act as well as from our site visits and discussions with state administrators have convinced us that attempting to implement a time-limited transitional assistance program for the entire caseload at once would create enormous difficulties. We believe these difficulties could be avoided and the changes we envision successfully implemented by adopting this phase-in strategy.

Moreover, recent evidence from several programs serving teen mothers suggests that this population needs special attention and can be reached. By phasing in the plan with the youngest recipients first, we send a strong message of responsibility and opportunity to the next generation.

But let me be very clear about our proposal. Our legislation requires states to phase-in reform with recipients born after 1971. This implementation strategy limits the initial mandatory caseload to about one-third of the total in 1996, helping cash-strapped states enact meaningful WORK programs with time limits that can really be enforced. By the year 2000, this phase-in strategy means that half of all AFDC recipients, about 2.4 million people, will be in the new system. And by the year 2004, two-thirds will be subject to the new rules.

However, states will have the option to define the phased-in group more broadly, allowing them to apply time limits and other new rules to a larger percentage of the caseload if they wish. In addition, states will be required to serve volunteers from the non phase-in group to the extent that federal JOBS funds are available. At state option, these volunteers also may be subjected to the two-year time limit in exchange for access to services. And of course, the Family Support Act will continue to require education and training for other AFDC recipients under current JOBS rules. We believe that this approach creates a realistic partnership with the states, and sets up a meaningful approach to real welfare reform.

A Clear Message for Teen Parents.

The proposal includes several incentives for young parents designed to promote responsible behavior. Minor parents will be required to live in their parents' households unless the environment is unsafe. Minor parents are still children themselves and they ought to live with adults who can offer supervision and guidance. The welfare system should not encourage young people who have babies to leave home, set up separate households and receive separate checks. In such cases where there is a problem such as danger of abuse, states will be encouraged to find a responsible adult with whom the teen parent can live.

In order to meet the special needs of teen parents, any custodial parent under age 20 will be provided case management services. Although virtually all teen parents will be required to stay in school and participate in JOBS, the 24-month time clock will not begin to run until the parent turns age 18. States also will have the option of using monetary incentives combined with sanctions as inducements to encourage young parents to remain in school or GED class.

In the end, Mr. Chairman, this is not about dollars and data. It is about values. For too long, the welfare system has been sending all the wrong messages. The Work and Responsibility Act is designed to get the values straight. It translates our values about work, responsibility, family and opportunity into a framework for action. It places new expectations and responsibilities on recipients, and federal and state governments alike.

That is the message you started to send with the Family Support Act. It is time to fully realize that vision, and to build a bold new future based on the core values we all share.

We believe that this issue is critical -- that welfare reform is about nothing less than our vision of what kind of country we are and want to be. Do we want to be a country that encourages work over idleness? Do we want to be a country that expects our young people to act responsibly? Do we want to be a country that rewards hard work and fair play and accepts nothing

less? Do we want to be a country that helps provide a brighter future for our children?

The Work and Responsibility Act of 1994 answers those questions with a resounding YES. We believe this bill will truly strengthen America's families and communities.

Mr. Chairman, you and the members of this committee have shown real leadership on this issue. I look forward to working with all of you as you begin your work on this historic legislation. Thank you for your attention and I would be pleased to answer any questions you may have at this time.

WR-Testimony



DEPARTMENT OF HEALTH & HUMAN SERVICES.

A fax message from:

Melissa T. Skolfield
Deputy Assistant Secretary for Public Affairs

Phone: (202) 690-6853 Fax: (202) 690-5673

To: *Bruce Reed*

DPC

Fax: *456-7431* Phone: _____

Date: *7/11/94* Total number of pages sent: *15*

Comments:

July 11

Bruce:

As discussed, here is the short version of the testimony, which will be used as the Secretary's oral remarks. It follows the long version, which Rich has sent to OMB for clearance.

If you have any comments on either, please let me know.
Thanks. Melissa

Statement

Donna E. Shalala

U.S. Secretary of Health and Human Services

at

Senate Finance Committee

July 13, 1994

1

Thank you Mr. Chairman and members of the Committee for the invitation to appear before you today.

I am very pleased that the Finance Committee is holding a hearing on the Work and Responsibility Act of 1994 so soon after its introduction.

I am joined here today by two of the key architects of this legislation: Dr. Mary Jo Bane, HHS Assistant Secretary for Children and Families, and Dr. David Ellwood, HHS Assistant Secretary for Planning and Evaluation. They will assist me in responding to your questions.

Together with Bruce Reed, Deputy Assistant to the President for Domestic Policy, Drs. Bane and Ellwood have co-chaired the President's welfare reform task force that collected the advice of several hundred experts, welfare recipients, and service providers in the design of this visionary plan.

I have submitted a more detailed statement for the record, and will concentrate in my oral remarks on the plan's underlying themes and principles.

Welfare as we know it has become a national tragedy:

2

More than 14 million Americans depend on monthly welfare checks that now cost taxpayers more than \$22 billion dollars each year. In the last five years alone, well over 3 million recipients have been added to the AFDC rolls.

And as you've pointed out, Mr. Chairman, a central part of the problem is the growth in the number of births to young, unmarried mothers. ^{illegal abortion}

Today, more than 30 percent of all births are to unmarried mothers. And one in four children currently lives in poverty.

As one of this country's most visionary thinkers on social policy, Mr. Chairman, you have long recognized the need for reform.

And we are now on the threshold of change, largely because, for many years, you have kept this issue firmly in the national spotlight.

For that you deserve our gratitude.

President Clinton, and many of us -- both inside and outside of his Administration -- have worked long and hard to put together this legislation. And I am proud of the result.

The Work and Responsibility Act of 1994 will fundamentally change this country's approach to helping young parents move from dependence to independence.

And, equally as important, it will also improve the quality of life for millions of young children.

America's children -- increasingly our poorest citizens -- deserve a chance to grow up to opportunity, not poverty and hopelessness.

If there is one thing that stands out the most from our nationwide hearings on this issue, it is that our current system doesn't work, and nobody likes it -- least of all the people who look to it for help -- welfare recipients themselves.

So as Congress debates this issue, at least we know it won't be about whether or not we need welfare reform -- we all agree on that.

The question is how best to go about it.

And, as the distinguished Chairman knows from his years of research and leadership in social policy, there is no magic solution for the complex problem of chronic welfare dependency.

But that should not deter us from meeting this challenge head-on.

This issue has become even more urgent in light of some disturbing trends: more and more children today are born outside of marriage.

And, according to a May, 1994 GAO report, almost half of all single women receiving AFDC -- about 42 percent -- are now, or have been teenage mothers.

The welfare system will continue to be part of the problem rather than part of the solution unless bold changes are made.

We believe we have put on the table a bold and balanced plan that will really make a difference.

Under our plan, by the year 2000, one million people will either be working or completely off welfare.

Even using relatively conservative assumptions, our projections show that by the year 2000 more than 330,000 adults who would otherwise have been on welfare will have left the rolls.

222,000 parents will be working part-time in unsubsidized jobs.

And 394,000 adults will be in subsidized jobs in the WORK Program -- up from 15,000 now.

In addition, another 873,000 recipients in the year 2000 will be in time-limited education or training programs leading to employment.

And by that time, federal child support collections will have more than doubled, from \$9 billion to \$20 billion.

Let me add that we do hope to proceed on welfare reform in a bipartisan manner. In fact, there are similarities between our bill and the two major Republican alternatives in the House and Senate.

Both share the President's vision for reform, making public assistance a transitional program leading to mandatory work.

Both provide funding for education, training, child care, and job creation.

And both recognize that it will require an investment of time and money to move young mothers toward self-sufficiency.

Our welfare reform strategy has three overarching principles: work, responsibility, and reaching the next generation.

First, work.

Under the President's plan, welfare will be about a paycheck, not a welfare check.

From day one, the new system will focus on making young mothers self-sufficient.

Each recipient will join with her caseworker in designing an employability plan -- a work and training agreement -- designed to move ^{her} them into a real job as quickly as possible.

And we expect that many recipients will be working well before they hit the two-year time limit.

The key to ensuring the success of this transition from welfare to work is expanding on the JOBS program, which is the cornerstone of the Family Support Act of 1988 that was championed by Chairman Moynihan and then-Governor Bill Clinton.

Under our proposal, we would increase funding for the JOBS Program by \$2.8 billion dollars by the year 2000. And to help

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states draw down the full amount of available federal funds, we will also increase the federal match.

Moving people from welfare to work also means making sure that work pays in this country -- ending the perverse incentives that lead countless people to opt for welfare over work, even though they want to enter the workforce.

Today, 70 percent of those on welfare leave the system within 2 years -- but the vast majority of them return, primarily because the low paying jobs they get do not come with essential benefits like health care and child care.

So we need to concentrate both on moving people off welfare and on keeping them off.

There are three major steps to making sure that work pays in this country -- and the President and Congress have already taken the first one:

Last summer's \$21 billion dollar expansion of the Earned Income Tax Credit was a giant step toward making it possible for low-wage workers to lift themselves and their families out of poverty -- and avoid having to go on welfare in the first place.

When fully implemented, the EITC expansion will effectively make a \$4.25 per hour minimum wage job pay nearly \$6.00 per hour for a family with two children.

The second step in our strategy to make work pay is to provide affordable, accessible child care for families on cash assistance and for working-poor families.

The next step, of course, is guaranteed health care security for all Americans.

This Committee has shown great leadership in moving the health care reform debate to the floor of the Senate.

I would only underscore that we can't succeed with sweeping welfare reform unless we succeed in passing health care reform.

Studies show that 7 to 15 percent of the current welfare caseload -- at least one million adults and children -- are on welfare simply to qualify for Medicaid.

And only 8 percent of those who leave welfare for work move into a job that provides health insurance.

We believe that people should not have to choose welfare over work just to get health coverage for their families. And

when Congress passes health care reform, our hope is that this perverse incentive to stay on welfare will end.

These elements will help ensure that the millions of recipients who leave welfare within two years will not fall back into the system.

And with them in place, we believe it is fair to expect able-bodied recipients to go to work within two years.

This is an EMTALA
And let me be very clear on this point: after two years, traditional welfare ends. The only way to get cash support is to go to work -- preferably in an unsubsidized private sector job, but if necessary in a subsidized work program. And we're talking about work for wages -- not workfare.

Simply put, our proposal ensures that after a maximum of two years of transitional aid, if you don't work, you don't get paid. This is a straightforward and radical end to the status quo.

The second pillar of our plan is responsibility -- responsibility for both parents.

We believe that mothers and fathers must be held responsible for the support of their children.

10

Our plan provides time-limited benefits for teenage mothers -- but only if they live with their parents or a responsible adult, identify their child's father, and stay in school.

At the same time, we are putting in place stringent new sanctions to make sure fathers pay child support -- because it is not acceptable for fathers to walk away from the children they helped bring into the world.

But in addition to requiring responsibility after the fact, we are committed to doing everything we can to prevent teenage pregnancy in the first place.

That brings me to our third goal: reaching the next generation.

Working to prevent teen pregnancy and out-of-wedlock births is a critical part of our plan.

I don't have to tell you how big a challenge that is. And it would be naive to suggest that government can do it alone. We are well aware that reducing the incidence of teen pregnancy will require the involvement of every sector of society.

11

The link between teen births and poverty is clear: According to an Annie E. Casey Foundation study, approximately 80 percent of the children born to teen parents who dropped out of high school and did not marry are poor.

In contrast, only 8 percent of children born to married high school graduates aged 20 or older are poor.

We are absolutely committed to promoting abstinence-based programs in the schools as a key to preventing teen pregnancy. And we are equally determined to build our strategy on the best available research.

Our legislation would set up a new grant program to test and rigorously evaluate comprehensive, community-based approaches to reducing teen pregnancy. These grants are intended to galvanize local efforts and inspire communities to work together.

We would also set up a national clearinghouse to allow states to share ideas and findings.

Mr. Chairman, we believe that the goal of reaching out first to the next generation is both socially responsible and fiscally wise.

12

Our plan correctly targets initial resources to young women with the most at risk -- and the most to gain.

By phasing in young parents first, we can effectively begin to break the cycle of dependency.

But although we initially limit the requirements placed on cash-strapped states and local governments, we will also allow any state to phase-in time limits and other new rules faster if they wish.

And, by emphasizing the necessity of staying in school, postponing pregnancy, and preparing for work --

-- we are sending a clear message to the next generation that welfare as we know it is history.

Overall, our approach combines real supports and real incentives with real sanctions.

We believe that this issue is critical -- that welfare reform is about nothing less than our vision of what kind of country we want to be.

Do we want to be a country that encourages work over idleness?

13

Do we want to be a country that expects our young people to act responsibly?

Do we want to be a country that rewards hard work and fair play and accepts nothing less?

Do we want to be a country that helps *gives our children strong families* provide a brighter future for our children?

The Work and Responsibility Act of 1994 answers those questions with a resounding YES, and we believe this bill will truly strengthen America's families and communities.

Mr. Chairman, you and the members of this committee have shown real leadership on this issue.

I look forward to working with all of you as you begin your work on this historic legislation.

Thank you for your attention and I would be pleased to answer any question you may have at this time.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503

*WR -
Testimony*

July 11, 1994

LEGISLATIVE REFERRAL MEMORANDUM

LRM #I-3199

TO: Legislative Liaison Officer -

AGRIC-CR - Vince Ansell (all testimony) - (202)720-7095 - 230
EDUCATION - John Kristy - (202)401-2670 - 207
JUSTICE - Sheila F. Anthony - (202)514-2141 - 217
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TREASURY - Richard S. Carro - (202)622-1146 - 228

FROM: JANET R. FORSGREN (for) *Janet R. Forsgren*
Assistant Director for Legislative Reference

OMB CONTACT: Chris MUSTAIN (395-3923)
Secretary's line (for simple responses): 395-7362

SUBJECT: HHS Proposed Testimony RE: S 2224, Work and
Responsibility Act of 1994

DEADLINE: 3:30 PM July 12, 1994

COMMENTS: The attached testimony will be given before the
Senate Finance Committee on Wednesday, July 14th.

OMB requests the views of your agency on the above subject before
advising on its relationship to the program of the President, in
accordance with OMB Circular A-19.

Please advise us if this item will affect direct spending or
receipts for purposes of the the "Pay-As-You-Go" provisions of
Title XIII of the Omnibus Budget Reconciliation Act of 1990.

CC:

Isabel Sawhill
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Bernie Martin
Stacy Dean
Mike Ruffner
Lester Cash
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Barry White

Barry Clendenin
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Jeremy Ben-Ami
David Levine
Mark Mazur
Paul Dimond
Pat Griffin
Janet Forsgren

STATEMENT BY
DONNA SHALALA
SECRETARY
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

BEFORE THE

COMMITTEE ON FINANCE

U.S. SENATE

JULY 13, 1994

STATEMENT BY

DONNA SHALALA

SECRETARY

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

BEFORE THE

COMMITTEE ON FINANCE

U.S. SENATE

JULY 13, 1994

Thank you Mr. Chairman and members of the Committee for the invitation to appear before you today. I am very pleased that the Finance Committee is holding a hearing on the Work and Responsibility Act of 1994 so soon after its introduction.

Welfare as we know it has become a national tragedy. More than 14 million Americans depend on monthly welfare checks that now cost taxpayers more than \$22 billion dollars each year. In the last five years alone, well over 3 million recipients have been added to the AFDC rolls. Almost 30 percent of all births are to unmarried mothers. And one in four children currently lives in poverty. Too many children grow up in households where none of the adults are working.

And as you've pointed out, Mr. Chairman, a central part of the problem is the growth in the number of births to young, unmarried mothers. As one of this country's most brilliant and visionary thinkers on social policy, you have long recognized the

need for reform. And we are now on the threshold of change, largely because, for many years, you have kept this issue firmly in the national spotlight. For that you deserve our gratitude.

President Clinton, and many of us -- both inside and outside of his Administration -- have worked long and hard to put together this legislation. And I am proud of the result.

The Work and Responsibility Act of 1994 will fundamentally change this country's approach to helping young parents move from dependence to independence. And it will also improve the quality of life for millions of young children. America's children -- increasingly our poorest citizens -- deserve a chance to grow up to opportunity, not poverty and hopelessness.

If there is one thing that stands out the most from our nationwide hearings on this issue, it is that our current system doesn't work, and nobody likes it -- least of all the people who look to it for help -- welfare recipients themselves. So as Congress debates this issue, (at least) we know it won't be about whether or not we need welfare reform -- we all agree on that. The question is how best to do it.

And, as the distinguished Chairman knows from his years of research and leadership in social policy, there is no magic solution for the complex problem of chronic welfare dependency. But that should not deter us from meeting this challenge head-on.

This issue has become even more urgent in light of some disturbing trends: more and more children today are born to teenage mothers and outside of marriage. Almost half of all

single mothers receiving AFDC -- about 42 percent -- are or have been teenage mothers.

The welfare system will continue to be part of the problem rather than part of the solution unless bold changes are made. We believe we have put on the table a bold, balanced, centrist plan that will really make a difference.

Under our plan, by the year 2000, one million people will either be working or completely off welfare. Even using relatively conservative assumptions, our projections show that by the year 2000 more than 330,000 people who would otherwise have been on welfare will have left the rolls. 222,000 parents will be working part-time in unsubsidized jobs. And 394,000 people will be in subsidized jobs in the WORK Program -- up from 15,000 now. In addition, another 873,000 recipients in the year 2000 will be in time-limited school or training programs leading to employment. And by that time, federal child support collections will have more than doubled, from \$9 billion to \$20 billion.

Let me add that we do hope to proceed on welfare reform in a bipartisan manner. In fact, there are *considerable* similarities between our bill and the major Republican alternatives in the House and Senate. Both follow the President's vision for reform, making public assistance a transitional program leading to mandatory work. Both provide funding for education, training, child care, and job creation. And both recognize that it will require an investment of time and money to move young mothers toward self-sufficiency.

Our welfare reform strategy has three major organizing principles: work, responsibility, and reaching the next generation.

WORK

Under the President's welfare reform plan, welfare will be about a paycheck, not a welfare check. To reinforce and reward work, our approach is based on a simple compact. Support, job training, and child care will be provided to help people move from dependence to independence. But time limits will ensure that anyone who can work, must work -- in the private sector if possible, in a temporary, subsidized job if necessary. These reforms will make welfare a transitional system leading to work.

The key to ensuring the success of this transition from welfare to work is expanding on the success of the JOBS program, which is the cornerstone of the Family Support Act of 1988 that was championed by Chairman Moynihan and then-Governor Bill Clinton.

The Family Support Act of 1988 (FSA) paved the way for our reforms by introducing the expectation that welfare should be a transitional period of preparation for self-sufficiency, and by recognizing the need for investment in education, training, and employment services for welfare recipients.

However, the Job Opportunities and Basic Skills (JOBS) Training program created by the FSA did not change the welfare

~~We have seen that it can work, where it~~
The FSA has worked best where ~~it has~~ states have used it to change the culture of the welfare office away from writing checks ^{and} toward making people as quickly as possible into work. The Riverside County program, which puts an extraordinary emphasis on helping recipients work, has saved ~~money~~

\$2.84 for every dollar spent according to recent study by JBS

system as much as was intended. Because of its broad exemption policy, only a small portion of the AFDC caseload is actually required to participate in the JOBS program. Only 16 percent of mandatory participants actually engaged in work or training activities in fiscal year 1992. Since only 43 percent of the adult caseload are considered mandatory participants, the actual percentage of the caseload involved in the JOBS program is even smaller. In reality, few recipients, especially those at risk of long-term welfare dependency, are moving toward employment that will enable them to leave AFDC.

The Work and Responsibility Act seeks to change this by replacing AFDC with a new transitional assistance program which includes four key elements: a personal employability plan; training, education and placement assistance to move people from welfare to work; a two-year time limit; and work requirements. We also propose significantly narrowing the participation exemptions in current law.

Making Welfare a Transition to Work: Building on the JOBS Program

Our philosophy is simple and fair: everyone who receives cash support must do something to help themselves. The JOBS program will be the centerpiece of the public assistance system.

From day one, the new system will focus on making young mothers self-sufficient. Each applicant will sign a compact

agreeing to move quickly toward independence in return for assistance. Working with a caseworker, each recipient will develop an employability plan -- a work and training agreement -- designed to move her into an unsubsidized job as quickly as possible. Participants who are job-ready will immediately be engaged in a job search and anyone offered a job will be required to take it. And we expect that many recipients will be working well before they hit the two-year time limit.

Several mechanisms will integrate the JOBS program with other education and training programs to expand access to the system and reduce the administrative burden to States. Our plan will also ensure that even those unable to participate in education, training or work still meet certain expectations.

It is important to note that our proposal only defers people with a disability or caring for a disabled child; mothers with infants under one; and certain people living in remote areas. AFDC mothers who have additional children while on assistance will be deferred for only 12 weeks after the child's birth.

In contrast, current law allows much broader exemptions for women with any child under three, young mothers under 16, and women in their second and third trimesters of pregnancy.

By the year 2000, these changes will move us from a situation in which almost three quarters (73 percent) of the target group are neither working nor in training, to one in which more than three quarters (77 percent) of the phased-in group are

either off welfare, working, or in a mandatory time-limited placement and training program.

In short, JOBS participation will be greatly expanded through increased participation rates, and JOBS participants will have more work experience, education, and skills. To achieve this, we have given states and localities flexibility in designing the exact mix of JOBS program services. Employability plans may be adjusted as a family's situation changes. But parents who refuse to stay in school, look for work or attend job training programs will be sanctioned, generally by losing their share of the AFDC grant.

In addition, the Federal cap on JOBS spending will be increased from \$1 billion to \$1.7 billion in fiscal year 1996. Over the five-year period between 1996 and the year 2000, we will increase JOBS spending by \$2.8 billion--a 56 percent increase over current spending. The capped entitlement for JOBS will rise if the national unemployment rate reaches 7 percent or higher.

As members of this committee know, the current JOBS program is hampered by many States' inability to draw down the full amount of available Federal funds. In fact, States spent only slightly more than two-thirds (68 percent) of the total available Federal JOBS allotment in fiscal year 1992. To help States draw down their full allotment, the Federal match rate will be increased -- by five percentage points over the current JOBS match rate in 1996, rising to 10 percentage points over the

current JOBS match rate by year 2000. The minimum Federal match will be 70 percent in that year.

Specific examples best illustrate the impact of these changes: In fiscal year 1994, we estimate that New York will spend \$68 million in State monies on JOBS, which will allow it to draw down \$95 million in Federal JOBS funding. Under the new match rate, New York could maintain its current level of spending and draw down \$119 million in Federal funds in fiscal year 1996. The same amount of State funds (\$68 million) could draw down \$127 million in fiscal year 1997 and \$152 million in fiscal year 1999 -- that is a 60 percent increase between fiscal year 1994 and fiscal year 1999. We estimate that Louisiana would experience a 74 percent increase in Federal JOBS funding between fiscal year 1994 and fiscal year 1998 under this new match and Oregon would experience a 33 percent increase over the same period.

In addition, a single match rate for direct program costs, administrative costs and work-related supportive services will replace the current system's varying match rates. Provisions have also been incorporated that address unemployment--during periods of high State unemployment, the State match for JOBS (and WORK and At-Risk Child Care) would be reduced by 10 percent.

As you know, our welfare reform plan also includes the first time limits on welfare ever proposed. The cumulative two-year time limit on benefits will give both recipients and caseworkers a structure that requires continuous movement toward

fulfilling the objectives of the employability plan and, ultimately, finding a job.

States will be permitted to grant a limited number of extensions for completion of a UED, or for those who are learning-disabled, illiterate, or facing other serious obstacles to employment. And in order to encourage States to meet their responsibilities, we require them to grant extensions to persons who have reached the time limit but who have not been provided with the employment related services specified in their employability plan. Extensions in all of these categories will be limited to 10 percent.

The WORK Program: Work not Welfare After Two Years.

We recognize that some recipients will reach the end of the two-year time limit without having found a job, despite their best efforts. We are committed to providing these people with the opportunity to support their families if they are willing to work. Each State will be required to operate a WORK program making paid work assignments available to recipients who have reached the time limit for cash assistance.

The WORK program is different from "workfare" (or CWEP) programs. Workers will be paid a paycheck based on the hours they actually work--not guaranteed a welfare check and sent out to a work site. Those who do not show up for work will not get

paid. This is a straight-forward and radical end to the status-quo.

To move people into unsubsidized private sector jobs as quickly as possible, participants will be required to perform extensive job search before entering the WORK program, and after each WORK assignment. No single WORK assignment will last more than 12 months and participants will typically be paid the minimum wage. States will be allowed to pursue any of a wide range of strategies to provide work for those who have reached the two-year time limit, including subsidized private-sector jobs, public-sector positions, contracts with for-profit placement firms, agreements with non-profit agencies, and microenterprise and self-employment efforts.

To create a further incentive to find an unsubsidized job, participants in subsidized WORK positions will not receive the Earned Income Tax Credit. Anyone who turns down a private sector job will be removed from the rolls, as will people who repeatedly refuse to make good faith efforts to obtain available jobs.

The WORK program will begin in 1998, and it should cost \$1.2 billion in Federal dollars during the first five years. By 2000, the WORK program should serve approximately 394,000 participants, up from 15,000 in work experience programs today.

Supporting Working Families: The EITC, Health Care Reform, and Child Care

We recognize that a fundamental flaw in the current welfare system is that it does little to encourage work. Those who work often lose benefits dollar for dollar, face burdensome reporting requirements, and cannot save for the future because of asset limits.

Moving people from welfare to work also means making sure that work pays in this country -- ending the perverse incentives that lead countless people to opt for welfare over work, even though they do want to enter the workforce.

Today, 70 percent of those on welfare leave the system within 2 years -- but the vast majority of them return, primarily because the low paying jobs they get do not come with essential benefits like health care and child care that would make work a better deal than welfare. So we need to concentrate both on moving people off welfare and on keeping them off.

To "make work pay," this Administration has focused on four critical components - providing tax credits for the working poor, ensuring access to health insurance, making child care available, and allowing states to change earning disregard policies to reward work and the payment of child support. This means that a family with a full-time worker earning minimum wage would, with the help of food stamps and the EITC, will be able to live above the poverty level.

We believe that low-income individuals could benefit from receiving the EITC throughout the year, instead of in a lump-sum payment at the end of the year. Our proposal will allow up to

*Applied
expansion
of EITC*

four States to conduct demonstrations promoting the use of the advance payment option of the EITC by shifting the outreach and administrative burden from employers to selected public agencies.

The critical policy, of course, is guaranteed health care security for all Americans. This Committee has shown great leadership in moving the health care reform debate to the floor of the Senate. I would only underscore that we can't succeed with sweeping welfare reform unless we succeed in passing health care reform.

Studies show that 7 to 15 percent of the current welfare caseload -- at least one million adults and children -- are on welfare simply to qualify for Medicaid. And only 8 percent of those who do leave welfare for work move into a job that provides health insurance.

We believe that people should not have to choose welfare over work just to get health coverage they need for their families. And when we Congress passes health care reform, this perverse incentive to stay on welfare will end.

The third ingredient in our strategy to make work pay is affordable, accessible, quality child care for families on cash assistance and the working poor. Parents must have dependable child care in order to work or prepare themselves for work. Our proposal would significantly expand child care spending. We continue to guarantee one year of transitional child care for those who leave welfare for work, and will extend child care assistance to those participating in the new WORK program. Our

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proposal will also significantly expand the At-Risk Child Care program for the working poor from \$300 million to over \$1 billion by the year 2000. President Clinton's 1995 budget seeks increases in the Child Care and Development Block Grant (CCDBG), currently funded at about \$630 million.

As mentioned earlier, we will make the child care match rates consistent with the new enhanced JOBS (and WORK) match rate, allowing States to draw down increased child care funds. For example, we estimate that New York will spend a total of \$85 million in fiscal year 1994 on IV-A child care, transitional child care, and At-Risk child care. Under the current matching rates, New York would draw down the same amount (\$85 million) in Federal funds for those child care programs in that year. Under the proposed match rate, the same or even slightly smaller amount of State dollars invested in child care in fiscal year 1999 would draw down \$189 million in Federal dollars -- an increase of 123 percent. Louisiana would experience a 57 percent increase in Federal child care funding between fiscal year 1994 and fiscal year 1999 if it maintained its fiscal year 1994 spending on child care, and Federal dollars for child care would increase by 52 percent in Oregon over the same period.

Finally, we address quality and supply through a special provision in the At-Risk program. We will help States create seamless child care coverage for persons who leave welfare for work, and allow them to place all Federal child care funding in one agency.

These elements will help ensure that the millions of recipients who leave welfare within two years will not fall back into the system.

RESPONSIBILITY

Parental Responsibility.

The second pillar of our plan is responsibility. We believe that mothers and fathers must be held responsible for the support of their children. Men and women must understand that parenthood brings clear obligations and that these obligations will be enforced.

While many improvements have been made to the current system, it still fails to ensure that children receive adequate support from both parents. The potential for child support collections is approximately \$48 billion per year. Yet only \$14 billion is actually paid, leading to a collection gap of about \$34 billion. We are putting in place stringent new sanctions to make sure fathers pay their child support -- because it is not acceptable for fathers to walk away from the children they helped bring into this world.

Establishing awards in every case is the first step to ensuring that children receive financial support from noncustodial parents. Paternity must be established for every out-of-wedlock birth, regardless of welfare status. Our proposal

would greatly expand outreach and public education programs encouraging voluntary paternity establishment, building on hospital-based programs. The genetic testing process will be further streamlined for cases where paternity is contested.

In addition, mothers who apply for AFDC benefits must cooperate fully with paternity establishment procedures prior to receiving benefits. Except in rare circumstances where paternity establishment is not in the child's best interest, anyone who refuses to cooperate will be denied AFDC benefits. We are proposing to systematically apply a new, stricter definition of cooperation in every AFDC case.

The child support agency -- which has the expertise and most at stake rather than the welfare agency, will administer this new cooperation requirement. When mothers have fully cooperated, the State must establish paternity and will be given one year to do so or risk losing a portion of its Federal match for AFDC benefits. Performance-based incentives will encourage States to improve their paternity establishment rates for all out-of-wedlock births, regardless of welfare status.

Ensuring fair awards is also crucial to getting support to children who need it. Periodic updating of awards will be required for both AFDC and non-AFDC cases, so that awards accurately reflect the parents' current income. In addition, a National Guidelines Commission will be established to assess the desirability of uniform national child support guidelines or national parameters for State guidelines.

Many enforcement tools will allow states to collect support more effectively. The State-based child support enforcement system will continue, but with changes to move it toward a more uniform, centralized, and service-oriented program. All States will maintain a central registry and centralized collection and disbursement capability. The registry will maintain current records of all support orders and operate in conjunction with a centralized payment center for the collection and distribution of child support payments.

Centralized collection will also vastly simplify withholding for employers since they will have to send payments to only one source. In addition, this change will ensure accurate accounting and monitoring of payments.

The Federal role will be expanded to ensure more efficient location of the noncustodial parent and enforcement of orders, particularly in interstate cases. In order to coordinate activity at the Federal level and to track delinquent parents across State lines, a National Clearinghouse will be established. This Clearinghouse will consist of an expanded Federal Parent Locator Service, the National Child Support Registry, and the National Directory of New Hires. A stronger Federal role in interstate enforcement will make interstate procedures more uniform through the country.

Enforcement measures will include revoking professional, occupational and drivers' licenses to make delinquent parents pay child support, expanded wage withholding, improved use of income

and asset information, expanded use of credit reporting, and authority to use the same wage garnishment procedures for Federal and non-Federal employees.

States can require those without means CS obligations to work off the support they owe.

The proposal contains several other measures aimed at encouraging parental responsibility. In addition, we are proposing a limited number of time-limited parenting, access and child support assurance demonstrations.

States can choose to lift the special eligibility requirements for two-parent families in order to encourage parents to stay together. States will also be given the option to limit additional benefits for additional children conceived by mothers on AFDC (the "family cap"). States choosing this option will be required to allow families to "earn back" the lost benefit amount through disregarded income from earnings or child support.

Performance: Not Pressed.

The Administration's plan demands greater responsibility of the welfare office itself. Unfortunately, the current system too often focuses on simply sending out welfare checks. Instead, the welfare office must become a place that is about helping people earn paychecks as quickly as possible. Our plan offers several provisions designed to help agencies reduce paperwork and focus on results.

In order to better coordinate and simplify program administration, we have proposed several changes in program rules designed to simplify and standardize disparate Food Stamp and AFDC policy rules. Funding incentives and penalties will be directly linked to the performance of states and caseworkers in service provision, job placement, and child support collection.

Accountability for Taxpayers.

To eliminate fraud and ensure that every dollar is used productively, welfare reform will coordinate programs, automate files, and monitor recipients. We propose several new fraud control measures. States will be required to verify the income, identity, alien status, and Social Security numbers of new applicants. A national public assistance clearinghouse will follow individuals whenever and wherever they use welfare, monitoring compliance with time limits and work. A national "new hire" registry will monitor earnings to check AFDC and EITC eligibility and identify non-custodial parents who switch jobs or cross state lines to avoid paying child support. Anyone who refuses to follow the rules will face tough new sanctions, and anyone who turns down a job offer will be dropped from the rolls.

REACHING THE NEW GENERATION

Preventing Teen Pregnancy.

We also recognize that welfare dependency could be significantly reduced if more young people delayed childbearing until both parents were ready and able to assume the responsibility of raising children. And we are committed to doing everything we can to prevent teenage pregnancy in the first place.

I don't have to tell you how big a challenge that is. And it would be naive to suggest that government can do it alone. We are well aware that reducing the incidence of teen pregnancy will require the involvement of every sector of society.

The link between teen births and poverty is clear: According to an Annie E. Casey Foundation study, approximately 80 percent of the children born to teen parents who dropped out of high school and did not marry are poor. In contrast, only 8 percent of children born to married high school graduates aged 20 or older are poor.

Our legislation would set up a new grant program to test and rigorously evaluate comprehensive, community-based approaches to reducing teen pregnancy. These grants are intended to galvanize local efforts and inspire communities to work together. We would

also set up a national clearinghouse to allow states to share ideas and findings.

We are absolutely committed to promoting abstinence-based programs in the schools as a key to preventing teen pregnancy. And we are equally determined to build our strategy on the best available research.

Phasing-in Young People First.

We have chosen to phase in the plan by starting with young people. The younger generation of welfare recipients represents the source of our greatest concern. Younger recipients are likely to have the longest stays on welfare. They are also the group for which there is the greatest hope of making a profound difference. We strongly believe that the best way to end welfare as we know it is to reach the next generation by devoting energy and new resources to young people first, rather than spreading our efforts so thinly that little real help is provided to anyone.

This proposal represents a radical change in how we think about and administer welfare. Getting it right requires a solid and well thought out implementation approach. Even if resources were plentiful, the lessons we learned in implementing the Family Support Act as well as from our site visits and discussions with state administrators have convinced us that attempting to implement a time limited transitional assistance program for the

entire caseload at once would create enormous difficulties. We believe these difficulties could be avoided and the changes we envision successfully implemented by adopting this phase-in strategy.

Further, recent evidence from several programs serving teen mothers suggests that this population needs special attention and can be reached. Phasing in the plan starting with the youngest recipients (age 24 and under) also sends a strong message of responsibility and opportunity to the next generation, ~~that is~~ *concern to* ~~the~~ *over the* ~~the~~ *of*

But let me be very clear about our proposal. Our legislation requires states to phase-in reform with recipients born after 1971. This implementation strategy limits the initial mandatory caseload to about one-third of the total in 1996, helping cash-strapped states enact meaningful WORK programs with time limits that can really be enforced. By the year 2000, this phase-in strategy means that half of all AFDC recipients will be in the new system. And by the year 2004, two-thirds will be subject to the new rules.

However, states will have the option to define the phased-in group more broadly, allowing them to apply time limits and other new rules to a larger percentage of the caseload if they wish. In addition, states will be required to serve volunteers from the non phase-in group to the extent that federal JOBS funds are available. At state option, these volunteers may also be subjected to the two-year time limit in exchange for access to services. And of course, the Family Support Act will continue to

require education and training for other AFDC recipients under current JOBS rules. We believe that this approach creates a realistic partnership with the states, and sets up a meaningful approach to real welfare reform.

A Clear Message for Teen Parents.

The proposal includes several incentives for young parents designed to promote responsible behavior. Minor parents will be required to live in their parents' households unless the environment is unsafe. Minor parents are still children themselves and they ought to live with adults who can offer supervision and guidance. The welfare system should not encourage young people who have babies to leave home, set up separate households and receive separate checks. In such cases where there is a problem such as danger of abuse, States will be encouraged to find a responsible adult with whom the teen parent can live.

In order to meet the special needs of teen parents, any custodial parent under age 20 will be provided case management services. Although virtually all teen parents will be required to stay in school and participate in JOBS, the 24-month time clock will not begin to run until the parent turns age 18. States will also be given the option to use monetary incentives combined with sanctions as inducements to encourage young parents to remain in school or GED class.

Overall, this welfare reform proposal translates our values about work, responsibility, family and opportunity into a framework for action. It places new expectations and responsibilities on recipients, Federal and State governments alike.

We believe that this issue is critical -- that welfare reform is about nothing less than our vision of what kind of country we want to be. Do we want to be a country that encourages work over idleness? Do we want to be a country that expects our young people to act responsibly? Do we want to be a country that rewards hard work and fair play and accepts nothing less? Do we want to be a country that helps provide a brighter future for our children?

The Work and Responsibility Act of 1994 answers those questions with a resounding YES, and we believe this bill will truly strengthen America's families and communities.

Mr. Chairman, you and the members of this committee have shown real leadership on this issue. I look forward to working with all of you as you begin your work on this historic legislation. Thank you.



WR - Sen Finance
Comm HHS/HRMB
7/13/94

STATEMENT BY
DONNA SHALALA
SECRETARY

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

BEFORE THE

COMMITTEE ON FINANCE

U.S. SENATE

JULY 13, 1994

STATEMENT BY
DONNA SHALALA
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Thank you Mr. Chairman and members of the Committee for the invitation to appear before you today. I am very pleased that the Finance Committee is holding a hearing on the Work and Responsibility Act of 1994 so soon after its introduction.

I am joined here today by two of the key architects of this legislation, Dr. Mary Jo Bane, HHS Assistant Secretary for Children and Families, and Dr. David Ellwood, HHS Assistant Secretary for Planning and Evaluation. Together with Bruce Reed, Deputy Assistant to the President for Domestic Policy, Drs. Bane and Ellwood have co-chaired a task force appointed by the President that sought the advice of several hundred experts, welfare recipients, and service providers in the design of this visionary plan.

Welfare as we know it has become a national tragedy. More than 14 million Americans depend on monthly AFDC checks that now cost taxpayers more than \$22 billion dollars each year. In the

last five years alone, well over 3 million recipients have been added to the AFDC rolls. Almost 30 percent of all births are to unmarried mothers. And nearly one in four children currently lives in poverty. Too many children grow up in households where none of the adults are working.

As you've pointed out numerous times, Mr. Chairman, a central part of the problem is the growth in the number of births to young, unmarried mothers. As one of this country's most visionary thinkers on social policy, you have long recognized the need for reform. And we are now on the threshold of change, largely because, for many years, you have kept this issue firmly in the national spotlight. For that, you deserve the gratitude of every American.

President Clinton, and many of us -- both inside and outside of his Administration -- have worked long and hard to put together this legislation. And we are proud of the result.

The Work and Responsibility Act of 1994 will fundamentally change this country's approach to helping young parents move from dependence to independence. And, equally important, it will improve the quality of life for millions of young children. America's children -- increasingly our poorest citizens -- deserve a chance to grow up to opportunity, not poverty and hopelessness.

If there is one thing that stands out the most from our nationwide hearings on this issue, it is that our current system doesn't work and nobody likes it -- least of all the people who

depend most on it for help -- welfare recipients themselves. So as Congress debates this issue, we know it won't be about whether or not we need welfare reform -- we all agree on that. The question is how best to go about it.

As the distinguished Chairman knows from his years of research and leadership on social policy, there is no magic solution for the complex problem of chronic welfare dependency. But that should not deter us from meeting this challenge head-on.

This issue has become even more urgent in light of some disturbing trends: more and more children today are born to teenage mothers and outside of marriage. Almost half of all single mothers receiving AFDC -- about 42 percent -- are or have been teenage mothers.

The welfare system will continue to be part of the problem rather than part of the solution unless dramatic changes are made. We believe we have put on the table a bold, balanced plan that will really make a difference.

Under our plan, by the year 2000, almost one million people who would otherwise be on welfare will either be working or completely off welfare. Even using conservative assumptions, our projections show that more than 330,000 adults who would otherwise have been on welfare will have left the rolls by that time. About 222,000 adults will be working part-time in unsubsidized jobs. And 394,000 adults will be in subsidized jobs in the WORK Program -- up from 15,000 in work experience programs now. In addition, another 873,000 recipients in the year 2000

will be in time-limited education or training programs leading to employment. And by that time, federal child support collections will have more than doubled, from \$9 billion to \$20 billion.

Let me add that we hope to proceed on welfare reform in a bipartisan manner. In fact, there are many similarities between our bill and the two major Republican alternatives in the House and Senate. Both share the President's vision for reform, making public assistance a transitional program leading to mandatory work. Both provide funding for education, training, child care, and job creation. And both recognize that it will require an investment of time and money to move young mothers toward self-sufficiency.

Our welfare reform strategy has three overarching principles: work, responsibility, and reaching the next generation.

WORK

Under the President's welfare reform plan, welfare will be about a paycheck, not a welfare check. To reinforce and reward work, our approach is based on a simple compact. Support, job training, and child care will be provided to help people move from dependence to independence. But time limits will ensure that anyone who can work, must work -- in the private sector if possible, in a temporary, subsidized job if necessary. These reforms will make welfare a transitional system leading to work.

As a crucial ingredient of reform, support will be provided to help people keep jobs once they get them. Tax credits, health care and child care will make it possible for everyone who works to be better off than they were on welfare, and for even workers in entry-level jobs to support their families.

The key to ensuring the success of this transition from welfare to work is expanding on the success of the Job Opportunities and Basic Skills or JOBS program. JOBS is the cornerstone of the Family Support Act of 1988 (FSA), that was championed by Chairman Moynihan and then-Governor Bill Clinton.

FSA paved the way for our reforms by introducing the expectation that welfare should be a transitional period of preparation for self-sufficiency, and by recognizing the need for investment in education, training, and employment services for welfare recipients.

However, the JOBS Training program created by the FSA did not change the welfare system as much as was intended. Because of its broad exemption policy and relatively low participation rates, only a small portion of the AFDC caseload is actually required to participate in the JOBS program. Only 16 percent of mandatory participants engaged in work or training activities in fiscal year 1992. Since only 43 percent of the adult caseload are considered mandatory participants, the actual percentage of the caseload involved in the JOBS program is even smaller. In reality, few recipients, especially those at-risk of long-term

welfare dependency, are moving toward employment that will enable them to leave AFDC.

The FSA has worked best where states have used it to change the culture of the welfare office to one focusing on moving people quickly toward work and independence. The Riverside County GAIN program, for example, has significantly increased recipients' hours of work and earnings.

The President's Work and Responsibility Act seeks to change this by replacing AFDC with a new transitional assistance program that includes four key elements: a personal employability plan; training, education and placement assistance to move people from welfare to work; a two-year time limit; and work requirements. We also propose a significant narrowing of the participation exemptions contained in current law.

Making Welfare a Transition to Work: Building on the JOBS Program

Our philosophy is simple and fair: all parents who receive cash support must do something to help themselves. The JOBS program will be the centerpiece of the public assistance system.

From day one, the new system will focus on making young mothers self-sufficient. Each applicant will sign an agreement to move quickly toward independence in return for assistance. Working with a caseworker, each recipient will develop an employability plan -- a work and training agreement -- designed

to move that person into an unsubsidized job as quickly as possible. Participants who are job-ready will immediately be engaged in a job search and anyone offered a job will be required to take it. We expect that many recipients will be working well before they hit the two-year time limit.

Several mechanisms will integrate the JOBS program with other education and training programs to expand access to the system and reduce the administrative burden on States. Our plan also will ensure that even those unable to participate in education, training or work still meet certain expectations.

It is important to note that our proposal defers only people with a disability or those who need to care for a disabled child; mothers with infants under one year old; and certain people living in remote areas. AFDC mothers who have additional children while on assistance will be deferred for only 12 weeks after the child's birth.

In contrast, current law allows much broader exemptions for women with any child under three, young mothers under 16, and women in their second and third trimesters of pregnancy.

By the year 2000, these changes will move us from a situation in which almost three quarters (73 percent) of the target group are neither working nor expected to participate in training, to one in which more than three quarters (77 percent) of the phased-in group are either off welfare, working, or in a mandatory time-limited placement and training program.

In short, JOBS participation will be greatly expanded

through increased participation rates, and JOBS participants will participate in more work experience, education, and training programs. To achieve this, we have given states and localities flexibility in designing the exact mix of JOBS program services. Employability plans may be adjusted as a family's situation changes. But parents who refuse to stay in school, or look for work or attend job training programs will be sanctioned, generally by losing their share of the AFDC grant.

In addition, the Federal cap on JOBS spending will be increased from \$1 billion to \$1.7 billion in fiscal year 1996. Over the five-year period between 1996 and the year 2000, we will increase JOBS spending by \$2.8 billion--a 56 percent increase over current spending. The capped entitlement for JOBS will rise further if the national unemployment rate reaches 7 percent or higher.

As members of this committee know, the current JOBS program is hampered by many States' inability to draw down the full amount of available Federal funds. In fact, States spent only slightly more than two-thirds (68 percent) of the total available Federal JOBS allotment in fiscal year 1992. To help States draw down their full allotment, the Federal match rate will be increased -- by five percentage points over the current JOBS match rate in 1996, rising to 10 percentage points over the current JOBS match rate by the year 2000. The minimum Federal match will be 70 percent in that year.

Specific examples best illustrate the impact of these changes: In fiscal year 1994, we estimate that New York will spend \$68 million in State monies on JOBS, which will allow it to draw down \$95 million in Federal JOBS funding. Under the new match rate, New York could maintain its current level of spending and draw down \$119 million in Federal funds in fiscal year 1996. The same amount of State funds (\$68 million) could draw down \$127 million in fiscal year 1997 and \$152 million in fiscal year 1999 -- that is a 60 percent increase between fiscal year 1994 and fiscal year 1999. We estimate that Louisiana would experience a 74 percent increase in Federal JOBS funding between fiscal year 1994 and fiscal year 1998 under this new match, while Oregon would experience a 33 percent increase over the same period. Kansas would experience a 48 percent increase in Federal funds between fiscal year 1994 and fiscal year 1998 under the new match rate. For your information, I have attached to my testimony a summary of the increased amount of federal JOBS funding that states represented on the Committee could expect under our proposal.

In addition, a single match rate for direct program costs, administrative costs and work-related supportive services will replace the current system's varying match rates. Provisions also have been incorporated that address unemployment--during periods of high State unemployment, the State match for JOBS (and WORK and At-Risk Child Care) would be reduced.

As you know, President Clinton was the first person to propose national time limits on welfare benefits. The cumulative two-year time limit on benefits will give both recipients and caseworkers a structure of continuous movement toward fulfilling the objectives of the employability plan and, ultimately, finding a job. We believe that only with time limits will recipients and caseworkers know without a doubt that welfare has changed forever. And only then will the focus really be on work and independence.

States will, however, be permitted to grant a limited number of extensions for completion of an education or training program, or for those who are learning-disabled, illiterate, or facing other serious obstacles to employment. And in order to encourage States to meet their responsibilities, we require them to grant extensions to persons who have reached the time limit but who have not been provided employment-related services specified in their employability plan. Extensions in all of these categories will be limited to 10 percent.

The WORK Program: Work not Welfare After Two Years.

If the time limit is reached, welfare ends and people are expected to work. We recognize that some recipients will reach the end of the two-year limit without having found a job, despite their best efforts -- and we are committed to providing them with the opportunity to support their families if they are willing to

work. Each State will be required to operate a WORK program that makes paid work assignments available to recipients who have reached the time limit for cash assistance.

The WORK program is different from "workfare" (or CWEP) programs. Workers will receive a paycheck based on the hours they actually work. They will not be guaranteed a welfare check and sent out to a work site. Those who do not show up for work will not get paid. This is a straight-forward and radical end to the status quo.

To move people into unsubsidized private sector jobs as quickly as possible, participants will be required to perform an extensive job search before entering the WORK program, and after each WORK assignment. No single WORK assignment will last more than 12 months and participants will typically be paid the minimum wage. States will be allowed to pursue any of a wide range of strategies to provide work for those who have reached the two-year limit, including subsidized private-sector jobs, public-sector positions, contracts with for-profit placement firms, agreements with non-profit agencies, and microenterprise and self-employment efforts.

To create a further incentive to find an unsubsidized job, participants in subsidized WORK positions will not receive the Earned Income Tax Credit; ensuring that any unsubsidized job will pay more than a subsidized work assignment. Anyone who turns down a private sector job will be removed from the rolls, as will

people who refuse to make good faith efforts to obtain available jobs.

The WORK program will begin in 1998, and it should cost \$1.2 billion in Federal dollars during the first five years. By 2000, the WORK program should serve approximately 394,000 participants, which is a dramatic expansion from the 15,000 in work experience programs today.

Supporting Working Families: The EITC, Health Care Reform, and Child Care

We recognize that a fundamental flaw in the current welfare system is that it does little to encourage work. Those who work often lose benefits dollar for dollar, face burdensome reporting requirements, and cannot save for the future because of asset limitations.

Moving people from welfare to work also means making work pay in this country -- ending the perverse incentives that lead countless people to opt for welfare over work, even though they want to enter the workforce.

Today, 70 percent of those on welfare leave the system within 2 years -- but the vast majority of them return, often because the low paying jobs they get do not come with essential benefits like health care and child care. We need to concentrate on two key goals: moving people off welfare and helping them stay off.

To "make work pay," this Administration has focused on three critical components -- providing tax credits for the working poor, ensuring access to health insurance, and making safe child care available. We are also proposing to allow states to change earnings disregard policies to reward work and the payment of child support.

Congress has already passed the first crucial element of welfare reform by expanding the EITC, a key initiative of the Clinton Administration. The EITC is essentially a pay raise for the working poor. It means that a family with two children and a single minimum-wage worker will earn the equivalent of \$6.00 an hour with a \$4.25 an hour job. The EITC ensures that a family with a full-time worker earning minimum wage would, with the help of food stamps, no longer be poor.

We believe that low-income individuals could benefit from receiving the EITC throughout the year, instead of in a lump-sum payment at the end of the year. Our proposal will allow up to four States to conduct demonstrations promoting the use of the advance EITC payment option by shifting the outreach and administrative burden from employers to selected public agencies.

The critical policy, of course, is guaranteed health care security for Americans. This Committee has shown great leadership in moving the health care reform debate to the floor of the U.S. Senate. I would only underscore that we can't succeed with sweeping welfare reform unless we succeed in passing health care reform first.

Some studies suggest that 7 to 15 percent of the current welfare caseload -- at least one million adults and children -- are on welfare to qualify for Medicaid. And a 1994 Urban Institute study found that over a 20-month period, only 8 percent of those who were on AFDC and went to work were able to find a job with health insurance.

We believe that people should not have to choose welfare over work just to get health coverage for their families. And when Congress passes health care reform, our hope is that this perverse incentive to stay on welfare will end.

The third ingredient in our strategy to make work pay is affordable, accessible, high quality child care for families on cash assistance and the working poor. Parents must have dependable child care in order to work or to prepare themselves for work. Our proposal would significantly expand child care spending. We continue to guarantee one year of transitional child care for those who leave welfare for work, and will extend child care assistance to those participating in the new WORK program. Our proposal also will significantly expand the At-Risk Child Care program for the working poor from \$300 million per year now to over \$1 billion by the year 2000.

As mentioned earlier, we will make the child care match rates consistent with the new enhanced JOBS (and WORK) match rate, allowing States to draw down increased child care funds. For example, we estimate that New York will spend a total of \$85 million in fiscal year 1994 on IV-A child care, transitional

child care, and At-Risk child care. Under the current matching rates, New York would draw down the same amount (\$85 million) in Federal funds for these child care programs for that year. Under the proposed match rate, the same amount of State dollars invested in child care in fiscal year 1999 would draw down \$189 million in federal dollars -- an increase of 123 percent. Louisiana would experience a 57 percent increase in Federal child care funding between fiscal year 1994 and fiscal year 1999 if it maintained its fiscal year 1994 spending on child care, and federal dollars for child care would increase by 52 percent in Oregon over the same period. Kansas would experience a 38 percent increase in Federal child care funding between fiscal year 1994 and fiscal year 1999. For your information, I have attached to my testimony a summary of the increased amount of federal child care funds that states represented on the Committee could expect under our proposal.

Finally, we address quality and supply through a special provision in the At-Risk program. We will help States create seamless child care coverage for persons who leave welfare for work, and allow them to administer all federal child care funds through one agency.

Together, these elements will help ensure that the millions of recipients who leave welfare within two years will not fall back into the system. And it will be clear that work and responsibility are at the core of our values and the heart of our policies.

RESPONSIBILITY

The second pillar of our plan is responsibility: the responsibility of parents for their children; the responsibility of the system to deliver performance, not process; and the responsibility of the government to provide accountability for taxpayers.

Parental Responsibility.

We believe that mothers and fathers must be held responsible for the support of their children. Men and women must understand that parenthood brings serious obligations and that these obligations will be enforced.

While many improvements have been made to the current system, it still fails to ensure that children receive adequate support from both parents. The potential for child support collections is approximately \$48 billion per year. Yet only \$14 billion is actually paid, leading to an estimated collection gap of about \$34 billion. We are proposing the toughest child support system ever to make sure fathers pay their child support. It is simply not acceptable for non-custodial parents to walk away from the children they helped bring into this world.

Establishing awards in every case is the first step toward ensuring that children receive financial support from noncustodial parents. Paternity must be established for every

out-of-wedlock birth, regardless of welfare status. Our proposal would greatly expand outreach and public education programs that encourage voluntary paternity establishment, and build on existing hospital-based programs. The genetic testing process will be further streamlined for cases where paternity is contested.

In addition, mothers who apply for AFDC benefits must cooperate fully with paternity establishment procedures prior to receiving benefits. Except in rare circumstances in which paternity establishment is inappropriate, parents who refuse to cooperate will be sanctioned, generally by losing their share of AFDC benefits. We are proposing to systematically apply a new, stricter definition of cooperation in every AFDC case.

The child support agency -- which has the most expertise and most at stake -- will administer this new cooperation requirement within each State. When mothers have fully cooperated, the State must establish paternity and will be given one year to do so or risk losing a portion of its Federal match for AFDC benefits. Performance-based incentives will encourage States to improve their paternity establishment rates for all out-of-wedlock births, regardless of welfare status.

Fair awards also are crucial to getting support to children who need it. Periodic updating of awards will be required for both AFDC and non-AFDC cases, so that awards accurately reflect the parents' current income. In addition, a National Guidelines Commission will be established to assess the desirability of

uniform national child support guidelines or national parameters for State guidelines.

Many enforcement tools will allow States to collect support more effectively. The state-based child support enforcement system will continue, but with changes to move it toward a more uniform, centralized, and service-oriented program. All states will maintain a central registry and centralized collection and disbursement capabilities. The registry will maintain current records of all support orders and operate in conjunction with a centralized payment center for the collection and distribution of child support payments.

Centralized collection also will vastly simplify withholding for employers since they will have to send payments only to one source. In addition, this change will ensure accurate accounting and monitoring of payments.

The federal role will be expanded to ensure more efficient location of the noncustodial parent and enforcement of orders, particularly in interstate cases. In order to coordinate activity at the federal level and to track delinquent parents across state lines, a National Clearinghouse will be established. This Clearinghouse will consist of an expanded Federal Parent Locator Service, the National Child Support Registry, and the National Directory of New Hires. A stronger federal role in interstate enforcement will make interstate procedures more uniform throughout the country.

Enforcement measures will include revocation of professional, occupational and drivers' licenses to make delinquent parents pay child support; expanded wage withholding; improved use of income and asset information; expanded use of credit reporting; and authority to use the same wage garnishment procedures for federal and non-federal employees.

Our proposal also recognizes the problem absent parents sometimes face in getting work and their genuine desire to help support their children. We propose allowing states to allocate up to 10 percent of their JOBS and WORK funds for programs for non-custodial parents. States also will be allowed to require non-custodial parents with delinquent child support payments to work off what they owe.

The proposal contains several other measures aimed at encouraging parental responsibility. In addition, we are proposing a limited number of parenting, access and visitation, and child support assurance demonstrations.

States can choose to lift the special eligibility requirements for two-parent families in order to encourage parents to stay together. States also will be given the option to limit additional benefits for additional children conceived by mothers on AFDC (the "family cap"). States that choose this option will be required to allow families to "earn back" the lost benefit amount through disregarded income from earnings or child support.

Performance: Not Process.

The Administration's plan demands greater responsibility from the welfare office itself. Unfortunately, the current system too often focuses on simply sending out welfare checks. Instead, the welfare office must become a place that is about helping people find work and earn paychecks as quickly as possible. Our plan offers several provisions designed to help agencies reduce paperwork and focus on results.

The Secretary will phase in an outcome based system with funding incentives and penalties directly linked to the performance of states and caseworkers in service provision, job placement, and child support collection. In order to better coordinate and simplify program administration, we have also proposed several changes in program rules designed to simplify and standardize disparate Food Stamp and AFDC policy rules.

Accountability for Taxpayers.

To eliminate fraud and ensure that every dollar is used productively, welfare reform will coordinate programs, automate files, and monitor recipients. We propose several new fraud control measures. States will be required to verify the income, identity, alien status, and Social Security numbers of new applicants. A national public assistance clearinghouse will follow individuals whenever and wherever they use welfare,

monitoring compliance with time limits and work. A national "new hire" registry will monitor earnings to check AFDC eligibility and identify non-custodial parents who switch jobs or cross state lines to avoid paying child support. Anyone who refuses to follow the rules will face tough new sanctions, and anyone who turns down a job offer will be dropped from the rolls.

REACHING THE NEXT GENERATION

It is absolutely critical that our reforms send a strong message to the next generation. All young people must understand the importance of staying in school, living at home, preparing to work, and building a real future. And they must realize that having a child is an immense responsibility - not an easy route to independence.

Preventing Teen Pregnancy.

We recognize that welfare dependency could be significantly reduced if more young people delayed childbearing until both parents were ready and able to assume the responsibility of raising children. And we are committed to doing everything we can to prevent teenage pregnancy in the first place.

I don't have to tell you how big a challenge that is. And it would be naive to suggest that government can do it alone. We are well aware that reducing the incidence of unmarried teen

pregnancy will require the involvement of every sector of our society.

The link between unmarried teen births and poverty is clear: According to an Annie E. Casey Foundation study, approximately 80 percent of the children born to teen parents who dropped out of high school and did not marry are poor. In contrast, only 8 percent of children born to married high school graduates aged 20 or older are poor.

We are proposing a number of measures, including a national campaign against teen pregnancy designed to send a clear and unambiguous message to young people about delayed sexual activity and responsible parenting. As part of that effort, we would create a national clearinghouse to provide communities and schools with models, materials, training and technical assistance. The clearinghouse will distribute what is known and evaluate new approaches.

Our legislation also would set up new grant programs to test community-based approaches to reducing teen pregnancy. And because we need to pay particular attention to areas where the risks are greatest, we are proposing grants to set up programs in roughly 1000 middle and high schools.

We are also proposing to fund larger, more comprehensive demonstrations to simultaneously address the broader health, education, safety and employment needs of young people. These grants are intended to galvanize local efforts and inspire communities to work together.

We are absolutely committed to promoting abstinence-based programs in the schools as a key to preventing teen pregnancy. And we are equally determined to build our strategy on the best available research.

Phasing-in Young People First.

We have chosen to phase in the plan by starting with young people: those born after 1971. We chose this strategy not because young single mothers are easiest to serve, but because they are so important to our future.

The younger generation of welfare recipients is our greatest concern. Younger recipients are likely to have the longest stays on welfare. They also are the group for which there is the greatest hope of making a profound difference. We strongly believe that the best way to end welfare as we know it is to reach the next generation; to devote energy and new resources to young people first, rather than spreading our efforts so thinly that little real help is provided to anyone.

This proposal represents a radical change in how we think about and administer welfare. But to get it right requires a solid and well planned implementation strategy. Even if resources were plentiful, the lessons we learned from the Family Support Act, as well as from our site visits and discussions with state administrators, have convinced us that attempting to implement a time-limited transitional assistance program for the

entire caseload at once would create enormous difficulties. We believe these difficulties could be avoided and the changes we envision successfully implemented by adopting this phase-in strategy.

Moreover, recent evidence from several programs serving teen mothers suggests that this population needs special attention and can be reached. By phasing in the plan with the youngest recipients first, we send a strong message of responsibility and opportunity to the next generation.

But let me be very clear about our proposal. Our legislation requires states to phase-in reform with recipients born after 1971. This implementation strategy limits the initial mandatory caseload to about one-third of the total in 1996, helping cash-strapped states enact meaningful WORK programs with time limits that can really be enforced. By the year 2000, this phase-in strategy means that half of all AFDC recipients, about 2.4 million people, will be in the new system. And by the year 2004, two-thirds will be subject to the new rules.

However, states will have the option to define the phased-in group more broadly, allowing them to apply time limits and other new rules to a larger percentage of the caseload if they wish. In addition, states will be required to serve volunteers from the non phase-in group to the extent that federal JOBS funds are available. At state option, these volunteers also may be subjected to the two-year time limit in exchange for access to services. And of course, the Family Support Act will continue to

allow states to provide education and training for other AFDC recipients currently participating in JOBS. We believe that this approach creates a realistic partnership with the states, and sets up a meaningful path to real welfare reform.

A Clear Message for Teen Parents.

The proposal includes several incentives for young parents designed to promote responsible behavior. Minor parents will be required to live in their parents' households unless that environment is unsafe. Minor parents are still children themselves and they ought to live with adults who can offer supervision and guidance. The welfare system should not encourage young people who have babies to leave home, set up separate households and receive separate checks. In cases where there is a problem such as danger of abuse, states will be encouraged to find a responsible adult with whom the teen parent can live.

In order to meet the special needs of teen parents, any custodial parent under age 20 will be provided case management services. Although virtually all teen parents will be required to stay in school and participate in JOBS, the 24-month clock will not begin to run until the parent turns age 18. States also will have the option of using monetary incentives combined with sanctions as inducements to encourage young parents to remain in school or GED class.

In the end, Mr. Chairman, this is not about dollars and data. It is about values. For too long, the welfare system has been sending all the wrong messages. The Work and Responsibility Act is designed to get the values straight. It translates our values about work, responsibility, family and opportunity into a framework for action. It places new expectations and responsibilities on recipients, and on federal and state governments alike.

That is the message you started to send with the Family Support Act. It is time to fully realize that vision, and to build a bold new future based on the core values we all share.

We believe that this issue is critical -- that welfare reform is about nothing less than our vision of what kind of country we are and want to be. Do we want to be a country that encourages work over dependency? Do we want to be a country that expects our young people to act responsibly? Do we want to be a country that rewards hard work and fair play and accepts nothing less? Do we want to be a country that helps provide a brighter future for our children?

The Work and Responsibility Act of 1994 answers those questions with a resounding YES. We believe this bill will truly strengthen America's families and communities.

Mr. Chairman, you and the members of this committee have shown real leadership on this issue. I look forward to working with all of you as you begin your work on this historic

legislation. Thank you for your attention and I would be pleased to answer any questions you may have at this time.