

WR-\$

PRIMARY ISSUES

1. Should Administration propose a coordination of the tax and transfer system?
2. Is this primarily a device for controlling abuse in transfer system, reducing EITC abuse, collecting child support or recapturing benefits from families with part year earnings or experiencing household composition changes throughout the year?
3. How do we get better estimates of potential abuse?
4. How should coordination work - simply include benefits in AGI or develop a separate worksheet.
5. If benefits in AGI, which ones and how should interaction with EITC work?
6. If worksheet, what should the four parameters be? See attached paper.
7. What other entitlement reforms or taxation options should be considered?

→ Remove EITC disincentives to marriage, filial fraud

40-45% of AFDC with non-AFDC members in them (70% of those non-AFDC have avg income of \$25k)

"BE KIND. TELL THE TRUTH. EAT GOOD FOOD." (Ellen's button)

3 TYPES OF FAMILIES: 1 HAS \$12K IN EARNINGS, 1 HAS \$9K IN EARNINGS + \$9K IN UI, 1 HAS \$9 EARNINGS + \$9 IN TRANSFERS  
- 1/2 FAMILIES GET REDUCED EITC

EITC PARTIC. RATE IS ABOVE 100%

[BR: Count AFDC as income for EITC purposes, or count EITC as income for AFDC purposes?]  
- MINUS CS PAYMENT?

Alicia: Count AFDC, SSI, FS AS AGI (FROM THE RT. WING)

Wendell: DISALLOW EITC FOR ANYONE WHO OWES CS?

\* → [BR: REQUIRE BOTH SOL. SEC. #1 TO QUALIFY FOR EITC]

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET

WR-5  
Family  
Cap

ROUTE SLIP

TO <u>Bruce</u>	Take necessary action	<input type="checkbox"/>
<u>Kutli</u>	Approval or signature	<input type="checkbox"/>
	Comment	<input type="checkbox"/>
	Prepare reply	<input type="checkbox"/>
	Discuss with me	<input type="checkbox"/>
	For your information	<input type="checkbox"/>
	See remarks below	<input type="checkbox"/>
FROM <u>Bzelle</u>	DATE	<u>2-22</u>

REMARKS

FYI - There are estimates <sup>(Covered)</sup> discussed on the phone. The difference between CBO and HHS, as I understand it, is due to differing assumptions not to state behavior.

**Republican Welfare Reform Bill HR. 3500**  
**A comparison of preliminary HHS and CBO pricing**  
**(in millions of dollars)**

<u>Title and Section</u>		<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	
<b>305 No Additional Benefits for New Children</b>							
CBO*	AFDC	-90	-200	-260	-320	-350	-1,220
	Food Stamps	<u>50</u>	<u>100</u>	<u>140</u>	<u>160</u>	<u>190</u>	<u>640</u>
	Total	-40	-100	-120	-160	-160	-580
HHS	AFDC	-160	-440	-620	-810	-1,020	-3,050

\* CBO has indicated that these AFDC savings estimates are a little high and will be reestimated.

## State Matching

Several principles have guided the deliberations of the working group in formulating our policies. All cost numbers reported in this memo refer to a total change in federal and state costs of welfare relative to current law. The principles are:

1. In the aggregate, states should not bear any additional costs.
2. There will be state matching for all programs in the welfare system - AFDC, child care, JOBS, WORK, administrative costs, and child support. The state matching rate should not be zero for entities with no investment of their own funds are likely to be less vested in the outcome of the program.
3. If the state bears no additional cost relative to current law, there should be significant penalties for not spending all federal monies allocated to the state provided there was significant need in the state.
4. To the extent possible, administrative matching rates should be standardized across programs within a given state.
5. Poor performance by a state relative to other state as measured by a well defined performance measure should be reflected in reduced funds allocated to the poor-performing state.
6. To the maximum extent possible, principle number one which is our most important principle should also apply to each individual state. However, that will not always be possible especially if under current law not all funds allocated to the state for child care or JOBS were not utilized.

As the overall policies in this proposal are finalized, the working group intends to work closely with the states in ascertaining the fiscal impact upon each state.

*Add 11*

Costs  
WR - (State Match)

## Materials for State Match Discussion

Some initial thoughts on match rate issues/principles:

The programs to be covered by the match rate analysis include:

1. Administration -- 50% (AFDC, JOBS, Child Care)
2. AFDC -- FMAP (50--80%)
3. JOBS -- FMAP with a floor of 60% (90% for WIN \$\$)
4. TCC -- FMAP
5. IV-A Child Care -- FMAP
6. At-Risk Child Care -- FMAP
7. WORK --
8. WORK Wages --
9. Child Support -- 66% plus incentives equal to 6-10% of afdc and nonafdc collections

\*\*\*\* Child support currently not in the analysis.

State financial participation (SFP) in any program or program component should not be less than 20%.

Any enhanced payments (e.g. 90% for ADP) must be time limited and should be performance based.

The current 90% match rate for WIN money would be discontinued.

Administrative costs must be continued at a 50% match to avoid cost shifting between programs (i.e. Medicaid and FS).

Benefits would continue at FMAP. Work for wages where wages are a function of benefit would be matched at FMAP.

Investment programs -- JOBS, WORK, Child Support and Child Care would have the same base match rate -- e.g. 70%, FMAP plus 10, etc.

Match rates could vary between states but not within states across investment programs.

Incentives must be related to the match rate.

Incentives would differ by program but in no case can a state's combined match rate and incentives exceed 90% in any program or program component.

States should be rewarded with higher federal financial participation (FFP) (5 to 10 percentage points) for spending all allocated federal monies for investment programs or program components rather than sanctioned for poor performance.

Option to vary the match rate by a state's level of effort -- in this case a state would be allocated JOBS, WORK and child care dollars based on caseload and possibly other need based factors. The amount of a state's drawdown of the allocation would be a measure of effort; this would be calculated on a quarterly basis. The match could vary by the proportion drawn. Incentives would be based on program effectiveness to avoid states running inefficient programs (i.e. spending down all their allocation but serving few mandatories; etc.).

Match rates for JOBS and WORK could include a counter-cyclical adjustment to avoid penalizing a state with high unemployment.

Allow states some flexibility between JOBS and WORK monies. While this could potentially work both ways it would provide a state the option of drawing down more federal money for investments within the two year time limit.

States can not use working poor child care funds for TCC or IV-A child care.

Lower state match (e.g. 25%) while a person is on a waiting list if within two years of time limit. *good*

Issue: In WORK as in current JOBS the delineation between service and administrative costs will be bothersome -- WORK functions such as worksite development and worker assignment, participant monitoring, enforcement/sanctioning. Is developing and monitoring a work slot administration or service?

Some proposals:

In this analysis we present two basic proposals. In the first proposal we maintain the current law match rates for the administration of the AFDC and child care programs and AFDC benefits including WORK wages and supplements. The match rate for investment programs (JOBS, WORK and child care) is set at a flat 75% federal share (including administration of JOBS and WORK).

The second proposal has four increasingly generous match rates for investment programs. The match rate for investment programs is based on the current JOBS-FMAP and is increased by 5, 7, 8 and 10 percentage points. This proposal maintains current law match rates for administration of the AFDC and child care programs and AFDC benefits including WORK program wages and supplements.

PROGRAM	Current Law	Proposal 1	2a	2b	2c	2d
Admin (AFDC, JOBS, CC) <sup>1</sup>	50%	50% ex. JOBS	50% ex. JOBS	50% ex. JOBS	50% ex. JOBS	50% ex. JOBS
AFDC Benefits	FMAP 50-80%	FMAP	FMAP	FMAP	FMAP	FMAP
JOBS -- Services	FMAP 60-80% (WIN @ 90%)	75%	JOBS- FMAP +5	JOBS- FMAP +7	JOBS- FMAP +8	JOBS- FMAP +10
Child Care (At-risk, IV-A, TCC)	FMAP	75%	JOBS- FMAP +5	JOBS- FMAP +7	JOBS- FMAP +8	JOBS- FMAP +10
WORK -- Services	--	75%	JOBS- FMAP +5	JOBS- FMAP +7	JOBS- FMAP +8	JOBS- FMAP +10
WORK -- Wages and Supplement	--	FMAP	FMAP	FMAP	FMAP	FMAP

Note: The current simulation model does not differentiate between services and administrative costs for JOBS and WORK programs. The impact of this omission is that we underestimate state expenditures.

**Table 1**  
**Current Law Projected Expenditures and**  
**Reform Proposal**

PROGRAM	CURRENT LAW	REFORM PRO- POSAL	CHANGE
AFDC BENEFITS	\$26,520	\$26,300	(\$220)
AFDC AND CHILD CARE ADMINISTRATION	3,591	3,591	0
JOBS	1,648	2,398	750
AFDC/JOBS/WORK CHILD CARE	1,080	2,165	1,085
TRANSITIONAL CHILD CARE	360	620	260
WORKING POOR CHILD CARE	526	2,401	1,875
WORK - OPERATING COSTS	0	862	862
WORK - WAGES (ABOVE AFDC)	0	362	362
<b>TOTAL</b>	<b>\$33,725</b>	<b>\$38,699</b>	<b>\$4,974</b>

Table 1 contains ACF projections for FY 99 current law expenditures by program for the programs under consideration in this analysis. The total FY 99 expenditures is expected to be \$33.7 billion. Under the reform proposal an additional \$4.97 billion is estimated for a total of \$38.7 billion. In our analyses of state expenditures under FY 99 current law and welfare reform we allocate total expenditures to the states according to the following:

ALLOCATION OF NEW EXPENDITURES

- JOBS:** Based on FY 93 allotment of JOBS cap.
- JOBS/WORK CHILD CARE:** Based on FY 92 AFDC caseload.
- TRANSITIONAL CHILD CARE:** Based on FY 92 AFDC caseload.
- WORKING POOR CHILD CARE:** Based on FY 93 allocation of At-Risk Child Care cap.
- WORK:** Based on FY 92 AFDC Caseload.
- CASELOAD REDUCTION SAVINGS:** Based on allocation of new JOBS expenditures.

Table 2 (attached) contains the ACF projection for FY 99 current law expenditures and the calculation of federal and state expenditure shares across all programs (AFDC, JOBS, child care programs). The match rate for benefits is set at FY 95 FMAP. The match rates for JOBS and child care are set at FY 95 JOBS-FMAP and FMAP levels. Total across program expenditures are projected at \$33.6 billion (note - our state by state analyses exclude Puerto Rico and the territories). The federal share is \$18.4 billion (55 percent) and the states share being the remaining \$15.2 billion. Note that ACF budget projections for FY 99 indicate that states, in the aggregate, will drawn down about 98.5% of the \$1 billion in federal JOBS money.

Tables 3 through 7 contain the match rate alternatives applied to budget projections based on the reform proposal. Total expenditures across all programs is \$38 billion including \$4.97 billion for the reforms.

Each table (3 through 7) contains six columns. The first and second columns contain the federal and state shares of the total projected expenditures under the reform proposal calculated using the new match rate. The third column displays the change in state dollars needed to fund the reform increase. The fourth column shows the percentage change in state expenditures from their baseline expenditures displayed in Table 2. The fifth column displays the percentage of the reform costs that would be borne by the state. The final column displays the state's effective match rate across all programs.

Under Proposal 1 in Table 3 benefits (including WORK wages and supplementation) would be matched at current FMAP levels and investment programs would be matched at 75/25 federal/state. The total change in state financial participation (column 3) is \$.78 billion or 5% over current law baseline projections. The variation between states in the percentage increase in expenditures between baseline and reform (column 4) ranges from a low of 1% in Delaware (California 3% and New York 2%) to a high of 40% in Mississippi. The state share of new expenditures (column 5) is 16% of the cost of the projected FY 99 budget increase due to welfare reform, \$.78 of the total \$4.9 billion reform package. While the overall number is well within the 20% figure that the states' share of the reform expenditures not exceed, thirteen (13) states exceed a 20% share.

Under Proposal 2a displayed in Table 4 benefits (including WORK wages and supplementation) would continue at current FMAP and investment programs would be matched at the current JOBS FMAP plus 5 percentage points (the floor moves from 60 to 65% while the highest match would be about 83% thus violating the principle of minimum state participation). The total change, under this proposal, in SFP is \$1.4 billion or 10% over current law.

projections of state expenditures. The variation between states in the percentage increase in expenditures between baseline and reform (column 4) is quite large -- ranging from a low of 5% in New York and Alaska to a high of 25% in Texas. The state share of new expenditures for the reform (column 5) would be 29% or \$1.4 billion. The state share of the costs vary from a low of 14% in Mississippi to a high of 35% in Wisconsin. Fifteen states would have to contribute more than 30% of the cost of the reform under this match rate proposal.

Proposals 2b through 2d differ from proposal 2a in that they incrementally increase the JOBS-FMAP by 7, 8 and 10 percentage points, respectively. The overall affect of moving from JOBS-FMAP +5 to JOBS-FMAP +10 is that the state share of new expenditures declines to 20 percent in Proposal 2d shown in Table 7. Even in this more generous proposal 23 states exceed 20 percent financial participation. JOBS-FMAP +10 also puts the highest match rates for JOBS, WORK and child care at about 88% federal participation.

Table 2

## PROPOSAL 1

Investments (JOBS, WORK Operating Costs, and Child Care) at 75% Federal Match

Benefits (AFDC and WORK) at FMAP

Administration (AFDC and Child Care) at 50% Federal Match

	Reform Proposal Federal Share FY 1999	Reform Proposal State Share	Change in State Dollars Spent	Percent Change from Baseline	State Share of New Expenditures	Effective Federal Match Rate
Alabama	166.92	73.36	14.28	24%	25%	70
Alaska	91.54	80.38	1.73	2%	13%	53
Arizona	318.67	158.14	11.02	7%	16%	67
Arkansas	90.30	38.33	7.13	24%	23%	71
California	4669.76	4060.57	124.78	3%	15%	53
Colorado	190.84	132.14	8.43	7%	15%	59
Connecticut	327.56	270.70	6.61	3%	12%	55
Delaware	48.53	34.05	0.49	1%	4%	58
District of Columbia	104.03	88.59	2.99	3%	16%	54
Florida	888.92	587.87	38.77	7%	17%	60
Georgia	540.60	294.28	21.35	8%	16%	65
Hawaii	113.62	99.06	3.88	4%	19%	53
Idaho	41.73	19.56	2.98	18%	24%	68
Illinois	847.93	664.50	42.27	7%	17%	58
Indiana	314.61	170.58	13.23	8%	16%	65
Iowa	185.42	102.74	6.84	9%	20%	64
Kansas	151.97	91.79	5.00	6%	13%	62
Kentucky	301.68	139.95	16.00	13%	21%	68
Louisiana	270.94	105.79	22.13	26%	25%	72
Maine	119.52	64.28	4.03	7%	17%	65
Maryland	349.91	268.01	6.89	3%	10%	57
Massachusetts	665.46	551.89	7.93	1%	7%	55
Michigan	1160.55	798.21	39.01	5%	17%	59
Minnesota	404.98	293.50	9.44	3%	12%	58
Mississippi	146.05	50.84	14.49	40%	26%	74
Missouri	343.55	197.92	14.41	6%	15%	63
Montana	61.44	26.91	3.20	13%	25%	70
Nebraska	103.70	59.89	2.41	4%	11%	63
Nevada	55.84	42.04	2.82	7%	15%	57
New Hampshire	57.73	43.44	1.19	3%	7%	57
New Jersey	594.70	476.77	22.16	5%	15%	58
New Mexico	146.07	57.15	7.21	14%	24%	72
New York	2503.04	2145.34	38.17	2%	9%	54
North Carolina	492.18	250.09	18.37	8%	15%	66
North Dakota	38.22	17.66	1.89	12%	22%	68
Ohio	1083.14	629.50	36.96	6%	15%	63
Oklahoma	257.13	117.48	9.98	9%	20%	69
Oregon	235.42	133.55	8.77	7%	18%	64
Pennsylvania	944.15	663.13	27.48	4%	13%	59
Rhode Island	117.59	81.27	2.20	3%	10%	59
South Carolina	169.59	73.98	13.35	22%	25%	70
South Dakota	34.73	15.89	2.24	16%	23%	69
Tennessee	332.91	161.39	16.15	13%	20%	67
Texas	816.50	410.83	56.33	16%	19%	67
Utah	113.59	45.78	6.51	17%	25%	71
Vermont	64.90	38.26	1.73	5%	15%	63
Virginia	270.99	186.40	13.03	7%	14%	58
Washington	608.76	474.68	8.90	2%	8%	56
West Virginia	162.63	59.32	10.65	22%	28%	73
Wisconsin	482.76	295.60	18.07	6%	17%	62
Wyoming	35.68	19.01	1.24	7%	16%	65
<b>TOTAL</b>	<b>\$22,639.01</b>	<b>\$15,970.25</b>	<b>\$783.11</b>	<b>6%</b>	<b>16%</b>	<b>59</b>
Increase in Federal Expenditures	\$4,246.45					

Table 3

PROPOSAL 2a  
 Investments (JOBS, WORK Operating Costs, and Child Care) at  
 JOBS FMAP plus 5% Federal Match  
 Benefits (AFDC and WORK) at FMAP  
 Administration (AFDC and Child Care) at 50% Federal Match

	Reform Proposal Federal Share FY 1999	Reform Proposal State Share	Change in State Dollars Spent	Percent Change from Baseline	State Share of New Expenditures	Effective Federal Match Rate
Alabama	169.32	72.95	13.65	23%	24%	70
Alaska	89.25	82.67	4.02	5%	29%	52
Arizona	314.66	162.12	15.01	10%	22%	66
Arkansas	61.93	34.70	5.50	16%	18%	73
California	4546.62	4182.31	246.52	6%	30%	62
Colorado	181.66	141.42	17.71	14%	31%	58
Connecticut	315.82	282.34	20.25	6%	29%	53
Delaware	44.00	36.58	3.03	9%	24%	55
District of Columbia	100.91	91.71	6.32	7%	32%	52
Florida	653.06	623.73	74.63	14%	32%	56
Georgia	521.90	312.96	49.04	15%	29%	63
Hawaii	110.62	102.06	6.88	7%	33%	62
Idaho	41.76	18.53	2.95	16%	23%	66
Illinois	810.16	702.26	80.03	19%	32%	54
Indiana	305.39	178.78	22.48	14%	27%	63
Iowa	180.59	107.57	13.67	15%	31%	63
Kansas	145.16	98.61	11.82	14%	31%	60
Kentucky	301.14	140.49	16.34	13%	21%	66
Louisiana	274.70	102.03	16.38	22%	21%	73
Maine	116.97	56.63	6.59	11%	27%	64
Maryland	333.29	284.63	25.52	10%	27%	54
Massachusetts	642.21	575.14	31.48	6%	26%	53
Michigan	1124.56	834.19	75.00	10%	53%	57
Minnesota	390.60	307.88	23.82	8%	30%	56
Mississippi	152.57	44.31	7.96	22%	14%	77
Missouri	327.21	214.26	30.75	17%	33%	60
Montana	61.82	29.74	3.02	13%	24%	70
Nebraska	99.10	64.50	7.01	12%	31%	61
Nevada	63.03	44.85	5.63	14%	30%	54
New Hampshire	54.82	48.35	4.10	10%	25%	54
New Jersey	572.30	499.16	44.56	10%	31%	53
New Mexico	147.68	55.53	5.56	11%	19%	70
New York	2429.79	2218.60	111.43	5%	27%	52
North Carolina	479.63	262.64	30.92	13%	26%	65
North Dakota	38.03	17.86	2.06	13%	25%	69
Ohio	1042.15	670.48	77.65	13%	31%	61
Oklahoma	257.19	117.42	9.90	9%	20%	66
Oregon	228.62	140.35	15.56	12%	32%	62
Pennsylvania	905.56	701.70	66.05	10%	30%	56
Rhode Island	110.52	65.64	6.27	6%	29%	57
South Carolina	170.14	73.43	12.80	21%	24%	70
South Dakota	34.41	16.21	2.57	19%	26%	68
Tennessee	327.24	167.06	23.82	17%	26%	66
Texas	784.64	442.99	88.20	26%	29%	64
Utah	115.45	43.03	4.86	12%	16%	72
Vermont	82.93	40.23	3.70	10%	33%	61
Virginia	255.76	211.82	26.25	15%	29%	55
Washington	567.60	495.74	30.06	6%	26%	54
West Virginia	165.42	56.53	7.97	18%	21%	75
Wisconsin	469.90	311.48	31.93	11%	35%	63
Wyoming	34.57	20.12	2.35	13%	29%	63
TOTAL	\$21,976.60	\$16,633.95	\$1,448.51	10%	29%	57
Increase in Federal Expenditures	\$3,583.05					

Table 4

PROPOSAL 2b  
 Investments (JOBS, WORK Operating Costs, and Child Care) at  
 JOBS FMAP plus 7% Federal Match  
 Benefits (AFDC and WORK) at FMAP  
 Administration (AFDC and Child Care) at 50% Federal Match

	Reform Proposal Federal Share FY 1999	Reform Proposal State Share	Change in State Dollars Spent	Percent Change from Baseline	State Share of New Expenditures	Effective Federal Match Rate
Alabama	171.14	71.14	12.00	20%	31%	71
Alaska	89.70	82.21	3.50	5%	26%	52
Arizona	318.80	159.81	12.79	9%	19%	68
Arkansas	92.80	33.83	4.83	18%	15%	73
California	4572.37	4157.98	222.17	8%	27%	52
Colorado	183.42	139.58	15.85	13%	28%	57
Connecticut	318.25	280.01	17.92	7%	25%	53
Delaware	44.50	30.06	2.52	8%	20%	55
District of Columbia	101.53	91.09	5.40	8%	29%	53
Florida	880.24	616.58	87.48	12%	29%	58
Georgia	526.72	308.15	35.23	13%	28%	63
Hawaii	111.22	101.48	8.28	7%	30%	52
Idaho	42.15	19.14	2.55	15%	20%	68
Illinois	817.72	694.71	72.48	12%	29%	54
Indiana	308.03	177.14	19.81	13%	24%	63
Iowa	181.90	108.28	12.38	13%	26%	60
Kansas	148.52	87.25	10.40	12%	28%	60
Kentucky	303.71	137.82	13.87	11%	18%	69
Louisiana	277.55	99.20	15.54	19%	18%	74
Maine	117.73	88.07	5.82	10%	24%	64
Maryland	338.81	281.31	22.19	9%	24%	54
Massachusetts	848.88	570.49	26.63	5%	22%	53
Michigan	1131.78	828.99	87.80	9%	30%	66
Minnesota	383.47	305.00	20.95	7%	26%	56
Mississippi	154.10	42.79	8.44	18%	12%	78
Missouri	330.48	211.00	27.48	15%	29%	61
Montana	82.04	28.31	3.00	11%	20%	70
Nebraska	180.08	83.54	8.05	11%	27%	61
Nevada	53.58	44.29	5.07	13%	27%	55
New Hampshire	55.40	45.78	3.52	8%	32%	55
New Jersey	578.78	494.68	40.08	9%	28%	54
New Mexico	148.88	54.58	4.81	9%	15%	73
New York	2444.44	2203.95	98.78	5%	24%	53
North Carolina	484.38	257.90	28.18	11%	22%	65
North Dakota	38.33	17.55	1.78	11%	21%	69
Ohio	1050.88	681.88	69.14	12%	27%	61
Oklahoma	298.44	115.17	7.65	7%	15%	69
Oregon	230.40	136.57	13.80	11%	28%	62
Pennsylvania	813.90	683.89	58.34	9%	27%	57
Rhode Island	114.34	84.52	5.48	7%	26%	57
South Carolina	171.88	71.89	11.28	18%	21%	70
South Dakota	34.74	15.88	2.23	18%	23%	69
Tennessee	330.50	183.80	20.58	14%	22%	67
Texas	794.16	433.17	78.67	22%	26%	65
Utah	118.51	42.86	3.59	9%	14%	73
Vermont	83.38	39.80	3.27	8%	29%	61
Virginia	258.82	208.58	25.31	14%	26%	65
Washington	591.83	491.51	25.83	8%	24%	55
West Virginia	188.83	85.32	8.88	14%	18%	75
Wisconsin	470.88	308.29	28.78	10%	31%	60
Wyoming	34.88	19.81	2.84	11%	29%	64
<b>TOTAL</b>	<b>622,142.64</b>	<b>\$16,468.81</b>	<b>\$1,279.47</b>	<b>8%</b>	<b>25%</b>	<b>57</b>
<b>Increase in Federal Expenditures</b>	<b>\$3,750.09</b>					

Table 5

PROPOSAL 2c  
 Investments (JOBS, WORK Operating Costs, and Child Care) at  
 JOBS FMAP plus 6% Federal Match  
 Benefits (AFDC and WORK) at FMAP  
 Administration (AFDC and Child Care) at 50% Federal Match

	Reform Proposal Federal Share FY 1990	Reform Proposal State Share	Change in State Dollars Spent	Percent Change from Baseline	State Share of New Expenditures	Effective Federal Match Rate
Alabama	172.04	70.23	11.15	18%	20%	71
Alaska	89.63	81.08	3.33	4%	24%	52
Arizona	318.00	158.80	11.08	8%	17%	87
Arkansas	83.24	33.40	4.18	14%	14%	74
California	4584.54	4145.79	210.00	5%	29%	50
Colorado	184.34	138.63	14.92	12%	29%	57
Connecticut	318.41	278.65	18.78	8%	24%	53
Delaware	44.78	35.82	2.27	7%	18%	58
District of Columbia	101.84	60.78	5.18	8%	27%	53
Florida	883.82	812.97	63.87	12%	27%	58
Georgia	529.12	305.74	32.82	12%	24%	63
Hawaii	111.52	101.18	5.68	8%	22%	52
Idaho	42.35	18.84	2.38	14%	18%	69
Illinois	821.48	680.93	68.70	11%	27%	54
Indiana	308.38	175.81	18.48	12%	22%	64
Iowa	182.55	105.81	11.71	12%	27%	63
Kansas	147.20	98.58	8.77	11%	28%	60
Kentucky	304.89	138.84	12.89	10%	18%	68
Louisiana	278.95	87.78	14.12	17%	18%	74
Maine	118.11	85.89	5.44	9%	22%	64
Maryland	338.27	279.84	20.53	8%	22%	65
Massachusetts	848.19	588.18	24.21	4%	20%	53
Michigan	1135.38	823.89	84.20	8%	28%	58
Minnesota	384.91	303.58	19.51	7%	24%	57
Mississippi	154.88	42.03	5.88	18%	10%	79
Missouri	332.11	209.38	25.85	14%	28%	61
Montana	82.28	28.10	2.38	10%	19%	70
Nebraska	100.84	63.08	5.57	10%	25%	61
Nevada	53.87	44.01	4.79	12%	25%	55
New Hampshire	55.88	45.47	3.23	8%	20%	55
New Jersey	579.02	492.44	37.84	8%	28%	54
New Mexico	148.15	54.07	4.13	8%	14%	73
New York	2451.78	2198.82	89.45	4%	22%	53
North Carolina	488.75	255.53	23.81	10%	20%	68
North Dakota	38.48	17.40	1.83	10%	18%	69
Ohio	1055.38	657.28	84.74	11%	26%	62
Oklahoma	280.57	114.05	8.52	8%	13%	70
Oregon	231.29	137.88	12.91	10%	26%	63
Pennsylvania	817.15	680.13	54.48	9%	25%	57
Rhode Island	114.74	84.12	5.88	8%	24%	58
South Carolina	172.45	71.12	10.49	17%	20%	71
South Dakota	34.88	15.72	2.07	15%	21%	69
Tennessee	332.12	182.17	18.93	13%	20%	67
Texas	798.83	428.40	73.91	21%	24%	65
Utah	117.04	42.33	3.88	8%	12%	73
Vermont	83.58	38.59	3.88	8%	27%	62
Virginia	280.34	207.05	23.88	13%	25%	58
Washington	683.85	489.38	23.71	5%	22%	55
West Virginia	187.23	54.72	8.05	12%	18%	75
Wisconsin	471.88	308.75	27.17	10%	29%	61
Wyoming	35.04	18.88	1.88	11%	24%	64
<b>TOTAL</b>	<b>\$22,228.18</b>	<b>\$18,883.88</b>	<b>\$1,195.85</b>	<b>8%</b>	<b>24%</b>	<b>58</b>
<b>Increase in Federal Expenditures</b>	<b>\$3,833.81</b>					

Table 6

PROPOSAL 2d  
 Investments (JOBS, WORK Operating Costs, and Child Care) at  
 JOBS FMAP plus 10% Federal Match  
 Benefits (AFDC and WDRK) at FMAP  
 Administration (AFDC and Child Care) at 50% Federal Match

	Reform Proposal Federal Share FY 1990	Reform Proposal State Share	Change in State Dollars Spent	Percent Change from Baseline	State Share of New Expenditures	Effective Federal Match Rate
Alabama	173.86	66.42	9.34	18%	10%	72
Alaska	90.39	81.52	2.88	4%	21%	53
Arizona	320.22	158.59	9.47	8%	14%	87
Arkansas	94.11	32.53	3.32	11%	11%	74
California	4608.89	4121.44	185.85	6%	23%	53
Colorado	180.20	136.76	13.07	11%	23%	58
Connecticut	321.74	276.52	14.43	8%	21%	54
Delaware	45.28	35.31	1.70	5%	14%	58
District of Columbia	102.47	90.15	4.58	5%	24%	53
Florida	870.90	805.80	58.70	10%	24%	58
Georgia	533.93	300.93	28.01	10%	21%	64
Hawaii	112.12	100.56	5.08	8%	26%	53
Idaho	42.74	18.55	1.06	12%	16%	70
Illinois	829.05	683.38	61.15	10%	24%	55
Indiana	312.50	173.17	15.84	10%	19%	64
Iowa	183.88	104.30	10.46	11%	24%	64
Kansas	148.50	95.20	5.41	10%	22%	61
Kentucky	307.55	134.08	10.12	8%	10%	70
Louisiana	281.78	94.93	11.28	13%	13%	75
Maine	118.57	64.93	4.08	8%	18%	65
Maryland	341.80	278.32	17.21	7%	18%	55
Massachusetts	653.84	563.51	19.58	4%	18%	54
Michigan	1142.55	818.20	67.00	8%	25%	58
Minnesota	397.70	300.89	16.63	8%	21%	57
Mississippi	158.36	40.51	4.18	11%	8%	70
Missouri	335.98	208.08	22.58	12%	24%	62
Montana	82.88	25.87	1.08	8%	15%	71
Nebraska	101.49	82.10	4.81	8%	20%	62
Nevada	54.44	43.44	4.22	11%	22%	58
New Hampshire	58.28	44.86	2.84	8%	18%	58
New Jersey	583.58	487.97	33.38	7%	23%	54
New Mexico	150.13	53.09	3.18	8%	10%	74
New York	2486.41	2151.97	74.80	4%	18%	53
North Carolina	491.49	250.78	19.08	8%	18%	60
North Dakota	38.78	17.10	1.39	8%	18%	69
Ohio	1064.18	648.47	55.93	9%	22%	62
Oklahoma	282.82	111.79	4.27	4%	8%	70
Oregon	233.07	135.90	11.12	9%	23%	63
Pennsylvania	924.87	682.42	48.77	7%	21%	58
Rhode Island	115.58	83.30	4.23	8%	20%	58
South Carolina	173.99	88.58	8.95	15%	17%	71
South Dakota	35.24	15.38	1.74	13%	18%	70
Tennessee	335.38	158.91	15.88	11%	17%	68
Texas	808.45	418.88	84.38	18%	21%	68
Utah	118.11	41.26	1.98	5%	8%	74
Vermont	64.00	39.18	2.83	7%	23%	62
Virginia	263.39	204.01	20.64	11%	21%	58
Washington	588.18	485.18	19.48	4%	18%	55
West Virginia	168.44	53.51	4.84	10%	13%	78
Wisconsin	474.83	303.53	24.00	9%	26%	61
Wyoming	35.35	19.34	1.87	9%	20%	65
<b>TOTAL</b>	<b>\$22,393.20</b>	<b>\$18,216.05</b>	<b>\$1,028.91</b>	<b>7%</b>	<b>20%</b>	<b>58</b>
Increase in Federal Expenditures	\$4,000.65					

Table 7

	Projected	Projected	Projected	Effective
	Expenditures			
	FY 1990	FY 1990	FY 1990	Match Rate
	BASELINE			
Alabama	185.20	120.12	59.06	68
Alaska	168.23	79.58	76.66	50
Arizona	408.33	262.21	147.12	64
Arkansas	95.65	66.45	29.21	69
California	7920.65	3984.86	3835.79	50
Colorado	266.25	142.64	120.71	54
Connecticut	527.98	265.89	282.09	50
Delaware	67.95	34.40	33.55	51
District of Columbia	173.81	88.02	85.60	51
Florida	1244.37	805.27	549.10	55
Georgia	696.85	425.63	272.92	61
Hawaii	191.81	95.82	95.19	50
Idaho	48.71	32.12	16.68	68
Illinois	1282.11	639.88	622.23	51
Indiana	492.24	244.91	157.33	61
Iowa	244.47	150.67	93.90	62
Kansas	205.87	119.08	85.79	58
Kentucky	383.78	238.83	123.95	68
Louisiana	289.18	205.60	83.66	71
Maine	159.50	99.25	60.25	62
Maryland	524.58	295.47	259.11	51
Massachusetts	1997.24	553.28	543.06	50
Michigan	1731.87	972.48	759.19	55
Minnesota	816.70	334.65	284.05	54
Mississippi	141.87	105.62	38.35	74
Missouri	447.74	284.23	183.51	69
Montana	75.81	51.89	23.72	69
Nebraska	140.86	83.37	57.48	59
Nevada	78.05	39.83	38.22	60
New Hampshire	65.04	42.79	42.25	60
New Jersey	927.42	472.81	454.81	51
New Mexico	173.03	123.09	49.94	71
New York	4239.79	2132.66	2107.17	50
North Carolina	821.71	389.89	231.72	63
North Dakota	47.41	31.63	15.78	67
Ohio	1456.86	886.32	592.54	59
Oklahoma	324.05	215.63	107.62	67
Oregon	319.84	195.06	124.78	61
Pennsylvania	1387.85	752.20	636.65	54
Rhode Island	177.56	99.51	79.07	55
South Carolina	189.94	129.91	60.63	66
South Dakota	40.89	27.25	13.65	67
Tennessee	401.59	258.05	143.24	64
Texas	924.84	570.35	354.49	62
Utah	132.87	83.80	39.27	70
Vermont	81.83	55.40	34.53	60
Virginia	371.84	187.87	163.37	51
Washington	474.25	506.66	485.68	62
West Virginia	184.08	135.41	48.60	74
Wisconsin	685.90	409.37	279.63	59
Wyoming	48.71	29.94	17.77	62
<b>TOTAL</b>	<b>\$33,579.89</b>	<b>\$16,392.55</b>	<b>\$15,167.14</b>	<b>55</b>

Percent of Allocation Spent or Dollars if 100 is Cap	Proposed Match for State Currently at 60 Percent Match		10% Bonus Additional State Match Required to Reach Total Allotment	5% B Additio Match R to Reac Allot
	Federal Share	State Share		
5	3.00	2.00	28.00	28.25
10	6.00	4.00	26.00	26.50
15	9.00	6.00	24.00	24.75
20	12.00	8.00	22.00	23.00
25	15.00	10.00	20.00	21.25
30	18.00	12.00	18.00	19.50
35	21.00	14.00	16.00	17.75
40	24.00	16.00	14.00	16.00
45	27.00	18.00	12.00	14.25
50	30.00	20.00	10.00	12.50
55	33.00	22.00	8.00	10.75
60	36.00	24.00	6.00	9.00
65	39.00	26.00	4.00	7.25
70	42.00	28.00	2.00	5.50
75	45.00	30.00	0.00	3.75
80	48.00	32.00	-2.00	2.00
85	51.00	34.00	-4.00	0.25
90	54.00	36.00	-6.00	-1.50
95	57.00	38.00	-8.00	-3.25
100	70.00	30.00	0.00	0.00



**WELFARE REFORM OPTIONS:  
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**SUMMARY PRICING**  
**HHS Estimate (Feb 24) and Two Possible Alternatives**  
 (By fiscal year, in millions of dollars)

3/2/94 10:58	1995	1996	1997	1998	1999	5 Year Total	2004	10 Year Total	Steady State
<b>TRANSITIONAL ASSISTANCE FOLLOWED BY WORK</b>									
Subtotal Transitional Assistance/WORK	0	620	1,950	2,285	3,000	7,855	6,535	33,300	N/A
Option A	0	455	1,360	1,420	1,920	5,155	5,065	24,253	N/A
Option B	0	415	1,235	1,290	1,785	4,725	4,955	23,323	N/A
<b>PARENTAL RESPONSIBILITY</b>									
Subtotal Parental Responsibility	(5)	(5)	465	795	865	2,115	(110)	4,000	N/A
Option A	(25)	(45)	75	170	35	210	(775)	(2,560)	N/A
Option B	(25)	(60)	30	115	(50)	10	(860)	(3,185)	N/A
<b>MAKING WORK PAY</b>									
Subtotal Making Work Pay	0	500	1,000	1,500	2,000	5,000	2,500	17,500	N/A
Option A	0	280	555	835	1,110	2,780	1,390	9,730	N/A
Option B	0	0	0	0	0	0	0	0	N/A
<b>REINVENTING GOVERNMENT</b>									
HHS Subtotal Reinventing Government	0	0	0	0	0	0	0	0	N/A
Option A	0	0	0	0	0	0	0	0	N/A
Option B	0	0	0	0	0	0	0	0	N/A
<b>GRAND TOTAL</b>									
HHS Proposal	(5)	1,115	3,415	4,580	5,865	14,970	8,925	54,800	N/A
A Subtotal	(25)	690	1,990	2,425	3,065	8,145	5,680	31,423	N/A
B Subtotal	(25)	355	1,265	1,405	1,735	4,735	4,095	20,138	N/A

PRELIMINARY WELFARE REFORM COST ESTIMATES (FEDERAL/STATE)

HHS Estimate (Feb 24) and Two Possible Alternatives

(By fiscal year, in millions of dollars)

3/2/94 10:58	1995	1996	1997	1998	1999	5 Year Total	2004	10 Year Total	Steady State
<b>TRANSITIONAL ASSISTANCE FOLLOWED BY WORK</b>									
• JOBS Prep: Case Management for Deferrals	0	15	50	60	70	195	120	695	
A Limited Case Management for JOBS Prep	0	10	25	30	35	100	60	350	
B No Case Management for JOBS Prep	0	0	0	0	0	0	0	0	
• Additional JOBS Spending: Participation assumed to be 50% above intense saturation work demo	0	260	820	940	980	3,000	730	6,910	2,244 9/
A Participation 10% above intense demo	0	190	610	700	730	2,230	650	5,485	12,500/yr per participant
B Participation 10% above intense demo	0	190	610	700	730	2,230	650	5,485	Direct ahead of time
• WORK Program 2/ A Capped Overhead and part-time workers not eligible for AFDC after two years	0	0	0	120	620	740	3,040	11,810	8,790 9/
B Same as option A	0	0	0	(65)	265	200	2,185	7,973	
B Same as option A	0	0	0	(65)	265	200	2,185	7,973	
• Child Care for JOBS/WORK Participants	0	240	680	750	870	2,540	2,175	10,330	
A Child Care Associated with Option A	0	150	415	445	540	1,550	1,770	7,530	
B Child Care Associated with Option B	0	150	415	445	540	1,550	1,770	7,530	
• Transitional Child Care 3/ A Alternative under review	0	85	250	300	350	985	600	3,485	25% behavioral impact
A Alternative under review	0	85	250	300	350	985	600	3,485	
B Alternative under review	0	85	250	300	350	985	600	3,485	
• Enhanced Teen Case Management	0	30	90	105	110	335	120	920	80-90% partic.
A Cap admin costs for case management at \$ 50 m.	0	30	50	50	50	180	50	430	
B Defer	0	0	0	0	0	0	0	0	

PRELIMINARY WELFARE REFORM COST ESTIMATES (FEDERAL/STATE)

HHS Estimate (Feb 24) and Two Possible Alternatives

(By fiscal year, in millions of dollars)

3/2/94 10:58	1995	1996	1997	1998	1999	5 Year Total	2004	10 Year Total	Steady State
• Economic Development: Microenterprise loans and Individual Development Accounts 4/	0	0	100	100	100	300	0	300	
A Modest Economic Development	0	0	50	50	50	150	0	150	
B Defer	0	0	0	0	0	0	0	0	
• Savings - Caseload Reduction	0	(10)	(40)	(90)	(100)	(240)	(250)	(1,150)	
A No change	0	(10)	(40)	(90)	(100)	(240)	(250)	(1,150)	
B No change	0	(10)	(40)	(90)	(100)	(240)	(250)	(1,150)	
Subtotal Transitional Assistance/WORK	0	620	1,950	2,285	3,000	7,855	6,535	33,300	N/A
A Subtotal	0	455	1,360	1,420	1,920	5,155	5,065	24,253	N/A
B Subtotal	0	415	1,235	1,290	1,785	4,725	4,955	23,323	N/A

PARENTAL RESPONSIBILITY

• Require Minor Moms to Live with Parents	0	(45)	(50)	(50)	(50)	(195)	(50)	(445)	
A No change	0	(45)	(50)	(50)	(50)	(195)	(50)	(445)	
B No change	0	(45)	(50)	(50)	(50)	(195)	(50)	(445)	
• Comprehensive Demonstration Grants	0	50	50	50	50	200	50	450	
A No change	0	50	50	50	50	200	50	450	
B No change	0	50	50	50	50	200	50	450	

PRELIMINARY WELFARE REFORM COST ESTIMATES (FEDERAL/STATE)

HHS Estimate (Feb 24) and Two Possible Alternatives

(By fiscal year, in millions of dollars)

3/2/94 10:58	1995	1996	1997	1998	1999	5 Year Total	2004	10 Year Total	Steady State
• Two Parent Provision: Quarters of Work and 100 hour rule 5/ A Quarters of Work Only B Quarters of Work Only	0 0 0	0 0 0	440 220 220	680 340 340	945 475 475	2,065 1,035 1,035	1,115 560 560	7,290 3,655 3,655	
• No additional benefits for additional children A No change B No change	(35) (35) (35)	(100) (100) (100)	(110) (110) (110)	(140) (140) (140)	(150) (150) (150)	(535) (535) (535)	(150) (150) (150)	(1,285) (1,285) (1,285)	
• Child Support Enforcement 6/ Paternity Establishment Enforcement(Net) Computer Costs Sub-total CSE  A No Change B No Change	5 (10) 15 10  10	20 (20) 35 35  35	(110) (65) 95 (80)	(165) (80) 160 (85)	(215) (320) 160 (375)	(465) (495) 465 (495)	(355) (1,015) 100 (1,270)	(1,970) (4,655) 1,065 (5,560)	
• Non-custodial Parent Provisions A Modest Non-custodial Parent Provisions B Defer	0 0 0	30 15 0	85 45 0	110 55 0	165 85 0	390 200 0	165 85 0	1,215 625 0	
• Access Grants and Parenting Demonstrations A Defer B Defer	20 0 0	25 0 0	30 0 0	30 0 0	30 0 0	135 0 0	30 0 0	285 0 0	

## PRELIMINARY WELFARE REFORM COST ESTIMATES (FEDERAL/STATE)

HHS Estimate (Feb 24) and Two Possible Alternatives

(By fiscal year, in millions of dollars)

3/2/94 10:58	1995	1996	1997	1998	1999	5 Year Total	2004	10 Year Total	Steady State
• Child Support Assurance Demonstrations	0	0	100	200	250	550	0	2,050	← * No!!
A Limit and Cap CSA Demos	0	0	50	50	50	150	0	150	
B Defer	0	0	0	0	0	0	0	0	
Subtotal Parental Responsibility	(5)	(5)	465	795	865	2,115	(110)	4,000	N/A
A Subtotal	(25)	(45)	75	170	35	210	(775)	(2,560)	N/A
B Subtotal	(25)	(60)	30	115	(50)	10	(860)	(3,185)	N/A

## MAKING WORK PAY

• Working Poor Child Care	0	500	1,000	1,500	2,000	5,000	2,500	17,500	
A Target Child Care at Parents 26 and under	0	280	555	835	1,110	2,780	1,390	9,730	
B Defer	0	0	0	0	0	0	0	0	
• Advance EITC 7/	0	0	0	0	0	0	0	0	
A No Change	0	0	0	0	0	0	0	0	
B No Change	0	0	0	0	0	0	0	0	
Subtotal Making Work Pay	0	500	1,000	1,500	2,000	5,000	2,500	17,500	N/A
A Subtotal	0	280	555	835	1,110	2,780	1,390	9,730	N/A
B Subtotal	0	0	0	0	0	0	0	0	N/A

PRELIMINARY WELFARE REFORM COST ESTIMATES (FEDERAL/STATE)

HHS Estimate (Feb 24) and Two Possible Alternatives

(By fiscal year, in millions of dollars)

3/2/94 10:58	1995	1996	1997	1998	1999	5 Year Total	2004	10 Year Total	Steady State
<b>REINVENTING GOVERNMENT</b>									
• Asset Rules, Filing Unit, Simplification of Earnings Disregards, Accounting and Reporting Rules 8/	0	0	0	0	0	0	0	0	0
Subtotal Reinventing Government	0	0	0	0	0	0	0	0	0
A No Change	0	0	0	0	0	0	0	0	0
B No Change	0	0	0	0	0	0	0	0	0
<b>GRAND TOTAL</b>									
HHS Proposal	(5)	1,115	3,415	4,580	5,865	14,970	8,925	54,800	N/A
A Subtotal	(25)	690	1,990	2,425	3,065	8,145	5,680	31,423	N/A
B Subtotal	(25)	355	1,265	1,405	1,735	4,735	4,095	20,138	N/A

**PRELIMINARY WELFARE REFORM COST ESTIMATES (FEDERAL/STATE)**  
**HHS Estimate (Feb 24) and Two Possible Alternatives**  
 (By fiscal year, in millions of dollars)

3/2/94 10:58	1995	1996	1997	1998	1999	5 Year Total	2004	10 Year Total	Steady State
<b>EFFECTS ON OTHER PROGRAMS</b>									
State Systems Costs 5/ <i>Includes estimates of State/Federal costs to adapt computer and other under the new program.</i>	200	200	200	200	200	1,000	100	1,550	
Child Care Feeding Costs (JOBS/WORK/TCC) <i>The CACFP costs associated with expanded child care</i>	0	35	95	105	120	355	280	1,380	
Child Care Feeding Costs(Working Poor) <i>The CACFP costs associated with expanded child care</i>	0	50	100	150	200	500	250	1,750	
WORK Program <i>Remove EITC and Health Care Reform Behavioral Assumptions from HHS's estimates</i>	0	0	0	10	50	60	240	805	
Food Stamps Interactions									Not Yet Estimated
Medicaid Interactions									Not Yet Estimated
Other Interactions									Not Yet Estimated

**PRELIMINARY WELFARE REFORM COST ESTIMATES (FEDERAL/STATE)**

**HHS Estimate (Feb 24) and Two Possible Alternatives**

(By fiscal year, in millions of dollars)

3/2/94 10:58	1995	1996	1997	1998	1999	5 Year Total	2004	10 Year Total	Steady State
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**NOTES:**

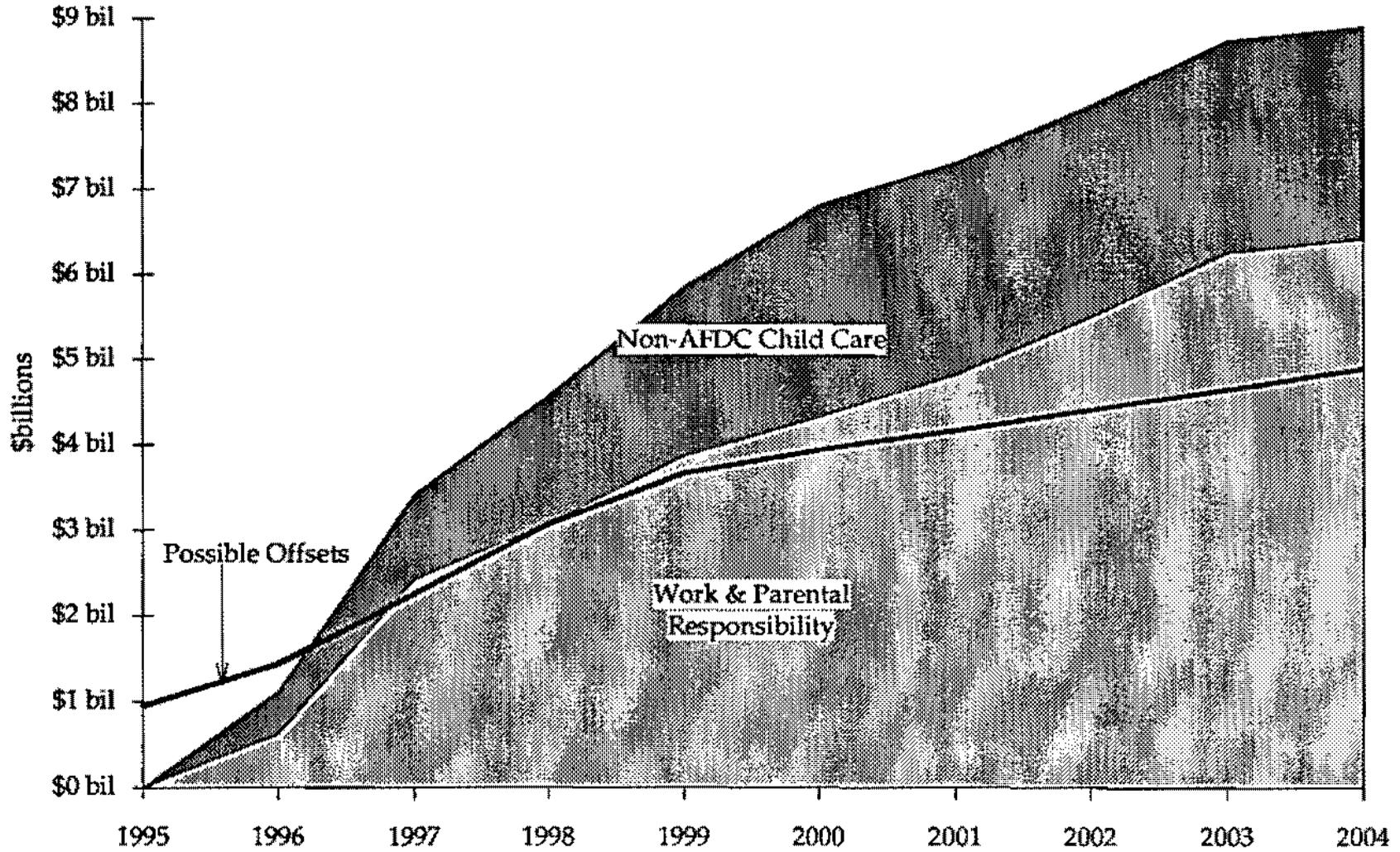
- 1 HHS dollar estimates were provided only through FY99. Subsequent estimates are based on HHS caseload tables. Corrections for the Alternative were made to a.) apply the reform policies to the Budget baseline rather than the lower baseline HHS assumed would result from EITC increases and health reform. Savings are for options considered independently. Combined effect have not been estimated yet. Steady State estimate uses 2004 caseload with no effects of EITC increases or health reform.
- 2 Repeat Footnote 1.
- 3 Working with HHS to understand TCC assumptions.
- 4 Economic development is a 3 year demonstration project.
- 5 Place holder estimate -- will be revised shortly.
- 6 These numbers were received verbally Feb. 28. Child Support estimates are combined Federal and State shares of costs and collections. Under current law, these provisions would have Federal costs and savings
- 7 HHS's current proposal assumes no scoreable costs for the Advanced EITC. A change in law in order to mandate the advanced EITC could have significant costs
- 8 HHS's current proposal assumes that the Reinventing Government items will have no net costs. This may be difficult to accomplish given the magnitude of the savings and costs within this category.
- 9 These represent steady state costs of the HHS proposed JOBS and WORK programs assuming no effects of the EITC and health reform.

March 2, 1994

Participation footnote:

HHS assumes transition program parents (including part-time workers) will spend virtually every month in a JOBS activity. This is nearly double the participation levels reached in the flagship Saturation Work Initiative Model demonstration in San Diego. The less intensive option describes a national program which is more than 10 percent more intensive than SWIM. It would occupy about two-thirds of all the months cases were in a mature transition program. Even at that level, there would be concern that JOBS activities were delaying exits from AFDC.

# Welfare Reform Costs And Offsets HHS Estimates Extrapolated To 2004



## HHS Preliminary Welfare Reform Offset Estimates

Extrapolated to 2004

3/2/94 10:23		1995	1996	1997	1998	1999	5-year Total	2004	10-year Total
Cap Emergency Assistance	1/	0.26	0.35	0.42	0.50	0.56	2.09	0.70	5.39
Target Child Care Food Program	2/	0.16	0.21	0.23	0.27	0.30	-1.17	0.45	3.12
Adjust SSI Deeming Rule	2/	0.18	0.19	0.21	0.23	0.25	1.06	0.35	2.61
Reapplication for SSI Cases Most Likely to Improve	2/	0.07	0.16	0.26	0.37	0.42	1.28	0.67	4.13
Tighten Sponsorship and Eligibility Rules for Aliens	3/	<u>0.27</u>	<u>0.52</u>	<u>1.13</u>	<u>1.70</u>	<u>2.14</u>	<u>5.76</u>	<u>2.73</u>	<u>18.18</u>
<b>Total</b>		0.94	1.43	2.25	3.07	3.67	11.36	4.90	33.43

**Notes on extrapolations for 2000 - 2004**

- 1/ Assumes that under current law, States would take maximum advantage of EA by 1999, with baseline growing by inflation afterwards.
- 2/ Growth assumed to be at the same dollar increment as between 1998 and 1999.
- 3/ Assumes that continued immigration would keep savings growing slightly more than inflation. A 5% growth rate is assumed.

~~CONFIDENTIAL~~

February 28, 1994

## SUMMARY AND WORKING GROUP RECOMMENDATIONS

Everyone is frustrated with the welfare system. Welfare reform is designed to give people back the dignity and control that comes from work and independence. It is about reinforcing work and family and opportunity and responsibility.

The current welfare system provides cash support and a set of rules and expectations focused on verifying eligibility rather than on moving people to self-support. We propose a new vision aimed at helping people regain the means of supporting themselves and at holding people responsible for themselves and their families. The proposal emphasizes that work is valued by making work pay. It indicates that people should not have children until they are able to support them. It signals that parents--*both parents*--have responsibilities to support their children. It gives people access to the training they need, but also expects work in return. It limits cash assistance to two years, and then requires work, preferably in the private sector, but in community service jobs if necessary. Most importantly, it changes the culture of welfare offices, getting them out of the check-writing business and into the training and job-placement business.

Ultimately, this plan requires changing almost everything about the way in which we provide support to struggling families. To achieve this vision, the plan has four main elements.

### MAJOR THEMES

#### Transitional Assistance Followed by Work

- Full participation. Everyone who receives cash support is expected to do something to help themselves and their community. The requirement applies to those who are preparing themselves for work and to those who are currently not ready to work. Those who are unable to work due to disability or other reasons will be expected to do something for themselves or their community, but will not be subject to time limits until they are ready to engage in training, education or job placement services.
- Training, education and job placement services (the JOBS program). As soon as people begin receiving public assistance, they will sign a personal responsibility contract and develop an employability plan to move them into work as quickly as possible. Many will get jobs quickly--in weeks or months--after assistance with job search and job preparation. Others will spend time in education and training services as needed. The program will be closely coordinated with existing mainstream education and training programs including current and new Labor Department programs (the Job Training Partnership Act and the Workforce Security Act), School-to-Work programs, vocational and post-secondary education.
- Time limits. People who are able to work will be limited to two years of cash assistance. Most people are expected to enter employment well before the two years are up. Extensions to complete an education program expected to enhance self-sufficiency will be granted in a limited number of cases.

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- Work for those who exhaust their time limit (the WORK program). Those people who are still unable to find work at the end of two years will be required to work in a private sector, community service or public sector job. These are intended to be real, work-for-wages jobs. The program will be designed to favor unsubsidized work and to ensure that subsidized jobs are short-term and non-displacing.

### **Making Work Pay**

- Health care reform. An essential part of moving people from welfare to work is ensuring that working people get health protection. The current system keeps people from leaving welfare for fear of losing their health insurance.
- Advance payment of the Earned Income Tax Credit (EITC). The expanded EITC makes it possible for low-wage workers to support their families above poverty. Efforts will be made to help families receive the EITC on a regular basis.
- Child care for the working poor. In addition to ensuring child care for participants in the transitional assistance program and for those who transition off welfare, child care subsidies will be made available to low-income working families who have never been on welfare but for whom assistance is essential to enable them to remain in the workforce and off welfare.

### **Parental Responsibility**

- Child support enforcement. The child support enforcement system will be strengthened to ensure that awards are established in every case, that fair award levels are maintained and that awards that are owed are in fact collected. Demonstrations of child support assurance and of programs for noncustodial parents will be conducted.
- Efforts aimed at minor mothers, responsible family planning and prevention. Minor mothers will receive special case management services and will be required to live at home and stay in school to receive income support. Access to family planning will be ensured. A strategy for investing in and learning from programs to prevent high-risk behavior and teen pregnancy will be pursued.
- Efforts to promote two-parent families. We will provide better support for two-parent families by eliminating or reducing the current bias in the welfare system in which two-parent families are subject to more stringent eligibility rules than single-parent families.

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### Reinventing Government Assistance

- Coordination, simplification and improved incentives in income support programs. The administrative and regulatory program structures of AFDC and Food Stamps will be redesigned to simplify and coordinate rules and to encourage work, family formation and asset accumulation.
- A performance-based system. In addition to incentives for clients, incentives will be designed to bring about change in the culture of welfare offices with an emphasis on work and performance.

### POLICY ISSUES TO BE RESOLVED

The attached paper lays out the major issues that need to be addressed. It is organized around each of the first three broad elements listed above. In each case, a description of the proposed policy is provided and remaining issues discussed. (The details of the fourth element--Reinventing Government Assistance--will be addressed later in a separate paper. We anticipate that changes will be cost neutral for that part of the proposal, so they will not affect cost estimates or financing needs.)

The Welfare Reform Working Group met on Saturday February 26 and discussed the issues that were identified as the most important in the paper. There are five particularly significant sets of issues that need to be resolved:

#### The scale and phase-in of the reformed welfare system

Should we seek to bring everyone on the caseload into the new system quickly, or should we initially target our resources to sub-groups, such as new applicants or the youngest third of the caseload?

Immediate implementation of the new program would severely strain the ability of federal and state governments to implement the new system.

The Working Group agreed that a phased-in approach was necessary.

A phase-in strategy could start with new applicants, or it could start with young applicants and recipients. Starting with young people avoids any incentives to stay on welfare and any "rewards" to having children and coming on welfare early. It also allows for investments in families who have the most hope of being helped.

The Working Group agreed that an initial focus on the youngest third of the caseload was their preferred phase-in strategy.

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### **Extensions to and exemptions from the time limit**

Should any groups of recipients have the time limit extended? Should any be exempted from the requirements of the time limit?

The issue of extensions arises because some recipients, especially those with language difficulties, education deficits and no work experience, may not be able to appropriately prepare themselves for work in a two-year period.

The Working Group agreed that a limited number of extensions for such purposes as completing a high school, school to work or job training program, or for completing a program of postsecondary education combined with work, were appropriate.

The issue of exemptions from the time limit arises because not all recipients are able to work, even if they are not severely enough disabled to qualify for SSI. A second type of exemption issue arises because requiring participation from mothers of infants or very young children may interfere with healthy child development and require substantial expenditures on infant day care. Under current law, over half the caseload, including mothers of children under three, is exempted from participation.

The Working Group agreed that exemptions should be limited, and that participation in some activities should be expected even of those who are exempted. The Working Group agreed that states should be permitted to exempt up to a fixed percentage of the caseload for disabilities, care of a disabled child and other serious barriers to work.

The Working Group split over the issue of whether exemptions for mothers of infants should be for one year (i.e., until the baby's first birthday) or for twelve weeks (Twelve weeks is the mandated leave time in the Parental Leave Act.) Most members agreed on a one year exemption for infants who were not conceived on welfare and a twelve week exemption for those conceived on welfare, with a state option to lower the exemption period to twelve weeks for all children.

### **The structure and requirements of the WORK program for people who come to the time limit without having found unsubsidized work**

After a person hits the time limit, should we mandate States to provide a job which pays an hourly wage, or should we allow States to continue paying a welfare check while requiring work as a condition of receipt? What methods should we use to minimize long-term participation in this work program? How many hours of work should be required?

Work for wages versus work for welfare. Despite a focus on getting everyone into unsubsidized employment as quickly as possible, a small percentage of those who start on welfare will hit the time limit without having found work. After a period of job search, the state may be required to provide a subsidized or community service job for some. One issue is whether states should be permitted to offer "workfare" slots, as opposed to subsidized private sector work or community service jobs in which the participant works for wages. Workfare is somewhat easier to administer than work for wages, but does not provide either the dignity or the discipline of a job that pays wages.

The Working Group agreed that an emphasis on work for wages is a defining feature of the Administration's welfare reform proposal.

Discouraging extended participation in subsidized or community service work. The WORK program of subsidized and community service jobs is designed to be a short term supplement to unsubsidized work in the private sector, not a replacement for it. A number of steps can be taken to ensure this.

The Working Group agreed that subsidized job slots would last for a defined period of time, after which the person would again be expected to look for unsubsidized work.

The Working Group agreed that the availability of the EITC as a supplement to private sector work would provide a powerful incentive for participants to move from the WORK program into unsubsidized work.

The Working Group also agreed that federal reimbursement to states should decline the longer people were on the rolls, in order to provide serious incentives to move people into employment.

The Working Group also agreed that refusal to accept a private sector job should result in termination of benefits.

An issue arises around what is expected to be a relatively small number of people who continue to be unable to find unsubsidized employment after placement in a job slot and private sector job search despite being willing and able to work. (Refusing a job would be grounds for being cut off, and a work for wages model would already provide sanctions because not showing up for work would mean no paycheck.) Some argue that they should be placed in community service slots for as long as they need them. Others argue that this policy would lead to permanent guaranteed jobs that might be expensive and perceived as simply another welfare program. Instead, people who have not found employment might return to a deferred status, might have their welfare benefits reduced or might be cut off entirely.

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The Working Group agreed that a serious reassessment should be done of everyone who comes to the end of two or three years in work assignments without having found private sector work. Those found at that point to be unable to work could be returned to deferred status with full benefits. Those found to be able to work and unwilling to take an unsubsidized job would have assistance terminated. In situations where jobs were not available for people who conscientiously played by the rules and tried to find work, assistance would be continued through another job slot, a workfare assignment, or training linked with work.

Minimum work expectations: part time or full time. Everyone agrees that independence is the ultimate goal of the system. But two related questions arise in thinking about people working less than full time. The first issue is whether someone who is working at least half time in a private unsubsidized job can continue to receive supplementary welfare benefits after two years if they live in a state where half time work at the minimum wage would leave them below the income level for welfare receipt in that state. Proponents of allowing benefit receipt in these situations argue that half time work allows parents time to nurture their children as well as to support them financially--a task which is especially difficult for single parents. They also argue that getting someone to work part time is a big success and should be rewarded. Opponents argue that full time work and an end to welfare receipt should be the expectation. They argue that continuing AFDC as a work supplement for long periods of time is counter to the basic philosophy of the new program.

The Working Group was split on this issue. About half the group felt that part time workers should continue to be eligible for supplementary benefits after the time limit. Others felt that the time limit should apply, but with many arguing for a slowing of the clock for part time workers. Some members suggested a compromise that said that supplementary welfare benefits would be provided for part time workers (at least twenty hours) who had pre-school children, and at state option to other part time workers.

A related issue arises around the number of hours of work that states would be required to provide through subsidized or community service jobs, and around the supplemental welfare benefits that would need to be paid if the required hours of work did not generate pay at least as high as the welfare benefits received by non-working welfare recipients in the state. Because of wide variations in state welfare benefit levels, the number of hours of work at the minimum wage required to earn the equivalent of the welfare benefit level for a family of three ranges from about 7 to about 47 hours per week. For larger families, work hours would have to be higher to reach the welfare benefit levels. It is obviously hard to structure a real job of eight or ten hours per week. At the other extreme, it is unreasonable to require more than the conventional definition of full time work.

The Working Group agreed that states could vary the number of work hours

they required, but that they could go no lower than 15 nor higher than 35. There was also agreement that the wage paid must be at least the minimum wage and could be higher.

We assume that most states could and would require work hours that would produce earnings roughly equivalent to welfare benefits; some states might do this by paying more than the minimum wage. In the median state this would be about 26 hours a week at the minimum wage for a family of three. Some higher benefit states might choose, however, to structure jobs with fewer hours, and some very high benefit states might choose not to raise the wage to a level sufficient to pay the equivalent of the welfare benefit. Should they be allowed to do this and required to provide a supplementary benefit to bring family income up to the level of welfare benefits for recipients who don't work? The argument for doing so is people who are playing by the rules and working, even if they have not been able to find an unsubsidized job, should not be penalized by receiving lower benefits. The argument against doing so is that this too would continue welfare as a work supplement.

The Working Group was split on this issue. The discussion tended to parallel the discussion on the acceptability of part time work. There was some sentiment in favor of varying the expectation for parents of pre-school children.

### **The level and focus of child care for the working poor**

What level of resources should we devote to child care for the working poor? How should limited resources be targeted?

Child care for the working poor is a potentially costly addition to a welfare reform package. The argument for including it, however, is to ensure that low income working families are encouraged to stay off welfare, and that equity is maintained between those who have and have not been on welfare.

The Working Group agreed that child care for the working poor is an integral part of a welfare reform effort. The Working Group also expressed a preference, however, that working poor child care be paid for through mechanisms other than cuts in programs for the poor. There is a strategic decision to be made, therefore, about the financing and packaging of this aspect of welfare reform.

### **Parental responsibility and prevention**

Should demonstrations of child support assurance and programs for non-custodial parents be included in the welfare reform package? Should states be allowed or required to reduce benefits for children conceived on welfare?

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The Working Group agreed that demonstrations of both Child Support Assurance and programs for non-custodial parents should be included. Enthusiasm for child support assurance varied.

The Working Group did not discuss family caps or other prevention issues, which will be taken up at the next meeting.

## **COSTS AND FINANCING**

The attached paper does not include a discussion of financing options. The Working Group recognized that decisions about the overall welfare reform package that have serious cost implications need to be made in the context of available financing possibilities. Issues of balancing costs and financing were not discussed at the February 26 meeting, but will be the focus of the next meeting.

To provide a sense of the scale of a program and the cost of particular elements, we have created a hypothetical proposal, which served to guide the Working Group's discussions of the costs of various policy choices. The actual cost of the program will differ depending on what decisions are made about the issues identified above. In the attached document, we refer to this hypothetical proposal and indicate where different programmatic decisions would have led to a larger or smaller program. The table which follows is provided only as a basis of discussion--not as an indication that policy decisions have been made.

**TABLE 1.—PRELIMINARY COST ESTIMATES (FEDERAL AND STATE)  
FOR A HYPOTHETICAL WELFARE REFORM PROPOSAL  
(By fiscal year, in millions of dollars)**

	1995	1996	1997	1998	1999	5-Year Total
<b>PARENTAL RESPONSIBILITY</b>						
Minor Mothers	0	(45)	(50)	(50)	(50)	(195)
Comprehensive Demonstration Grants	0	50	50	50	50	200
Two-Parent Provisions	0	0	440	680	945	2,065
No Additional Benefits for Additional Children	(35)	(100)	(110)	(140)	(150)	(535)
<b>Child Support Enforcement</b>						
Paternity Establishment (Net)	5	20	(110)	(165)	(215)	(465)
Enforcement (Net)	(10)	(20)	(65)	(80)	(320)	(495)
Computer Costs	15	35	95	160	160	465
Non-Custodial Parent Provisions	0	25	80	110	175	390
Access Grants and Parenting Demonstrations	20	25	30	30	30	135
Child Support Assurance Demonstrations	0	0	100	200	250	550
<b>SUBTOTAL, CSE</b>	<b>30</b>	<b>85</b>	<b>130</b>	<b>255</b>	<b>80</b>	<b>580</b>
<b>TRANSITIONAL ASSISTANCE FOLLOWED BY WORK</b>						
S-Prep	0	15	50	60	70	195
Transitional JOBS Spending	0	210	750	920	1,000	2,880
WORK Program	0	0	0	130	690	820
Additional Child Care for JOBS/WORK	0	190	630	745	900	2,465
Transitional Child Care	0	70	230	280	360	940
Enhanced Teen Case Management	0	30	90	105	110	335
Economic Development	0	0	100	100	100	300
Savings - Caseload Reduction	0	0	(30)	(60)	(60)	(170)
<b>SUBTOTAL, JOBS/WORK</b>	<b>0</b>	<b>515</b>	<b>1,820</b>	<b>2,280</b>	<b>3,150</b>	<b>7,765</b>
<b>MAKING WORK PAY</b>						
Working Poor Child Care	0	500	1,000	1,500	2,000	5,000
Advance EITC	0	0	0	0	0	0
<b>GRAND TOTAL</b>	<b>(5)</b>	<b>1,005</b>	<b>3,280</b>	<b>4,575</b>	<b>6,025</b>	<b>14,880</b>

Note: Parentheses denote savings.

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

SEE APPENDIX FOR ENDNOTES TO TABLE

**APPENDIX: ENDNOTES TO TABLE 1**

**Two-Parent Estimates**

1. The costs for eliminating the special eligibility requirements for two-parent families is based upon estimates from the food stamp quality control data file. These estimates were then adjusted for increased participation based on estimates from the MATH model employed by Mathematica Policy Research, Inc.

**Child Support Enforcement Estimates**

1. The costs for the noncustodial parent provisions are 10 percent of the JOBS and WORK program costs.

**Caseload Numbers and JOBS and WORK Estimates**

The caseload numbers and the JOBS and WORK cost estimates are based on the following policies, assumptions and sources of data:

1. Adult recipients (including teen custodial parents) born after 1972 are subject to the time limit beginning in October 1996 (FY 1997). The cost estimates assume about one third of the States, representing 40 percent of the caseload, will implement the policy a year earlier than required. This follows the pattern of State implementation under the Family Support Act. JOBS spending on other portions of the caseload would continue as per current law.
2. Non-parental caretaker relatives are not subject to the new rules and are not phased-in.
3. Parents who have a child under one (or under 3 months, if conceived after the initial welfare receipt), are caring for a severely disabled child, report a work limitation or who are 60 years of age and older are deferred from participation in the JOBS and WORK programs. As of FY 1999, about 25 percent of the phased-in caseload is deferred.
4. The caseload numbers include modest treatment effects as a result of the new rules.
5. Cost per JOBS participant figures are taken from the FY 1993 JOBS data (adjusted for inflation using the projected CPI).
6. The cost estimate assumes that all non-deferred phased-in recipients are engaged in activities. We assume that at a given point in time, 50 percent of the phased-in recipients are engaged in activities which have cost. For recipients with extensions, it is assumed that everyone is participating in a JOBS activity which costs the program money.
7. The cost of developing and maintaining a WORK assignment is calculated using CWEP data from JOBS and from the welfare-to-work demonstrations of the 1980s (again, adjusted for inflation using the projected CPI). Approximately 25,000 and 130,000 WORK slots would be required in 1998 and 1999, respectively.

8. The figures for JOBS participants and JOBS spending under current law are taken from the baseline in the FY 1995 budget for the HHS Administration for Children and Families
9. The JOBS and WORK cost estimates do not consider the potential impact of child support on the size of the caseload.

#### Teen Case Management and JOBS-Prep Cost Estimates

1. The case management cost estimate presumes that at full implementation, enhanced case management services would be provided to all teen parents under the age of 19 and receiving assistance. The percentage of teen parents receiving comprehensive case management services is predicted to rise from 70 percent in FY 1996 to 80 percent in FY 1997, 90 percent in FYs 1998 and 1999 and to 100 percent in FY 2004.

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

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

2. The JOBS-Prep cost estimate presumes that JOBS-Prep services will be provided to 20 percent of those in the JOBS-Prep program. As States currently serve only 16 percent of the non-exempt caseload in the JOBS program, it is plausible to suppose that States will not serve a significantly higher percentage of persons in the JOBS-Prep program. We do not know what services States will provide during the JOBS-Prep program (candidates include parenting skills classes, life skills training and substance abuse treatment), so arriving at a cost per participant figure for the program is difficult.

For purposes of the estimate, we assume that States will not provide services such as vocational rehabilitation in the JOBS-Prep program. JOBS-Prep services will consist primarily of case management and referral to external service providers. Many persons in the JOBS-Prep program have disabilities, although most mothers of children under one do not. The cost estimates assume that a fairly intensive level of case management would be required for a small percentage of persons in this program.

The cost per JOBS-Prep participant figure represents a level of case management more intensive than that in the current JOBS program but not as intensive as the level provided in the Teen Parent Demonstration. The number is arrived at by multiplying the Teen Parent Demonstration case management figure by .75.

### Child Care Estimates

1. These estimates reflect the child care costs associated with the phase-in assumptions described above under JOBS and WORK.
2. This estimate is based upon baseline spending for the Head Start program and therefore does not account for the additional children who will be served by Head Start when it expands. This follows conventional CBO scoring rules.
3. There is no sliding scale fee for services included in this estimate.
4. We assume that approximately 40 percent of all AFDC families participating in JOBS and WORK will use paid child care.
5. We assume that Transitional Child Care eligibles will have average utilization rates of 40 percent.
6. Our working poor estimate represents a phase-in of a capped entitlement to cover children whose families are below 130 percent of poverty but do not receive AFDC. By 1999, we will approach full implementation with \$2 billion in net funding. We assume that there are approximately 8 million non-AFDC children below 130 percent of poverty, 40 percent of whom will potentially need child care because of their parents' work status, and that 40 percent of these families will use paid child care.

### No Additional Benefits for Additional Children

1. This cost estimate is based upon an estimate by the Congressional Budget Office. The estimate assumes a State option policy where States representing 33 percent of the effected caseload adopt a cap for benefits for new children.
2. It is assumed that States would reduce the monthly benefit by \$63 for each child (after the first) born while the mother was receiving AFDC. It is also assumed that States would have little success identifying children born on AFDC during previous spells of welfare receipt.



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

Stacy D.

February 14, 1994

MEMORANDUM FOR THE DIRECTOR  
DEPUTY DIRECTOR

FROM: Belle Sawhill *Belle*  
SUBJECT: Welfare Cost Estimates

The costs of welfare reform depend on

- the contents of the plan,
- the phase-in strategy and time period for which costs are estimated; and,
- the behavioral impacts of the plan.

This memo lays out some of the issues we face in each area and seeks your guidance in resolving them.

The Contents of the Plan

There are a large number of possible reform options consistent with the President's basic vision -- each with a different "steady-state" cost. ("Steady-state" means the cost once the plan has been fully phased in and any new rules or policies apply to the entire caseload, not just a portion of it.) I believe, based on our staffs' work, that the range of annual steady-state costs varies from zero to \$10 billion with the most reasonable estimates probably falling in the middle of this range. We are now working with HHS to specify the most relevant options within this range so that you and others can see what kind of policy you can buy for different prices. Although we will have much more detail for you later, the most relevant issues are likely to be: how much child care is expanded for the working poor, whether the work slots are time-limited, and the administrative costs of creating jobs.

## The Phase-In of the Plan

Most of those who have worked on the plan agree that it should be phased in gradually. Although there are numerous ways to do this (by state, by age, by length of time on the rolls, etc.), the most common assumption is that we will start with all new applicants (existing recipients would be grandmothers). Under this assumption, it turns out that the federal costs of a basic reform plan (the time-limit followed by community service, with related training and child care costs and assuming no behavioral effects), based on very preliminary estimates, are as follows:

First five years (cumulative):	\$3 billion
First ten years (cumulative):	18 billion
Steady state (one year):	5 billion
Steady state (five years):	25 billion

As these numbers plainly illustrate, the phase-in path is critical as is the specific time period for which costs are estimated and presented to the public. Depending on which period is picked we can say the same plan costs anywhere from \$3 to \$25 billion. Note that Senate scoring rules adopted in last year's budget resolution require a 10-year window. Moreover, journalists, aided by outside analysts, will surely be interested in presenting steady-state estimates even if we do not.

## Behavioral Impacts

To a large degree, the promise of reform is that it will affect behavior. The theme of parental responsibility, with its emphasis on child support enforcement and reducing teen births, is designed to reduce the number of people coming on to the rolls. The theme of work and responsibility, with its emphasis on education, training, and jobs, is intended to move people off the rolls. Many of us believe that over time these impacts will occur and will produce savings that help to offset (possibly even more than offset) the initial costs of reform. The problem is that it is doubtful that CBO will score much if any of these savings. (The estimates cited above do not assume any behavioral impacts.)

## Options

In the face of these facts, it seems to me that we have three basic options:

### Option One: Count Just the First Five Year Costs

If we did this we could propose quite a generous policy and fully offset it. The downside is that we could be blown out of the water by outside analysts and be

subject to a point of order in the Senate. Republicans would argue that we had launched an expensive policy and only paid for its opening wedge.

#### Option Two: Count the Steady-State Costs

This would be much more credible but would necessitate proposing a much tougher policy unless we come up with a lot bigger offsets than anyone is contemplating right now or assume much bigger behavioral impacts than CBO is likely to score. We would probably need to time limit the community service jobs, cut back on child care expansions for the working poor, and find creative ways to keep the costs of the work program down. A variety of popular add-ons (such as liberalizing the assets test, treating two-parent families more like one parent families, experimenting with child support guarantees) would probably have to be dropped.

#### Option Three: Propose a Five Year Program Only

We could make the argument that we believe that behavior is bound to change under our policy, but that we plan to rigorously evaluate the program over a five year period to measure its effects and the associated cost savings. We could propose to sunset the legislation at the end of five years at which time we might ask the Congress to extend and possibly modify it, depending on what was learned over the first five years. This is a sensible approach that avoids some scoring problems but could be criticized for not ending welfare as we know it but rather experimenting with welfare as we know it.

The above is just a first installment on what will undoubtedly be an extended discussion of these issues. I will be setting up some meetings so we can talk about them further and get your input.

cc. Bruce Reed  
Kathi Way  
Richard Bavier  
Stacy Dean

October 27, 1993

E-Mail to: Leon Panetta and Alice Rivlin

From: Belle Sawhill

I earlier shared with you a summary of the bill House Republicans plan to submit on Nov. 8. Briefly, the plan includes:

-A requirement that almost all welfare recipients participate in education, training, job search, or work experience during the first two years (phased in).

-A requirement that almost all welfare mothers work at the end of 2 years, either in the private sector or in a community service job. Individuals would be eligible for community service jobs for up to 3 years.

-No benefits, under most circumstances, for parents under 18, for mothers who do not identify the father of their child, or for mothers who have additional children while on welfare.

The cost of the added services is about \$12 billion over 5 years. However, the bill denies welfare and related forms of assistance to noncitizens, thereby saving \$21 billion. It also proposes to block grant about 10 food programs while cutting funding for them by 5%, thereby saving \$8 billion. The total savings from these and other measures are \$31 billion. Thus, on balance, there are sufficient funds to pay for reform and reduce the deficit by about \$19 billion.

Summary:	New costs	+ 12
	Savings	- 31
	Deficit reduction	- 19

## Senate Republican Welfare Reform Proposal

The House and Senate Republican Welfare Reform bills are quite similar. Both bills set up a two year transition to work program, require applicant job search, job training, and finally work for welfare. Exemptions and sanctions in the Senate bill are generally the same as the House, with some administrative differences. Under both bills, minor mothers and fathers would be required to live with their parents, there would be rewards and sanctions for school attendance and States would have the option to deny benefits to children born while on welfare. Both Bills seek to increase paternity establishment and improve child support enforcement, and expand and expedite waiver authority for State experiments. The Senate also restricts welfare payments to immigrants and illegal aliens.

Major differences between House and Senate versions:

### JOB S and Work Programs in the Senate

- Would allow recipients to take a private sector job and give employers a voucher to supplement wages. The voucher would be equal to the combined AFDC and Food Stamp benefit. To hire recipients, employers would have to agree to pay the employee at least twice the value of the voucher or minimum wage whichever was higher. After six months, the wage replacement value of the voucher would be reduced by half and would be phased out after two years. Employers could also receive the Targeted Jobs Tax Credit (TJTC) for employing the welfare recipients. There is no similar provision in the House Bill.
- Would require assessment every 6 months to determine if the recipient has made "clear and substantial progress" toward preparing for work.
- While the House requires all non-exempt individuals to work to receive welfare after two years, the Senate requires only those who are found "ready to work" after two years to work.
- There are no participation rates for JOBS and work programs in the Senate version. The House Bill specifies participation rates in the JOBS and work programs of 60% rising to 90% by 2002.

### Paternity Establishment and Child Support Enforcement in the Senate Bill

- Once at least one child in the family had paternity established, all children would be eligible to receive AFDC. Only the mother would be sanctioned for non-cooperation. Under the House version, children would be eligible for AFDC only if paternity is established, and the entire family would not receive benefits for non-cooperation.

- Once a paternity suit had been filed, the client would be eligible for full benefits. The House only allows full benefits after paternity is legally established.
- Unlike the House bill, does not require W-4 wage and new hire reporting systems and hospital based paternity establishment processes.

#### Other Provisions in the Senate Bill:

- extends current deeming requirements from 5 years to citizenship. The Bill requires welfare agencies to report legal immigrants who continue to receive benefits beyond 12 months to the INS. The INS would then be required to treat the immigrants as "public charges," which would make the immigrants potentially deportable.

#### House Provisions not in the Senate Bill

- The House bill includes a State option to convert AFDC to a block grant. The House would also place a cap on Entitlement programs, consolidate 10 food programs into a block grant, require SSI to identify and periodically test addicts on SSI and, if positive, terminates eligibility and require public housing authorities to disregard FICA and income taxes for 2 years after recipients begin employment. None of these provisions are in the Senate bill.

**Republican Welfare Reform Bill HR. 3500**  
**A comparison of preliminary HHS and CBO pricing**  
**(in millions of dollars)**

<u>Title and Section</u>		<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>FY94-99</u>
<i><u>Title I AFDC Transition and Work Program</u></i>							
AFDC Transition and WORK Program Child Care*							
CBO:	AFDC-JOBS	0	0	300	1,000	1,900	3,200
	AFDC-Child Care	0	-100	100	600	1,600	2,200
	Total	0	-100	400	1,600	3,500	5,400
HHS:	AFDC-JOBS	0	92	450	951	1,512	3,005
	AFDC-Child Care	0	-22	208	603	1,248	2,037
	Total	0	70	658	1,554	2,760	5,042
Note: HHS has indicated that they consider these Child Care estimates to be a little high.							
<i><u>Title I Subtotal</u></i>							
	CBO	0	-100	400	1,600	3,500	5,400
	HHS	0	70	658	1,554	2,760	5,042

*Title II Paternity Establishment*

Sanction AFDC Families if  
Paternity is not Established

CBO:	AFDC	-200	-400	-900	-900	-900	-3,300
	Food Stamps	100	200	500	500	500	1,800
	CSE	N/E	N/E	N/E	N/E	N/E	N/E
	Total	-100	-200	-400	-400	-400	-1,500
HHS:	AFDC	-485	-720	-1,180	-1,190	-1,200	-4,775
	Food Stamps	125	250	500	500	500	1,875
	CSE	0	2	4	0	-3	10
	Total	-360	-461	-676	-690	-703	-2,890

<i><u>Title II Subtotal</u></i>							
	CBO	-100	-200	-400	-400	-400	-1,500
	HHS	-360	-461	-676	-690	-703	-2,890

**Republican Welfare Reform Bill HR. 3500**  
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<b><u>Title III Expanded Statutory Flexibility for States</u></b>							
<b>301</b>	<b>State Option to Convert AFDC to a Block Grant</b>						
	CBO:	CBO believes that no State would take this option.					0
	HHS:	0	0	0	0	0	0
<b>302</b>	<b>Deny AFDC if either parent is a minor</b>						
	CBO:	N/E	N/E	N/E	N/E	N/E	N/E
	HHS:	-260	-270	-280	-290	-300	-1,400
<b>303</b>	<b>Treat Interstate immigrants under rules of former State</b>						
	CBO:						
	AFDC	-30	-70	-70	-70	-70	-310
	Food Stamps	20	40	40	40	40	180
		-10	-30	-30	-30	-30	-130
	HHS:						
	AFDC	-140	-140	-150	-150	-160	-740
<b>304</b>	<b>Impose penalty for failure to attend school</b>						
	CBO:						
	AFDC Admin	25	75	100	100	100	400
	AFDC Benefits	*	*	*	*	*	*
	Total	25	75	100	100	100	400
	HHS:						
	AFDC	50	75	110	115	120	470

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<b>305 No Additional Benefits for New Children</b>							
CBO*	AFDC	-90	-200	-260	-320	-350	-1,220
	Food Stamps	<u>50</u>	<u>100</u>	<u>140</u>	<u>160</u>	<u>190</u>	<u>640</u>
	Total	-40	-100	-120	-160	-160	-580
HHS	AFDC	-160	-440	-620	-810	-1,020	-3,050
* CBO has indicated that these AFDC savings estimates are a little high and will be reestimated.							
<b>306 Option to modify certain AFDC income disregard rules</b>							
CBO:	AFDC	220	220	230	240	250	1,160
	Food Stamps	-110	-120	-120	-120	-130	-600
	Medicaid	<u>140</u>	<u>150</u>	<u>160</u>	<u>180</u>	<u>200</u>	<u>830</u>
	Total	250	250	270	300	320	1,390
HHS	AFDC	260	260	270	280	290	1,360
<b>307 Option to provide married couple transition benefits</b>							
CBO:	AFDC	60	120	120	130	130	560
	Food Stamps	-30	-60	-70	-70	-70	-300
	Medicaid	<u>70</u>	<u>160</u>	<u>180</u>	<u>200</u>	<u>220</u>	<u>830</u>
	Total	100	220	230	260	280	1,090
HHS:	AFDC	60	120	120	130	130	560
	Food Stamps	-30	-60	-70	-70	-70	-300
	Medicaid	<u>N/E</u>	<u>N/E</u>	<u>N/E</u>	<u>N/E</u>	<u>N/E</u>	<u>N/E</u>
	Total	30	60	50	60	60	260

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<b>308</b>	<b>Disregard Income and resources designated for education training &amp; employment, or related to self-employment</b>						
CBO:	AFDC	10	25	55	55	55	200
	Food Stamps	-5	-5	-10	-10	-10	-40
	Medicaid	10	10	25	35	35	115
	Total	15	30	70	80	80	275
HHS:	AFDC	5	15	30	30	30	110
<b>309</b>	<b>Option to require attendance at parenting &amp; money management classes &amp; prior approval of any action that would result in a change of school for a dependent child</b>						
CBO	AFDC	N/E	N/E	N/E	N/E	N/E	N/E
HHS	AFDC	Indeterminate but small.					

<u>Title III Subtotal</u>							
CBO		340	445	520	550	590	2,445
HHS		-215	-440	-590	-765	-980	-2,990

Title IV Expansion of State Waiver Authority

**Expansion of State and Local Flexibility**

CBO	AFDC	N/E	N/E	N/E	N/E	N/E	N/E
HHS	AFDC	.	.	.	.	.	.

<u>Title IV Subtotal</u>							
CBO		N/E	N/E	N/E	N/E	N/E	N/E
HHS		.	.	.	.	.	.

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Title V Child Support Enforcement

Child Support Enforcement

CBO	AFDC	N/E	N/E	N/E	N/E	N/E	N/E
HHS	AFDC	10	2	-2	-9	-27	-26
	CSE	8	12	27	55	24	126
	Total	18	14	25	46	-3	100

Title V Subtotal

CBO	N/E	N/E	N/E	N/E	N/E	N/E
HHS	18	14	25	46	-3	100

Title VI Eliminate Benefits to Non-Citizens

Eliminate All Benefits to Non-Citizens

CBO:	AFDC	0	-100	-300	-300	-300	-1,000
	Food Stamps	0	-400	-800	-800	-800	-2,800
	Medicaid	0	-900	-2,100	-2,400	-2,700	-8,100
	SSI	0	-1,200	-2,500	-2,700	-3,000	-9,400
	Total	0	-2,600	-5,700	-6,200	-6,800	-21,300
HHS:	AFDC	-10	-210	-230	-250	-260	-960
	SSI	-80	-1,970	-2,140	-2,300	-2,460	-8,950
	Total	-90	-2,180	-2,370	-2,550	-2,720	-9,910

Title VI Subtotal

CBO	0	-2,600	-5,700	-6,200	-6,800	-21,300
HHS	-90	-2,180	-2,370	-2,550	-2,720	-9,910

**Republican Welfare Reform Bill HR. 3500**  
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<u>Title and Section</u>		<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>FY94-99</u>
<u>Title VII Controlling Welfare Costs</u>							
Controlling Welfare Costs							
CBO:	NET	N/E	N/E	N/E	N/E	N/E	N/E
HHS:	NET	0	-600	0	-7,000	-8,200	-15,800
<u>Title VII Subtotal:</u>							
	CBO	N/E	N/E	N/E	N/E	N/E	N/E
	HHS	0	-600	0	-7,000	-8,200	-15,800

Title VIII Consolidated Block Grant To States For Nutrition Assistance

Block Grant Mandatory and  
Discretionary Food Programs and  
reduce authorization by 5%

CBO:	NET	0	-3,000	-1,600	-1,800	-1,900	-8,300
HHS:	NET	0	-1,900	-2,600	-3,300	-3,600	-11,400
<u>Title VIII Subtotal:</u>							
	CBO	0	-3,000	-1,600	-1,800	-1,900	-8,300
	HHS	0	-1,900	-2,600	-3,300	-3,600	-11,400

Title IX Miscellaneous

901 AFDC recipients required to undergo  
necessary substance abuse treatment  
as a condition of receiving AFDC

CBO	AFDC	N/E	N/E	N/E	N/E	N/E	N/E
HHS	AFDC	N/E	N/E	N/E	N/E	N/E	N/E

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<u>Title and Section</u>		<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>FY94-99</u>
902	Random Drug test of addicts getting SSI disability benefits						
CBO	SSI	N/E	N/E	N/E	N/E	N/E	N/E
	Medicaid	N/E	N/E	N/E	N/E	N/E	N/E
HHS	SSI	N/E	N/E	N/E	N/E	N/E	N/E
	Medicaid	N/E	N/E	N/E	N/E	N/E	N/E
903	Evaluation of education and training programs						
CBO	AFDC	N/E	N/E	N/E	N/E	N/E	N/E
HHS	AFDC	5	5	5	5	5	25
904	Job search required while AFDC application is pending						
CBO	AFDC	N/E	N/E	N/E	N/E	N/E	N/E
HHS	AFDC	N/E	N/E	N/E	N/E	N/E	N/E
905	Demos on fraud & administrative efficiency						
CBO	AFDC	N/E	N/E	N/E	N/E	N/E	N/E
HHS	AFDC	1	1	1	1	1	5
906	Public housing rent reform						
CBO	Housing	N/E	N/E	N/E	N/E	N/E	N/E
HHS	Housing	N/E	N/E	N/E	N/E	N/E	N/E

**Republican Welfare Reform Bill HR. 3500**  
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<u>Title and Section</u>		<u>FY94</u>	<u>FY95</u>	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>FY94-99</u>
907 Required Immunizations for children and health check-ups							
CBO	AFDC	*	5	5	10	10	30
	Medicaid	5	10	25	40	35	115
	Total	5	15	30	50	45	145
HHS	AFDC	0	5	5	5	5	20
<b>Title IX Subtotal</b>							
	CBO	5	15	30	50	45	145
	HHS	6	11	11	11	11	50
<b>Total As Priced</b>							
	CBO	245	-5,440	-6,750	-6,200	-4,965	-23,110
	HHS	-641	-5,486	-5,542	-12,694	-13,435	-37,798

## EXECUTIVE OFFICE OF THE PRESIDENT

01-Mar-1994 05:31pm

TO: Alice M. Rivlin

FROM: Isabel Sawhill  
Office of Mgmt and Budget, HRVL

SUBJECT: welfare reform

How should the program be phased in?

How much effort should be put into preventing first entry? Should we have a family cap? Should minor moms have to live with parents?

Should we provide benefits for noncustodial parents?

Should we do child support assurance demos?

Who should be exempted from participation? What about extensions? For college?

Should we require job search before receipt of welfare?

Should the emphasis be on labor force attachment or human capital development in the JOBS program?

Should the WORK program be time-limited? Or (equivalently) the number of slots capped?

Should it be work for wages or work for welfare? Can you be fired? What's the final safety net for those who are?

Can a significant number of the WORK slots be child care for other recipients?

Should people in WORK receive EITC?

Should those who are working at end of 2 years continue to receive an AFDC supplement in high benefit states?

Should there be expanded child care for the working poor? Could it be proposed in a separate bill?

Should we change rules for two parents and make other changes to simplify programs? Only if it saves rather than costs money?

Should federal government pay all of the new costs? Or share with

states?

Can some of the financing options be repackaged as cost savers under the "reinventing government" rubric?

# WR COSTS

October 5, 1993

NOTE FROM: Wendell Primus

Last week we had considerable discussion about the cost of community work experience programs (CWEP) for welfare recipients. The attached draft paper provides some unit cost estimates of three types of employment support services, including transitional work experience, which is modeled after CWEP. The paper also identifies the major components of the aggregate service costs for each of the three types of employment support services models. You will note that the child care costs in a transitional work experience program represent only approximately 27% of the aggregate costs -- less than the cost of developing and maintaining the positions (37%), but more than case management costs (20%).

This paper is the best work I have seen on this subject, and I hope you find it helpful for our future discussions.

Attachment

Q's  
\$3,300 (nearly 60%) on Admin costs of welfare. Why not just give them the money as a job voucher -- or pay Amer. works?  
Why can WVA spend \$18/mo on Admin and we assume \$150/mo.?  
Why intensive case mgmt for CWEP crowd?  
How much does c. care overlap with H. Stpt?

**DRAFT--FOR INTERNAL REVIEW AND DISCUSSION ONLY  
DO NOT CITE**

## **COSTS OF EMPLOYMENT-SUPPORT SERVICES UNDER WELFARE REFORM<sup>1</sup>**

October 2, 1993

This paper provides estimates of the cost of providing employment-support services to welfare recipients during various phases of their participation in self-sufficiency oriented activities. Specifically, we have developed estimates of the cost of receiving three different types of program support: (1) supervised and supported job search; (2) a transitional work experience job; and (3) services aimed at promoting retention in private sector jobs and, hopefully, progressing to better paying jobs. The goal in developing these cost estimates is to guide policy developers and program planners regarding the level of funding necessary to provide various types of support to welfare recipients to promote continual progress toward self-sufficiency. Cost estimates are calculated per "year of service." We have considered both the experiences of other programs and preliminary plans for welfare reform in judging how the service bundle under the welfare system will vary for individuals within a year and across individuals. The overall cost estimates are supported by detailed information on the costs of various component services in various ongoing and prior programs and demonstrations.

This paper does not provide estimates of the cost of major services that may be preparatory to participation in job search, transitional work experience, or low-wage private sector employment.

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<sup>1</sup>This paper was drafted by Rebecca Maynard, based on input from a variety of sources and with assistance from a large number of people, particularly members of the post-transition cost estimation working group--Geoff Gettinger, DHHS/OS; Michael Ruffner, OMB; Sherry Glied, CEA; Dennis Poe, ACF/DHHS; and Jim Houser, DOED. David Long, Craig Thornton, and Ellen Kisker also provided valuable guidance in the assembly and interpretation of data for this paper. A companion volume contains many of the source tables and from which particular pieces of cost data were drawn.

Although many welfare recipients will need extensive transitional support services prior to moving directly into the work force--whether to private sector or work experience positions--the federal costs of these services will depend heavily on the community context. We anticipate that the mental health needs will be provided through the reformed health care system. Many education and job training opportunities are already available for this population, funded through local school districts, community colleges, and the federal job training system, for example. The general assumption is that the welfare system will need to provide case management and support services to clients in these transitional services, but that the cost of the major services during this period will be borne by existing systems outside of welfare.

The following section discusses our overall estimates of the costs of three types of services--job search support, transitional work experience, and employment support--and the components of these aggregate service costs. We present *benchmark* estimates, but also *higher* and *lower* cost estimates for each type of service. Section B discusses the source of our estimates of each of the components of the overall service cost estimates--job creation and support, child care, job search assistance, transportation assistance, and case management. Source data for various of the component cost estimates are presented in a companion volume.

#### A. OVERVIEW OF THE SERVICE COST ESTIMATES

Service costs are necessarily dependent on program design--the target population for the intervention, participation rates and intensities, and service mix and intensity. Our benchmark or best-guess estimates are that: a supportive job search assistance program will cost about \$1,500 per year in post transition job search; transitional work experience will cost an average of about \$5,900 per year; and employment support for those in low wage jobs will cost an average of about \$3,500 per year (Table 1). However, a number of factors could lead one to judge these estimates to be too high or too low. For example, the specifics of the program design or program targeting that are planned could differ from those implicit in the benchmark estimates, or one could judge that the

assumed level of use of a particular support service is too high or too low. Our "lower" and "higher" costs estimates specifically address these types of concerns. The range of our costs estimates for each type of service generally falls within a range of about plus or minus 25 to 35 percent of the benchmark estimate.

In developing these specific cost estimates, we assumed that the programs will have fairly broad coverage, have strong participation incentives and/or requirements, and have incentives to address the full range of service needs of individuals. These assumptions point to several important differences between the prior programs from which we are drawing cost estimates and the program models likely to evolve under welfare reform.

First, the new programs will have greater and more even coverage of the population. Moreover, programs are expected to make greater efforts to address needs, such as child care, that frequently have been cause for exemption in past programs. As a result, we can expect that, on average, the population will be younger, will have younger children, and will include some who, at first blush, seem less eager or willing to participate than those served under JOBS, for example.

Second, states will be held accountable for participant outcomes, not simply service delivery. This means that we can expect programs to be more attentive to the "bundle" of services needed by individuals to move them to self-sufficiency. Moreover, they will be more attentive to the quality and intensity of the services, since their performance depends on the outcomes of the services not simply their delivery.

Third, there will be real consequences for welfare recipients of not actively pursuing self-sufficiency and availing themselves of necessary services to support these efforts. This means that we can expect more regular program participation and greater use of services by the welfare recipients than under voluntary programs. Fourth, there will be strong emphasis on promoting self-sufficiency at the earliest possible point. This too means that the target population will tend to be

younger than those served by most previous program initiatives, including JOBS, and that they will have much younger children, on average.

Our benchmark cost estimates necessarily reflect judgments about the implications of these factors for extrapolating from the cost experiences of prior program efforts.

#### 1. Job Search Assistance Services

Participants in supervised and supported job search will need a range of services, including child care, direct job search assistance, transportation, and case management. On average, we estimate that providing these services to welfare recipients in this program component will average between \$1,018 and \$1,941 per service year (Table 1). Our benchmark costs estimate is \$1,517 per year.

**Child Care.** Child care is the largest component of cost--\$524 per year under the benchmark estimate. The benchmark estimate of child care costs assumes that just over half (54 percent) of all job search participants use child care to support their search efforts--the same percent who would have used JOBS-supported child care had the recipients with children younger than three been represented at twice the level they are currently represented in the AFDC population.<sup>2</sup> But, it assumes that those who receive benefits require them only a third of the months they are in supervised job search. The latter assumption seems reasonable, given the more intermittent nature of job search as compared with employment activities. The average subsidy level per family during months of support is set at the weighted average subsidy level received by those JOBS participants who got them a given month (\$243).<sup>3</sup>

$$\{ .54 \text{ Participation Rate} \times 4 \text{ Months of Use} \times \$243 \text{ per Month} \} = \$525$$

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<sup>2</sup>See section B and Table 4, below.

<sup>3</sup>This cost estimate was generated by weighting the average subsidy levels received by JOBS CWEP participants with youngest children in various age ranges by the assumed distribution of program participants under welfare reform (see section B and Table 4 below).

The lower estimate of child care costs (\$389 per year) assumes that fewer participants have very young children. Specifically, we assumed that the age distribution of children whose parents are in job search mirrors that of all AFDC families, which at the JOBS subsidy rates for families with youngest children in different age groups would be 40 percent rather than the 54 percent assumed under the benchmark estimate. The higher cost estimate (\$681) assumes that one aspect of welfare reform would be to encourage and support use of higher quality (and more costly) child care. Specifically, this higher estimate assumes that the average subsidy rate for child care is 30 percent above the current rate paid under JOBS.

**Job Search Training.** Job Search training costs are assumed to average \$225 per person under the benchmark estimate. Job search training tends to be episodic rather than ongoing, usually lasting two to four weeks. Our benchmark cost estimate assumes that programs would offer a slightly richer training course than the average provided under JOBS (estimated to cost an average of \$150 per participant rather than the \$125 per participant under JOBS). Moreover, we have assumed that half of those individuals staying in supervised job search for extended periods of time would retake the training once during the year.

$$[ 1.5 \text{ Episodes of Training per Year} \times \$150 \text{ per Episode} ] = \$225$$

Under the lower cost estimate, we assumed that each participant would go through the training only once during any year of supervised job search (\$150). The higher cost estimate assumes that participants would attend an average of two training sessions in a year (\$300).

**Transportation.** Transportation costs associated with job search are assumed to average \$360 a year under the benchmark estimate--a rate that is half the average transportation subsidy costs of participating in a comprehensive service programs such as the Teenage Parent Demonstration

(Maynard 1993) and the various work/welfare demonstrations conducted during the 1980s (Brock et al. 1993).

$$[ .5 \text{ Use Rate} \times \$60 \text{ per Month} \times 12 \text{ Months} ] = \$360$$

Our lower cost estimate assumes that transportation costs are only one-fourth as large for job search participants as for the typical participant in a full-service program, such as the Teenage Parent Demonstration. Our higher cost estimate assumes the same level of support for transportation as under the benchmark estimate.

**Case Management.** The final service component--case management--is estimated to cost an average of \$408 per service year for those in supervised job search. This is a modest level of case management assumed to provide mainly supervision of the job search activities and ensure that child care and transportation support is available. This is a level of case management comparable to that provided in two of the work/welfare demonstrations conducted in the mid-1980s that emphasized job search assistance--Baltimore and San Diego (see Maxfield 1990):

$$[ \$34 \text{ per Month} \times 12 \text{ Months} ] = \$408$$

Our lower cost estimate assumes that programs will provide job search participants about 25 percent less case management (\$300 per year) than was provided in these work/welfare programs, which also served some recipients who were in education and training activities. The higher cost estimate assumes that programs would offer a somewhat richer level of case management, albeit at a still modest cost (\$600 per year). The added richness would allow a limited amount of follow-up with participants whose job search activities seem to need redirecting or whose attention to their search efforts has fallen below the expected levels.

## 2. Transitional Work Experience

Transitional work experience modeled after the community work experience (CWEP) programs entails five major cost components--the cost of developing and maintaining the work experience positions, child care, job search training, transportation, and case management. Our benchmark estimate of \$5,872 a year (Table 1) assumes that the average duration of participation in a work experience job will be 12 months--about the average length of participation in one of the few work-experience programs with open-ended participation (Ball et al. 1984). A still plausible, but lower estimate of the cost is about \$4,460 per year; and a more generous estimate of the costs is \$7,560.

**Job Creation and Maintenance.** The work experience costs are both a large share of total costs of this service and highly sensitive to assumptions about the duration of the work experience period and the turnover in job slots. Our benchmark estimate of \$2,200 assumes that the average cost of developing a work slot experienced in the various work/welfare demonstrations with sizeable CWEP components (\$400) would be similar to that experienced under the new work experience programs. Moreover, they assume that the average cost of maintaining the job slot would be similar to the experience in these prior programs (\$150 per month).<sup>4</sup>

No!

$$[ \$400 + \$150 * 12 Months ] = \$2,200$$

This also is the same estimated cost as if one assumed that the average monthly cost of CWEP in JOBS states with 500 or more active CWEP slots could be scaled up to a 12-month cost:<sup>5</sup>

$$[ (\$235 \text{ per Month} - \$55 \text{ per Month Allocated to Transportation and Supportive Services Other than Child Care}) * 12 \text{ Months} ] = \$2,160$$

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<sup>4</sup>See Section B.1 and Table 2 for background data to support this cost estimate.

<sup>5</sup>Unit cost estimates are discussed in section B.1 and reported in Table 2 below.

Our lower estimate of the cost of job development and maintenance (\$1,800) assumes that, in a larger program, there would be economies of scale in the development of the job slots such that the fixed costs of developing a job slot would average only \$300 per year of experience as opposed to the \$400 benchmark estimate, and the marginal cost of maintaining the slot would be only \$125 a month rather than the \$150 assumed under the benchmark estimate. Our higher estimate of \$3,000 per year of work experience assumes that there would be diseconomies of scale, for example, due to the large number of positions that need to be developed relative to local opportunities. Here, we assumed that the fixed development costs would be 50 percent higher than under the benchmark estimate (\$600 rather than \$400) and that the maintenance costs would average one-third higher (\$200 per month rather than \$150).

**Child Care.** The child care costs associated with keeping a welfare recipient in transitional work experience for a year is estimated to average \$1,575 under our benchmark assumptions. Essentially, this figure assumes that the age distribution of children of work experience participants will be more skewed toward infants and toddlers than under JOBS and, indeed, more so than in the AFDC population, as was the case under our benchmark cost estimates for supervised job search. Moreover, we have assumed both that the same child care subsidy use rates experienced under JOBS for participants with children in different age ranges would apply to work experience participants and that the average subsidy level of those who receive them would be similar to that experienced under JOBS (see further discussion of child care costs below).

$$[ .54 \text{ Average Subsidy Receipt Rate} * \$243 \text{ per Month of Subsidy} * 12 \text{ Months} ] = \$1,575$$

Our lower cost estimate for child care (\$1,166) assumes that the age distribution of work experience participants by age of youngest child is similar to that in the AFDC population and the subsidy use rates within each age group would parallel the experience under JOBS. This results in an estimated subsidy receipt rate of percent at an average subsidy level of \$243 per recipient month. Our higher

estimate (\$2,047) simply assumes that the average monthly subsidy will be 30 percent larger than under the benchmark estimate (\$316 per month rather than \$243) to promote use of higher quality care and/or to account for more hours of participation in work experience or related activities.

**Job Search Training.** Job search training will be an important complement to the work experience. Our benchmark estimates assume that all work experience participants will attend at least one job search training course and half will attend a second session at an average cost of \$150 per session.

$$[ 1.5 \text{ Sessions per Participant per Year} * \$150 \text{ per Session} ] = \$225$$

The lower cost estimate assumes that, on average, work experience participants attend only one session, and the higher cost estimate assumes they attend an average of two sessions over a one-year period.

**Transportation and Miscellaneous Costs.** Transportation and miscellaneous other work-related expenses are assumed under our benchmark estimates to average \$60 a month (or about \$4 per work day if work experience participants work an average of 70 percent of the normal work days per year). As noted above, this subsidy rate is consistent with that experienced for participants in various "full-service" programs for this target population.

$$[ \$60 \text{ per Month} * 12 \text{ Months} ] = \$720$$

Our lower estimate assumes that, on average, the subsidy is only \$40 per month or an average of \$480 per year of work experience. This lower cost could be due to the work experience involving fewer days of work per year (for example, only about 45 percent of the work days) or to lower rates of use of the subsidy among those who are working. Our higher estimate of transitional work experience costs maintains the same assumptions regarding transportation costs as our benchmark estimate.

**Case Management.** Our benchmark estimate of the costs of an effective work experience program assumes that participants will receive substantial case management--a level comparable with that provided to the teenage parents who participated in the recent mandatory service demonstration sponsored by ACF and ASPE (Hershey 1991 and Maynard 1993)--which costs an average of about \$96 per month or \$1,152 per year of work experience (see section B.5 below).

[ \$96 per month of work experience \* 12 months ] = \$1,152

*→ What does this pay for?  
Why are we managing them while still on welfare? Should we spend more on them than on those who get real jobs?*

Our lower cost estimate assumes that a lower level of case management, costing only 75 percent as much as that expended in the Teenage Parent Demonstration (\$72 a month rather than \$96) would be sufficient for this service group, perhaps because many of their problems would have been addressed prior to being assigned a work experience job. On the other hand, it is possible that those who fail to get a private sector job on their own will require a higher level of case management than assumed under the benchmark estimate. Thus, our higher cost estimate assumes that case management costs are 30 percent higher than under the Teenage Parent Demonstration, for example (\$125 a month or \$1,497 a year).

**3. Employment Support**

A part of "making work pay" is supporting those in low-wage employment to retain their jobs and, over time, to progress to higher paying and otherwise better jobs. In developing cost estimates for such support, we have assumed that low-wage workers currently or recently on welfare would be provided with a complementary set of services that includes child care subsidies and placement assistance, job search training, transportation assistance and other support services, and a modest level of case management aimed at early identification and response to problems that could result in job loss or limit opportunities for job advancement.

Our benchmark cost estimate for employment support is \$3,533 per year of service, nearly two-thirds of which is related to child care (Table 1). Our lower estimate is \$2,410 per year of service,

reflecting lower average child care and transportation costs and the elimination of job search training. The higher estimate for employment support is \$4,316, with the increased costs being associated with higher child care subsidies to encourage use of higher quality care.

**Child Care.** All three of our estimates of employment support costs assume that child care is, by far, the most costly component of employment support for low-wage workers. As with work experience participants, we have drawn on the use and subsidy rates for work experience participants in JOBS. Essentially, we assumed that, for each the benchmark, the lower and the higher estimates of child care costs, those in low-wage jobs would use one-and-a-half times the level of subsidy required to support work experience participants. Our reasoning is that those in private sector employment will tend to have less flexibility of hours and days worked, will tend to have fewer adults willing to care for their children for free on a long term basis, and likely will involve more work hours on average. The resulting cost estimates are \$2,363 for the benchmark estimate; \$1,750 for the lower cost estimate; and \$3,071 for the higher cost estimate.

It is important to note that, in contrast to the case for work experience participants, the child care subsidy costs for low-wage workers likely will not all be borne by the welfare system. For example, under current tax law, up to 40 percent of the child care costs borne by low-wage workers could be covered through the child care tax credit rather than the welfare employment support program.

expand?

**Job Search Training.** Our benchmark estimate of employment support costs assumes that low wage workers will participate in one job search training course each year at an average cost of \$150. Our lower cost estimate assumes that those who are in the low wage work force do not need further job search training and so will not incur this cost. The higher cost estimate assumes that all participants attend at least one job search training course a year and that half attend a second one for a total cost that averages \$225 per year.

**Transportation and Miscellaneous Support.** Estimates of transportation and miscellaneous support services costs parallel those for work experience. Both the benchmark and the higher cost estimates assume that these costs are \$720 a year or about \$4 a day (assuming participants incur work-related transportation and other support costs an average of about 3.5 days a week). Under the lower cost estimate, we have assumed that transportation costs will be only half this large--reflecting, possibly, the greater flexibility in the private sector for some to work closer to home or in jobs where car pooling or other economical means of transportation are available.

**Case Management.** Finally, we have assumed a modest level of case management under all three estimates of employment support--\$300 a year or a level comparable with that provided in programs where case management is primarily an administrative function. This figure is comparable to our lower cost estimate for case management for supervised job search participants, reflecting the fact that those individuals who have made the transition to employment will tend to require somewhat less oversight and assistance than the typical participants in either job search (25 percent less) or work experience (75 percent less).

## B. COMPONENT COST ESTIMATES

This section provides a detailed discussion of the cost experience in various other programs and demonstration projects targeted at welfare recipients and offering similar services to those reflected in our proposed service bundles. We begin with a discussion of cost of various work experience programs. We then proceed to discuss child care, job search training, transportation and miscellaneous support service, and case management costs, respectively. The goal of this section is to provide the reader with the background necessary to judge the reasonableness of the unit cost estimates and participation assumptions underlying the overall cost estimates discussed in section A, and to provide program designers with flexibility to develop alternative cost estimates for program and/or policy shifts from those assumed in this paper.

## 1. Cost of Work Experience Programs

There have been only a limited number of carefully documented work experience programs for welfare recipients. These include the current experience of those states that offer community work experience as part of their JOBS programs, eight of the work/welfare demonstrations conducted in the 1980s, two demonstration programs operated in Wisconsin during the late 1980s, and the Employment Opportunity Pilot Projects conducted in the late 1970s and early 1980s (Table 2). In each case, these programs differed in important respects from the type and/or scale of program that is envisioned under welfare reform. Nonetheless, they provide the best available guidance in estimating the range of costs that would be required to run work experience programs under a welfare reform.

As noted above, our estimates of the cost of placing and maintaining welfare recipients in work experience jobs for one year (assuming that the average duration of participation in this component is a year) range from \$1,800 to \$3,000 (see Table 1 above). We based these estimates largely on the experiences of CWEP programs sponsored under JOBS and the experiences of the work/welfare demonstrations. The annualized cost of these work experience programs averaged about \$2,200. However, there are several key issues that affect the interpretation of these--the duration of the work experience (many programs last for at most 13 weeks); the scale of operation (most offer relatively few work experience slots and none are at the scale envisioned under welfare reform); and the target population (many emphasized the AFDC-U population rather than single parents). Nonetheless, if we consider the experiences from these two sets of programs carefully, we arrive a reasonably similar estimates of the cost of this service component.

**Fixed versus Variable Costs.** A key factor in the cost of work experience programs, and a factor that accounts for much of the variability in cost across programs, is the job development costs. Based on the experiences from the work/welfare demonstrations, it costs an average of about \$400 to develop a work experience slot in these generally modest size programs (Table 2). Looking across

all of the programs for which we have cost data, there is a clear pattern of costs being higher in places operating at smaller scale. For example, this is particularly notable in comparing the average cost estimates for JOBS sites with more than 500 work slots (\$2,981 per year in FY 93 dollars) as compared with the U.S. average (\$1,591) (Table 2). It is also one of the major factors contributing to the difference in cost between the two work experience programs operated in Wisconsin, where the sites offering work experience and job training (WEJT sites) and costing an average of more than \$6,000 on an annualized basis, tended to be smaller scale than those programs not offering job training (CWEP sites) and costing an average of only about \$3,800 per service year. ::

To account for scale factors and to permit flexibility to adjust cost estimates to allow for longer periods of participation in jobs, we broke costs down into fixed and variable costs, based experiences in the work/welfare demonstrations (Brock, Butler and Long 1993, Table 10), and more specific data on the fixed versus variable costs of the West Virginia program (Friedlander, Erickson, Hamilton, and Knox 1986; and Ball, Hamilton et al. 1986). Based on the West Virginia program experience, we assumed that the cost of maintaining a job slot was proportional to the cost of setting it up in the first place and averaged 8 percent of the fixed set up costs. This assumption allowed us then to decompose total job development costs for the various work welfare demonstrations into fixed and variable costs components:

$$\{ \text{Fixed Costs} + \text{Average Months of Service} * (.08 * \text{Fixed Costs}) \} = \text{Total Job Development Costs}$$

**Proportional Allocation of Other Work Experience Costs.** The best available data on the allocation of other component costs is from the various work/welfare program. In the West Virginia program, for example, where participants stayed in work experience jobs for an average of about 11 months, 84 percent of all expenditures were for CWEP administration and support (including transportation and miscellaneous expenses, but not including child care). Of these CWEP operational costs, just over half were for job development and maintenance; 15 percent was spent on general

administration and monitoring; and the remaining costs were for transportation. This resulted in the estimates of average monthly costs of various component services reflected in Table 2.

For illustrative purposes, we also partitioned the JOBS CWEP costs into fixed and variable cost components assuming the fixed job development costs were similar to the average of the work-welfare demonstration (about \$400 per participant slot) and that the average monthly cost of transportation and miscellaneous services was also similar to the experience in these demonstrations (about \$55 a month in current dollars). The residual costs of JOBS CWEP costs were assumed to be variable monthly costs of maintaining the job slot and providing general administration (\$147 a month).

**Experiences in Other Programs.** The Employment Opportunity Pilot Project experienced costs of work experience jobs that were consistent with the estimates from JOBS and the work/welfare demonstrations. However, its costs for public service jobs was substantially higher--in the neighborhood of \$5,000 per year of service (Table 2). Also, as noted above, the cost experience in one of the Wisconsin programs (CWIIP) was comparable to those of JOBS and the work/welfare demonstrations, while that of the other (WEJT) was quite different. Implementation difficulties and scale have been offered as a partial explanations for the higher costs of the WEJT sites.

**Application of the Work Experience Cost Estimates.** In using these cost estimates, it is critical to consider several factors. The first is whether this job development cost estimate is sufficient, given local labor market conditions and the number of job slots that need to be created. A related factor is the expected tenure of welfare recipients in particular jobs. In developing our cost estimates we have assumed that individuals would stay in their work experience for an average of about one year. Our estimates are based on experiences of programs in which the number of job slots tended to be small relative to the size of the local market; operating at a larger scale may pose greater challenges in terms of finding enough appropriate slots. On the other hand, the experience underlying our cost estimates was based on relatively short-term experiences; over time, sites may develop relationships with employers that could result in a lowering of both the fixed and variable cost components.

A final consideration in applying the work experience cost estimates is making use of the fixed and variable cost components. For example, if under welfare reform, we expect individuals to hold their work experience jobs for an average of 18 months rather than a year, as assumed above, the cost estimates would need to be adjusted. One would either want to adjust all costs to a per participant basis (assuming 18 months of participation rather than 12) or lower the fixed cost component of the 12-month estimate to reflect the fact that the \$400 job development costs would be spread over 18 months of service rather than the 12 used in the calculations underlying Table 1. For example, in the latter case, the annual cost estimate would be calculated as follows:

$$[ \$400 * (12 \text{ months in the period} / 18 \text{ months in the job}) + \$150 * 12 ] = \$2,066 \text{ per year}$$

Under this scenario, the estimated cost per year of service falls by about \$200 or 9 percent. A corresponding increase in the average cost of a year of work experience would result from a shortening of the average tenure of individuals in their work experience jobs.

## 2. Child Care Costs

Key determinants of child care costs include the use rate, the subsidies rates for those who receive them, and the number of hours and/or months the subsidies are awarded. The use rate will be especially sensitive to both the ages of participant's children--use rates will be very low for those with only school-age children and highest for those with children in the between ages two and three.<sup>6</sup> The subsidy rates will depend on local child care markets, state reimbursement policies, and the preferences of parents for center versus family day care. The duration of use will depend largely on the intensity of the program activity. For example, job search will tend to be episodic and involve greater flexibility of hours than will be the case for work experience or private sector employment.

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<sup>6</sup>Experience suggest that those with infants will be more likely than those with older preschoolers to have access to and prefer free relative care, and some of those with three- to five-year olds will have access to Head Start and other publicly funded preschools.

Thus, participants in job search may be more likely to be able to meet their child care needs through the use of informal, unpaid care than are those who are in some type of employment. We have made assumptions regarding these various parameters in our cost estimates that may need to be varied in accordance with the ultimate design for welfare reform.

Our estimates of child care costs are based largely on the experiences in JOBS programs, with some adjustments to reflect our judgment regarding changes in the age distribution of children of program participants under welfare reform. Making cost of living adjustments, the average costs per month of child care subsidies for those receiving them were reasonably similar across the various programs that have served welfare recipients with children of all ages (Table 3). The costs of the Arkansas and Maine work welfare demonstrations are somewhat lower than for the other sites, reflecting in part the age distribution of children of participants in those programs and in part the lower than average cost of child care in those states. The somewhat higher costs of child care under the Teenage Parent Demonstration reflects the high incidence of infants in care (80 percent of the target population).

In calculating our benchmark estimates of child care, we relied on the JOBS CWEP experience for determining subsidy use rates for participants with children of different ages, as well as the average subsidy rates for families whose youngest child falls into the different age ranges (Table 4). This resulted in our assuming subsidy rates that range for 15 percent for those with no child under 6 to 77 percent for those whose youngest child is between the ages of 1 and 2. For those getting subsidies, the subsidy levels ranged from an average of about \$215 a month for those whose youngest child is 3 or older to \$269 for those whose youngest child is between one and two years old.

For the various service models, we estimated the cost of subsidies per month of service under two different sets of assumptions regarding the age distribution of youngest children of participants. In some cases, we assumed that participants in services would reflect population of AFDC households in terms of the ages of their children. Under these assumptions, 40 percent of all participants in the

program component would receive a child care subsidy and the average subsidy received would be \$243 a month (Table 4). In other cases, we assumed that welfare reform would target more heavily new entrants to the system, thus, resulting in an over-representation--essentially a doubling of the representation--of those with children under age 3. Under these assumptions, the percent receiving subsidies would increase to 54 and the average subsidy rate would remain the same (\$243).

We assumed that those in job search would rely on child care subsidies at the same rate as those in work experience, but would do so only one-third of time they were searching, whereas, we assumed that those relying on subsidized care to support their employment or work experience would do so continuously. We also assumed that those in private-sector employment would be 50 percent more likely than work experience participants to use subsidies or, alternatively, that they would receive subsidies that averaged 50 percent higher in those months they received them. Other assumptions regarding the intensity of use and the average subsidy levels are reflected in the differences among our lower, benchmark, and higher cost estimates (see section A above).

### 3. Job Search Assistance Costs

The primary determinants of job search assistance costs are the intensity of the program and the number of episodes of training individuals receive. Job search training programs traditionally last one month or less and entail periods of classroom instruction and supervised job search. As a result the costs of any training session tends to be quite modest. Moreover, the costs of job search have tended to be vary relatively little in absolute terms across programs. For example, over six different programs operated between the early 1980s and now, including JOBS and various demonstration projects, the cost of this service range between \$109 and \$229 per participant (Table 5).

Our most current estimate of job search costs is that for the JOBS program, where the costs average about \$125 per episode (month) in FY93 dollars (Table 5). The unweighted average cost across all six programs for which we report cost data is 25 percent higher than the JOBS costs (\$156 per episode), and the unweighted average of the FY93 costs across the four mid-cost programs

(excluding the highest and lowest cost programs) is \$150 in FY93 dollars. We use this third figure in our estimates of job search training costs under welfare reform. The assumption is that quality job search training will be important for moving individuals in to private sector jobs quickly and for assisting them in making productive job transitions.

#### 4. Transportation and Miscellaneous Support Services Costs

For many AFDC recipients, holding a job or actively looking for one entails substantial transportation costs. Virtually all programs also provide some support for miscellaneous work-related expenses, such as uniforms and tools. However, because the latter costs tend to be small relative to the transportation costs, we have focused our attention on the implications of our assumptions regarding the frequency of reliance on transportation assistance in determining our recommended cost estimate for this bundle of services.

There is limited program data to guide us in estimating these costs under welfare reform, since prior programs have tended to have a liberal exemption policy vis a vis those for whom transportation posed difficulties or excessive costs. However, the information we do have suggests that these costs typically have average around \$55 per month of participation in employment or training (Table 6). Because we envision a much less liberal exemption policy under welfare reform, our benchmark cost estimates assume a slightly higher (\$60 per month) average estimated cost for these services during periods of half-time work experience or employment and a rate about half this level (\$30) a month on average during periods of supervised job search. Our lower and higher cost estimates vary these monthly cost estimates to reflect assumptions about more and fewer days during which the participants go to or search for work.

## 5. Case Management Costs

A minimal amount of case management is involved in the provision of any program services. However, there is considerable discretion in terms how much and what type of case management is provided above and beyond this minimal level. In developing a proposed cost estimate for case management under welfare reform, we made two preliminary judgments: (1) the level of case management should not be as intensive as that provided in some targeted and intensive interventions such as the New Chance programs or various social welfare demonstration programs, but rather should probably not exceed the levels provided in the Teenage Parent Demonstration (Hershey 1989; and Maynard 1993); and (2) the level of case management should be varied depending on the program service component. In particular, we should emphasize strong case management for those who are still trying to make the transition to private sector employment, especially those in work experience components.

We have a range of estimates of the cost of providing case management services that vary from a low of \$34 a month in two of the work/welfare demonstrations that emphasized job search assistance to a high of \$96 a month in the Teenage Parent Demonstration (Table 7). The Employment Opportunity Pilots project fell in between these estimates.

We opted to use the Teenage Parent Demonstration cost estimate for our benchmark estimates of case management costs during work experience, where we felt substantial guidance, supervision, and assistance would be required to prepare for private sector employment. In the Teenage Parent Demonstration, this cost covered a reasonable level of monitoring and follow-through with a population that was, on average, more challenging than the full AFDC population due to the young ages of both the participants and their children. However, the automated case tracking systems in place in these demonstration sites were very important in providing a reasonably high level of case management for this cost. Many programs would need to invest in such systems in order to duplicate the level of case management offered in the Teenage Parent Demonstration for this cost. For those

for whom we expected case management to be mainly, but not exclusively, a monitoring function-- those in job search--we adopted the \$34 per month cost experienced in the work/welfare demonstrations. We used an even lower estimate (\$25 a month) for those in low wage employment, where the majority would need only administrative support.

**TABLE 1**  
**ESTIMATED COSTS OF POST-TRANSITION**  
**SERVICES (FY93)**

Program Component	Lower Estimate	Benchmark Estimate	Higher Estimate
<b>Supervised Job Search (Per Year of Search)</b>			
Child Care	\$389	\$525	\$682
Job Search Training	150	225	300
Transportation	180	360	360
Case Management	300	408	600
<b>Total</b>	<b>\$1,019</b>	<b>\$1,518</b>	<b>\$1,942</b>
<b>Transitional Work Experience (Per Year of Service)</b>			
Work Experience	\$1,800	\$2,200 <sup>a</sup>	\$3,000
Child Care	1,166 <sup>b</sup>	1,575 <sup>c</sup>	2,047 <sup>d</sup>
Job Search Training	150	225 <sup>e</sup>	300
Transportation	480	720	720
Case Management	864	1,152 <sup>f</sup>	1,497
<b>Total</b>	<b>\$4,460</b>	<b>\$5,872</b>	<b>\$7,564</b>
<b>Employment Support for Low-Wage Workers (Per Year of Employment)</b>			
Child Care	\$1,750 <sup>g</sup>	\$2,363 <sup>h</sup>	\$3,071 <sup>i</sup>
Job Search Training	0	150	225
Transportation	360	720	720
Case management	300	300	300
<b>Total</b>	<b>\$2,410</b>	<b>\$3,533</b>	<b>\$4,316</b>

<sup>a</sup> Based on the average cost of CWEP in JOBS sites with more than 500 slots and various work/welfare demonstrations (see Table 2).

<sup>b</sup> Based on JOBS subsidy and cost rates; assumes the age of youngest child is distributed in proportion to ages of children in all AFDC households (see Table 4).

<sup>c</sup> Assumes those with children under age 3 are twice as likely to be served as to be on AFDC.

<sup>d</sup> Quality enhancements increase costs by 30 percent.

<sup>e</sup> Assumes one-and-a-half episodes of job search.

<sup>f</sup> Assumes the same level of case management as in the Teenage Parent Demonstration costs training (see Table 7).

<sup>g</sup> Assumes subsidy rates one-and-a-half times those for work experience participants.

TABLE 2  
WORK EXPERIENCE COSTS

	Job Development		Administration and Monitoring (per month)	Transportation and Miscellaneous* (per month)	12-Month JOB-Slot Equivalent	
	Fixed	Variable (per month)			Current \$	FY93 \$
<b>JOBS-(FY91)(1)</b>						
States with > 500 Slots						
California		\$346			\$4,152	
Colorado		NA			NA	
Michigan		71			852	
New York		261			3,132	
Ohio		NA*			NA*	
Pennsylvania		112			1,344	
West Virginia		147			1,764	
Wisconsin		239			2,868	
Large site Average (Unweighted)	\$400*	\$235		\$55*	\$2,822	\$2,981
US Average (N=12,948)		125			\$1,500	\$1,591
<b>Work Welfare Demonstrations (FY93)(2)</b>						
West Virginia	\$414	\$33	\$18	\$54	\$1,396	\$1,396
Arkansas <sup>b</sup>	435	36	111	55	2,859	2,859
Cook County	260	22	116	128	3,452	3,452
San Diego-I	316	26	140	7	2,392	2,392
San Diego-SWIM	239	20	220	21	3,371	3,371
Virginia	732	61	159	\$7	4,056	4,056
Baltimore	381	32	62	78	2,445	2,445
Maine <sup>b</sup>	385	32	134	43	2,893	2,893
Average (Unweighted)	\$395	\$33	\$120	\$55	\$2,891	\$2,891
<b>Wisconsin WEJT/CWEP Programs (FY88) (4)</b>						
CWEP Sites			\$261		\$3,132	\$3,633
WEJT Sites			\$411		4,932	5,721
<b>Employment Opportunity Pilot Projects (FY80/81) (5)</b>						

	Job Development		Administration and Monitoring (per month)	Transportation and Miscellaneous <sup>d</sup> (per month)	12-Month JOB-Slot Equivalent	
	Fixed	Variable (per month)			Current \$	FY93 \$
PSE		\$291			\$3,492	\$5,531
Work Experience		143			1,716	\$2,718
Average (unweighted)		\$201			\$2,940	\$4,657

<sup>a</sup> Implausible data reported (\$10 per participant month).

<sup>b</sup> These were the only sites that served participants with preschool-age children. Child care was assumed to be 68 percent of support services costs.

<sup>c</sup> Assumes that child care is 34 percent of all supportive service costs in all sites except Arkansas and Maine, which served recipients with preschool-age children (based on the actual supportive services costs estimates for the West Virginia demonstration [3]). In Arkansas and Maine, we assumed that 68 percent of the supportive services costs were for child care, since they served recipients with young children.

<sup>d</sup> Assumes the wage component of costs was \$5,226 per participant year (\$3.35/hour X 30 hours/week).

<sup>e</sup> Costs have been allocated assuming the same fixed cost of job creation and the same average monthly costs of transportation and miscellaneous support services as under the work/welfare demonstrations.

TABLE 3  
CHILD CARE COSTS IN VARIOUS PROGRAMS

	Cost Estimates			
	Percent Receiving Assistance	Per Month of Work Experience	Per Month of Assistance	Per Child Per Month of Assistance
<b>Work Welfare Demos Serving Mothers with Young Children (FY93) [2]</b>				
Arkansas	NA	\$116	--	--
Maine	NA	92	--	--
<b>JOBS (FY92) [5]</b>				
All CWEP Recipients	40	\$92	\$229	\$160
Youngest child < 1 (3%)	67	160	239	--
Youngest child 1-2(16%)	77	207	269	--
Youngest child 3-5(33%)	61	130	214	--
Youngest child > 6 (47%)	15	32	216	--
21-30 Hours of CWEP	42	133	212	--
31-40 Hours of CWEP	46	143	316	--
<b>Teenage Parent Demo (FY89) [6]</b>				
Those Active (80 percent with infants)	59	\$146	\$247*	\$247
<b>Minority Parents Single Parent Program (FY86) [7]</b>				
All Trainees	35	\$62	\$176*	--

NOTE: In FY 91 there were 8,527,028 children in AFDC households (an average of 1.95 per household) ([8] Table 17). Their distribution by age was as follows:

Age	%	Cumulative %
< 1 years	05.1	05.1
1 - 2 years	19.7	24.8
3 - 5 years	21.4	46.2
6 - 13 years	40.8	87.0

\* Estimated as 80 percent of the unweighted averages across the three sites of the maximum reimbursement rates for family day care and center-based care.

\* Mid-point of a range across four sites.

NA = Not available.

TABLE 4

ESTIMATED CHILD CARE COSTS UNDER WELFARE REFORM

Age of Youngest Child	Proportion of AFDC Households <sup>a</sup>	Child Care Use Rate <sup>b</sup>	Average Cost Per Month of Use <sup>b</sup>	Increment to Total Cost
<b>Allocation in Proportion to the Distribution of AFDC Families by Age of Youngest Child</b>				
< 1	.051	.67	\$229	\$7.82
1-2	.197	.78	239	36.72
3-5	.214	.61	269	35.12
6-13	.408	.20	216	17.63
> 13	.130	.00	0	0.00
Average		.40	\$243	97.29
<b>Reweight Toward Younger Children (Double the Incidence of Families with 0-2 Year-Olds)</b>				
< 1	.102	.67	229	\$13.65
1-2	.396	.78	239	73.82
3-5	.214	.61	269	35.12
6-13	.160	.20	216	6.91
> 13	.130	.00	0	0.00
Average		.54	\$243	\$131.50

- Exempt < 3 =  
 reduce cost of c. care  
 by 45%  
 - why pay c. care over 6?  
 → what about H. Start?

<sup>a</sup> Based on FY 91 caseload data ([8]Table 17).

<sup>b</sup> Cost estimates are based on those for JOBS CWEP participants in FY 92 [5].

TABLE 5  
 JOB SEARCH ASSISTANCE  
 COSTS IN VARIOUS PROGRAMS

Program	Average Cost Per Participant Month	
	Current \$	FY 93 \$
JOBS Program (FY91) [1]	\$118	\$125
Employment Opportunity Pilot Projects (FY81) [4]	69	109
San Diego-I and Maryland Work/Welfare Demonstrations (FY86) [7]	120*	162
Cook County, IL Work/Welfare Demonstration (FY85) ([8] Table A.1)	107	143
Louisville Intensive Job Search Demonstration (FY83) ([8] Table A.1)	171	229
Arkansas Work/Welfare Demonstration (FY84) ([8] Table A.1)	122	169
Average of Four Mid-Cost Programs (Unweighted)	--	\$150
Average of All Six Programs (Unweighted)	--	\$156

NOTE: These costs pertain to job search training and supervised job search. This component usually lasts one month or less.

\* Mid-point of the reported range.

TABLE 6  
 TRANSPORTATION AND MISCELLANEOUS SUPPORT SERVICES COSTS  
 IN OTHER PROGRAMS

	Average Per Benefit Month	Percent of Months Received	Cost Per Participant/Month
Teenage Parent Demonstration (FY91) [6]	\$87	66	\$57
Work/Welfare Demonstrations (FY93) [2] (See also Table A.1)*	--	--	\$55 "
JOBS [1]	NA--Included in Component Costs Estimates		

\* Calculated by netting estimated child care costs out of the total support services costs reported for the various demonstration programs. We relied on detailed estimates of the breakdown of these costs in the West Virginia CWEP program (Friedlander, Hamilton, Hoertz et al. 1986 and Ball et al. 1984). See Table 2 for the residual costs allocated to transportation and other support services in each of the demonstration sites and for the assumptions regarding the fraction of costs that were assumed to be for child care.

NA = Not available.

TABLE 7  
CASE MANAGEMENT COSTS

Program	Cost per Case Month	
	Current \$	FY 93 \$
Teenage Parent Demonstration (FY91) [6]	416	\$96
San Diego-1 and Baltimore Work Welfare Demonstrations (FY86) [7]	\$25	\$34
Employment Opportunity Pilot Projects (FY81) [4]	\$47	\$74

- Minimal case management
- *Per active case month.* These estimates assume that all of the costs allocated to case management and half of those allocated to central administration were associated with the case management function. This total of \$760 per person per year was divided by the number of months each participant was on AFDC during the year (8.6). See Maynard (1993, Figure 2) and Silverberg and Hershey (1993, Table (V.3) for the data on costs and months of participation, respectively.

**SOURCE NOTES TO TABLES****[1] JOBS COST DATA**

Administration for Children and Families. FSA-104 Reports and Special Tabulations of JOBS data prepared by Will Weder. [1]

**[2] WORK/WELFARE DEMONSTRATION COST DATA**

Brock, Thomas, David Butler, and David Long. *Unpaid Work Experience for Welfare Recipients: Findings and Lessons from MDRC Research*. New York, NY: Manpower Demonstration Research Corporation, 1993 (draft). [2]

Friedlander, Daniel, Marjorie Erickson, Gayle Hamilton, and Virginia Knox. "Final Report on the Community Work Experience Demonstrations." New York, NY: Manpower Demonstration Research Corporation, September 1986. [2]

**[3] WISCONSIN WORK EXPERIENCE DEMONSTRATION COST DATA**

Pawasarat, John and Lois M. "Evaluation of the Wisconsin WEJT/CWEP Welfare Employment Programs." Milwaukee, WI: Employment Training Institute, April 1993 (Uncitable draft). [3]

**[4] EMPLOYMENT OPPORTUNITY PILOT PROJECTS COST DATA**

Long, David, Craig Thornton, and Christine Whitebread. *An Examination of the Benefits and Costs of the Employment Opportunity Pilots Project*. Princeton, NJ: Mathematica Policy Research, Inc., 1983. [4]

Long, David. *An Analysis of the Costs of the Employment Opportunity Pilots Project*. Princeton, NJ: Mathematica Policy Research, Inc., 1983. [4]

**[5] CHILD CARE COST ESTIMATES**

Administration for Children and Families. FSA-104 Reports and Special Tabulations of JOBS data prepared by Will Weder. [1] and [5]

Administration for Children and Families. *Characteristics of AFDC Recipients*. Washington, DC: U.S. Department of Health and Human Services, 1993. [5]

**[6] TEENAGE PARENT DEMONSTRATION COST ESTIMATES**

Hershey, Alan. *Case Management for Teenage Parents: Lessons from the Teenage Parent Demonstration*. Princeton, NJ: Mathematica Policy Research, Inc., 1991. [6]

Kisker, Ellen, Marsha Silverberg, and Rebecca Maynard. *Child Care Utilization Among Welfare-Dependent Teenage Parents*. Princeton, NJ: Mathematica Policy Research, Inc., 1990. [6]

Kisker et al., *Profiles of Child Care Setting*. Princeton, NJ: Mathematica Policy Research, Inc., 1991). [6]

Maynard, Rebecca. *Building Self-Sufficiency Among Welfare-Dependent Teenage Parents*. Princeton, NJ: Mathematica Policy Research, Inc., 1993. [6]

Silverberg, Marsha and Alan Hershey. *Program Costs of the Teenage Parent Demonstration*. Princeton, NJ: Mathematica Policy Research, Inc., 1993. [6]

#### [7] MISCELLANEOUS COST ESTIMATES

Friedlander, Daniel, Gregory Hoerz, David Long, and Janet Quint. *Final Report on the Employment Initiatives Evaluation*. New York, NY: Manpower Demonstration Research Corporation, September 1985. [7]

Goldman, Barbara, Daniel Friedlander, and David Long. *Final Report on the San Diego Job Search and Work Experience Demonstration*. New York, NY: Manpower Demonstration Research Corporation, September 1986. [7]

Maxfield, Myles. *Planning Employment Services for the Disadvantaged*. New York, NY: The Rockefeller Foundation. 1990. [7]

Maynard, Rebecca, Myles Maxfield, and others. *Design of a Social Demonstration of Targeted Employment Services for AFDC Recipients*. Princeton, NJ: Mathematica Policy Research, Inc., 1986. [7]

REFERENCES<sup>1</sup>

- Administration for Children and Families. *Characteristics of AFDC Recipients*. Washington, DC: U.S. Department of Health and Human Services. 1993. [5]
- Administration for Children and Families. FSA-104 Reports and Special Tabulations of JOBS data prepared by Will Weder. [1] and [5]
- Ball, Joseph with Gayle Hamilton, Gregory Hoertz, Barbara Goldman, and Judith Gueron. "Interim Findings on the Community Work Experience Demonstrations." New York, NY: Manpower Demonstration Research Corporation, September 1986. [7]
- Brock, Thomas, David Butler, and David Long. *Unpaid Work Experience for Welfare Recipients: Findings and Lessons from MDRC Research*. New York, NY: Manpower Demonstration Research Corporation. 1993 (draft). [2]
- Friedlander, Daniel, Marjorie Erickson, Gayle Hamilton, and Virginia Knox. "Final Report on the Community Work Experience Demonstrations." New York, NY: Manpower Demonstration Research Corporation, September 1986. [2]
- Friedlander, Daniel, Gregory Hoertz, David Long, and Janet Quint. *Final Report on the Employment Initiatives Evaluation*. New York, NY: Manpower Demonstration Research Corporation, September 1985. [7]
- Goldman, Barbara, Daniel Friedlander, and David Long. *Final Report on the San Diego Job Search and Work Experience Demonstration*. New York, NY: Manpower Demonstration Research Corporation, September 1986. [7]
- Hershey, Alan. *Case Management for teenage Parents: Lessons from the Teenage Parent Demonstration*. Princeton, NJ: Mathematica Policy Research, Inc., 1991. [6]
- Kisker, Ellen, Marsha Silverberg, and Rebecca Maynard. *Child Care Utilization Among Welfare-Dependent Teenage Parents*. Princeton, NJ: Mathematica Policy Research, Inc., 1990. [6]
- Kisker et al., *Profiles of Child Care Setting*. Princeton, NJ: Mathematica Policy Research, Inc., 1991). [6]
- Long, David, Craig Thornton, and Christine Whitebread. *An Examination of the Benefits and Costs of the Employment Opportunity Pilots Project*. Princeton, NJ: Mathematica Policy Research, Inc., 1983. [4]
- Long, David. *An Analysis of the Costs of the Employment Opportunity Pilots Project*. Princeton, NJ: Mathematica Policy Research, Inc., 1983. [4]

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<sup>1</sup>Numbers in brackets refer to the references cited in the notes to tables.

- Maxfield, Myles. *Planning Employment Services for the Disadvantaged*. New York, NY: The Rockefeller Foundation. 1990. [7]
- Maynard, Rebecca, Myles Maxfield, and others. *Design of a Social Demonstration of Targeted Employment Services for AFDC Recipients*. Princeton, NJ: Mathematica Policy Research, Inc., 1986. [7]
- Maynard, Rebecca. *Building Self-Sufficiency Among Welfare-Dependent Teenage Parents*. Princeton, NJ: Mathematica Policy Research, Inc., 1993. [6]
- Pawasarat, John and Lois M. Quinn. "Evaluation of the Wisconsin WEJT/CWEP Welfare Employment Programs." Milwaukee, WI: Employment Training Institute, April 1993 (Unsuitable draft). [3]
- Silverberg, Marsha and Alan Hershey. *Program Costs of the Teenage Parent Demonstration*. Princeton, NJ: Mathematica Policy Research, Inc., 1993. [6]

*WR \$*

February 17, 1994

## MEMORANDUM

~~CONFIDENTIAL~~

To: Leon Panetta  
Alice Rivlin  
Belle Sawhill

Thru: David Ellwood  
Mary Jo Bane  
Bruce Reed

From: Wendell Primus

Attached is a very preliminary cost estimate for a hypothetical welfare reform proposal. These numbers were produced overnight and should be regarded as extremely preliminary. They have not been reviewed by any other divisions in HHS. In some cases, as explained in the footnotes, the estimates reflect our best guess of how CBO will estimate the cost of the proposal.

The actual proposal and the major assumptions used in estimating the cost are explained in the footnotes accompanying the table. The proposal estimated in the table does not reflect any final decisions made by the Working Group or its co-chairs, the Secretary, or any other Administration official. It represents the costs of a hypothetical proposal. I would hope to be able to provide the costs for the year 2004 in several days.

The estimates represent combined Federal and State costs. It is assumed that State costs will be close to zero, and therefore the numbers should be interpreted as Federal expenditures.

For the President's plan to be credible, the estimates of JOBS and WORK cannot be reduced much further than the costs indicated in the table. These estimates assume that adult recipients (including teen custodial parents) born in 1970 or later are subject to the time limit beginning in October 1996. JOBS spending on other portions of the caseload would continue as per current law.

*Too political*

If you have any questions or wish to see other options, I would be happy to respond.

**PRELIMINARY WELFARE REFORM COST ESTIMATES (FEDERAL AND STATE)  
FOR A HYPOTHETICAL PROPOSAL  
(By fiscal year, in millions of dollars)**

	Effective Date	1995	1996	1997	1998	1999	5-Year Total
<b>PARENTAL RESPONSIBILITY</b>							
Prevention Package		NA	NA	NA	NA	NA	NA
Non-Parent Provisions	Oct '98	0	0	400	600	800	1,800
Child Support Enforcement							
Paternity Establishment (Net)		0	(95)	(200)	(300)	(450)	(1,035)
Enforcement (Net)		130	70	80	(300)	(500)	(540)
Computer Costs		100	150	200	250	300	1,000
Non-custodial Parent Provisions		0	0	100	110	170	380
Access Grants and Parenting Demonstrations		20	25	30	30	30	135
Child Support Assurance Demonstrations		0	0	100	200	250	550
SUBTOTAL, CSE		250	180	280	(10)	(200)	490
<b>TRANSITIONAL ASSISTANCE FOLLOWED BY WORK</b>							
Additional JOBS Spending	Oct. '98	0	0	930	1,130	1,160	3,220
WORK Program	Oct. '96	0	0	0	0	650	650
Additional Child Care for JOBS/WORK Participants	Oct. '96	0	0	1,100	1,300	1,500	3,900
Economic Development		0	0	100	100	100	300
SUBTOTAL, JOBS/WORK		0	0	2,130	2,530	3,310	7,970
<b>ENDING WORK PAY</b>							
Ending Poor Child Care	Oct. '95	0	800	1,000	1,300	1,500	4,600
Work EITC		0	0	0	0	0	0
<b>INVENTING GOVERNMENT</b>							
Net Rules, Filing Unit, Simplification of Earnings Disregards, Accounting and Reporting Rules		0	0	0	0	0	0
<b>GRAND TOTAL</b>		<b>250</b>	<b>980</b>	<b>3,820</b>	<b>4,420</b>	<b>5,410</b>	<b>14,860</b>

*Too much  
- same as WORK, more than Econ. Devel.  
- keeps CSE from ending*

*Before Time Limit*

**SEE ATTACHED FOOTNOTES**

### NOTES TO TWO-PARENT PROVISIONS

1. The costs for eliminating the special eligibility requirements for two-parent families is based upon estimates from the food stamp quality control data file. These estimates were then adjusted for increased participation based on estimates from the MATU model employed by Mathematica, Inc.

### NOTES TO CHILD SUPPORT ENFORCEMENT PROVISIONS

1. The estimates for paternity establishment, enforcement, and computer costs are based upon our best guess of how CBO will estimate the savings from these child support enforcement provisions. The original HHS estimates for these provisions would have produced savings of \$3.6 billion over the period. However, both CBO and OMB staff believe these original estimates are overstated substantially. Thus, for these estimates we are projecting savings of \$0.6 billion over the period.
2. The costs for the non-custodial parent provisions are 10 percent of the JOBS and WORK program costs.
3. The estimate for the cost of the child support assurance demonstrations are based upon CBO estimates of the Rockefeller/Dodd bill.

Too many  
demos

### NOTES TO CASELOAD NUMBERS AND TO JOBS AND WORK COST ESTIMATES

The caseload numbers and the JOBS and WORK cost estimates are based on the following policies, assumptions and sources of data:

1. Adult recipients (including teen custodial parents) born in 1970 or later are subject to the time limit beginning in October 1996 (FY 1997). JOBS spending on other portions of the caseload would continue as per current law.
2. Caretaker relatives are not subject to the new rules and are not phased-in.
3. Parents who have a child under one (or under 4 months, if conceived after the initial welfare receipt), are caring for a severely disabled child, report a work limitation or who are 60 years of age and older are deferred from participation in the JOBS and WORK programs. As of FY 1999, about 23 percent of the phased-in caseload is deferred.
4. The caseload numbers include no treatment effects as a result of the new rules on either exit rates or on the rate of part-time work. Accordingly, there are no estimated welfare savings. We expect to claim some treatment effects in our final estimates, particularly for estimates after the 5-year period. As of FY 1999, about 6 percent of the

= ?

phased-in caseload (which includes persons in the WORK program) is in extended status.

5. Cost per JOBS participant figures are taken from the FY 1993 JOBS data (adjusted for inflation using the projected CPI).
6. The cost estimate assumes that all non-deferred phased-in recipients are engaged in activities. We assume that at a given point in time, 50 percent of the phased-in recipients are engaged in activities which have cost. For recipients with extensions, it is assumed that everyone is participating in a JOBS activity which costs the program money.
7. The cost of developing and maintaining a WORK assignment is calculated using CWEP data from JOBS and from the welfare-to-work demonstrations of the 1980s (again, adjusted for inflation using the projected CPI). Approximately 150,000 WORK slots would be required in 1999. / Too low
8. The figures for JOBS participants and JOBS spending under current law are taken from the ACF baseline.
9. The JOBS and WORK cost estimates do not consider the potential impact of the child support and reinventing government provisions on the size of the caseload.

#### NOTES ON CHILD CARE COST ESTIMATES

1. These estimates reflect the child care costs associated with the above phase-in assumptions described under JOBS and WORK.
2. CBO's estimates of these costs may be higher than these estimates based on their estimate of the Republican welfare reform proposal. The per-child costs in the CBO estimates are higher. We are continuing to work with them to resolve these differences.
3. This estimate is based upon baseline spending for the Head Start program and therefore does not account for the additional children who will be served by Head Start when it expands. This follows conventional CBO scoring rules.
4. There is no sliding scale fee for services included in this estimate.
5. We assume that approximately 40 percent of all AFDC families participating in JOBS and WORK will use paid child care.
6. From 1996 to 1999, we assume that we will serve approximately 1.2 million additional children (about 700,000 families) with our working poor child care program. Each year we will serve approximately 300,000 additional children. *Higher than Head Start*

**NOTES TO REINVENTING GOVERNMENT PROVISIONS**

The proposals in this section were designed to net to zero. The cost of the spending provisions is approximately \$5 billion over the 5-year period, implying that the savings provisions are also \$5 billion over the 5-year period.

Some of the proposals which will increase cost are:

1. Increase the limit on countable resources to the limit established in the food stamp program, and exclude one automobile for both AFDC and Food Stamps.
2. Coordinate accounting and reporting rules between the food stamp and AFDC rules.
3. Mandate fill-the-gap policies in low-benefit States. = ?

Some of the proposals which will decrease cost are:

1. Eliminate the provision that prevents SSI recipients from being included in an AFDC unit.
2. Move the filing unit rules in AFDC toward the food stamp program filing unit rules.

*Carload impact?*

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



PHONE: (202)690-7858 FAX: (202)690-7383

Date: 2/17

From: Geri

To: Bruce Reed

Division: \_\_\_\_\_

Division: \_\_\_\_\_

City & State: \_\_\_\_\_

City & State: \_\_\_\_\_

Office Number: \_\_\_\_\_

Office Number: \_\_\_\_\_

Fax Number: \_\_\_\_\_

Fax Number: \_\_\_\_\_

Number of Pages + cover 6

REMARKS: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

WR-\$

February 17, 1994

MEMORANDUM

~~CONFIDENTIAL~~ 105

To: Leon Panetta  
Belle Sawhill

Thru: David Ellwood  
Mary Jo Bane

From: Wendell Primus

Attached is a very preliminary cost estimate for a hypothetical welfare reform proposal. These numbers were produced overnight and should be regarded as extremely preliminary. They have not been reviewed by any other divisions in HHS. In some cases, as explained in the footnotes, the estimates reflect our best guess of how CBO will estimate the cost of the proposal.

The actual proposal and the major assumptions used in estimating the cost are explained in the footnotes accompanying the table. The proposal estimated in the table does not reflect any final decisions made by the Working Group or its co-chairs, the Secretary, or any other Administration official. It represents the costs of a hypothetical proposal.

If you have any questions or wish to see other options, I would be happy to respond.

**PRELIMINARY WELFARE REFORM COST ESTIMATES (FEDERAL AND STATE)  
FOR A HYPOTHETICAL PROPOSAL  
(By fiscal year, in millions of dollars)**

	Effective Date	1995	1996	1997	1998	1999	5-Year Total
<b>PARENTAL RESPONSIBILITY</b>							
Prevention Package		NA	NA	NA	NA	NA	NA
Two-Parent Provisions	Oct. '96	0	0	400	600	800	1,800
<b>Child Support Enforcement</b>							
Paternity Establishment (Net)		0	(85)	(200)	(300)	(450)	(1,035)
Enforcement (Net)		130	70	80	(300)	(500)	(540)
Computer Costs		100	150	200	250	300	1,000
Non-custodial Parent Provisions		0	0	100	110	170	380
Access Grants and Parenting Demonstrations		20	25	30	30	30	135
Child Support Assurance Demonstrations		0	0	100	200	250	550
SUBTOTAL, CSE		250	160	290	(10)	(200)	490
<b>TRANSITIONAL ASSISTANCE FOLLOWED BY WORK</b>							
Additional JOBS Spending	Oct. '96	0	0	930	1,130	1,160	3,220
WORK Program	Oct. '96	0	0	0	0	550	550
Additional Child Care for JOBS/WORK Participants	Oct. '96	0	0	1,100	1,300	1,500	3,900
Economic Development		0	0	100	100	100	300
<b>MAKING WORK PAY</b>							
Working Poor Child Care	Oct. 95	0	800	1,000	1,300	1,500	4,600
Advance EITC		0	0	0	0	0	0
<b>REINVENTING GOVERNMENT</b>							
Asset Rules, Filing Unit and Simplification of Earnings Disregards		0	0	700	900	1,100	2,700
Accounting and Reporting Rules		0	0	200	600	800	1,600
<b>GRAND TOTAL</b>		250	960	4,720	5,920	7,310	19,160

7

} \$8

> \$4.6

> \$6.1

cars = \$200/yr

SEE ATTACHED FOOTNOTES

## NOTES TO TWO-PARENT PROVISIONS

1. The costs for eliminating the special eligibility requirements for two parent families is based upon estimates from the food stamp quality control data file. These estimates were then adjusted for increased participation based on estimates from the MATH model employed by Mathematica, Inc. These costs are about 2/3 of the costs estimated by the TRIM model.

## NOTES TO CHILD SUPPORT ENFORCEMENT PROVISIONS

1. The estimates for paternity establishment, enforcement, and computer costs are based upon our best guess of how CBO will estimate the savings from these child support enforcement provisions. The original HHS estimates for these provisions would have produced savings of \$3.6 billion over the period. However, both CBO and OMB staff believe these original estimates are overstated substantially.
2. The costs for the non-custodial parent provisions are 10 percent of the JOBS and WORK program costs.
3. The estimate for the cost of the child support assurance demonstrations are based upon CBO estimates of the Rockefeller/Dodd bill.

## NOTES TO CASELOAD NUMBERS AND TO JOBS AND WORK COST ESTIMATES

The caseload numbers and the JOBS and WORK cost estimates are based on the following policies, assumptions and sources of data:

1. Adult recipients (including teen custodial parents) born in 1970 or later are subject to the time limit beginning in October 1996 (FY 1997). JOBS spending on other portions of the caseload would continue as per current law.
2. Caretaker relatives are not subject to the new rules and are not phased-in.
3. Parents who have a child under one (or under 4 months, if born after the initial welfare receipt), are caring for a severely disabled child, report a work limitation or who are 60 years of age and older are deferred from participation in the JOBS and WORK programs. As of FY 1999, about 23 percent of the phased-in caseload is deferred.
4. The caseload numbers include no treatment effects as a result of the new rules on either exit rates or on the rate of part-time work. Accordingly, there are no estimated welfare savings.
5. Persons who have exited welfare earn back one month of eligibility for assistance for every four consecutive months

How many?  
6?

they spend off the rolls. For purposes of this earn-back provision, the WORK program is considered part of the welfare system--persons do not earn back months of assistance for months spent in the WORK program.

6. As of FY 1999, about 6% of the phased-in caseload (which includes persons in the WORK program) is in extended status.
7. Cost per JOBS participant figures are taken from the FY 1993 JOBS data (adjusted for inflation using the projected CPI).
8. The JOBS participation rate (countable participants) is 50% for phased-in recipients who are required to participate, except for those in extended status. For recipients with extensions, the participation rate (total participants) is assumed to be 100%--everyone with an extension is participating in a JOBS activity at some point during the month.
9. The cost per WORK program participant figures assume a work-for-wages model. The cost of developing and maintaining a WORK assignment is calculated using CWEP data from JOBS and from the welfare-to-work demonstrations of the 1980s (again, adjusted for inflation using the projected CPI). Approximately 150,000 WORK slots would be required in 1999.
10. The figures for JOBS participants and JOBS spending under current law are taken from the ACF baseline.
11. The JOBS and WORK cost estimates do not consider the potential impact of the child support and reinventing government provisions on the size of the caseload.

#### NOTES ON CHILD CARE COST ESTIMATES

1. These estimates reflect the child care costs associated with the above phase-in assumptions described under JOBS and WORK.
2. CBO's estimates of these costs will be higher than these estimates based on their estimate of the Republican welfare reform proposal.
3. This estimate is based upon baseline spending for the Head Start program and therefore does not account for the additional children who will be served by Head Start when it expands. This follows conventional CBO scoring rules.
4. There is no sliding scale fee for services included in this estimate.
5. We assume that approximately 40% of all AFDC families participating in JOBS and WORK will use paid child care.

6. From 1996 to 1999, we assume that we will serve approximately 1.2 million additional children (about 700,000 families) with our working poor child care program. Each year we will serve approximately 300,000 additional children.

#### NOTES TO REINVENTING GOVERNMENT PROVISIONS

The option shown here assumes that the proposal will:

1. Increase the limit on countable resources to the limit established in the food stamp program, and exclude one automobile for both AFDC and Food Stamps.
2. Eliminate the provision that prevents SSI recipients from being included in an AFDC unit. Two hundred dollars per month of income received from SSA is disregarded.
3. Disregard the first \$120 per month of earnings, and 1/3 of remaining earnings, and allow States to disregard additional income. *permanent,  
not 4 mos.*
4. Extend the \$50 pass-through for child support to the food stamp program.
5. Reduce the AFDC payment standard by 1/3 if any of the following conditions are met:
  - The AFDC child and child's eligible parent live in the same dwelling unit with the child's grandparent;
  - There are no adults in the AFDC unit; and
  - The AFDC unit lives in a dwelling unit that receives a housing subsidy.

WR-\$

EXECUTIVE OFFICE OF THE PRESIDENT

31-Jan-1994 08:59am

TO: Alice M. Rivlin  
 TO: Bruce N. Reed  
 TO: Kathryn J. Way

FROM: Isabel Sawhill  
 Office of Mgmt and Budget, HRVL

CC: Richard B. Bavier  
 CC: Stacy L. Dean

SUBJECT: welfare reform costing issues

According to HHS, our welfare reform proposal will cost between \$6.5 and 7.8 billion annually once it is fully phased in. My staff had no opportunity to review these numbers before they were presented at a West Wing meeting on 1-25. We are now beginning to work with the Department to understand their model and their assumptions.

Our first goal is to achieve some clarity about what the above numbers represent. For example:

- Are all of the costs federal? What's assumed about state costs and federal match rates?
- What's our exemptions policy?
- What's assumed about behavior in the caseload reduction numbers?
- Are all of the child care costs for the working poor in addition to what's in 95 budget or are some in baseline?

Our second goal is to get a better understanding of how costs vary with the specification of the policy -- that is, to have more of a sense of the costs of different options so that the President and others can make more informed choices. Since it would not make sense to look at every conceivable policy option (some have clearly been decided; others are not important enough to get attention from West Wingers), we need to decide which are the more important open issues with significant cost implications. The following list is my preliminary attempt to specify some of the options that we might be interested in looking at:

1. Up front job search requirements
2. Participation rate and federal match assumed in JOBS
3. Participation rate and federal match assumed in WORK
4. Exemptions

5. Eliminating the 100 hour rule, the quarters of work test, or the state option to provide benefits for only 6 months for two parent families

6. Services to noncustodial parents

7. Liberalizing the assets test

8. Time limiting the work program and providing an in-kind safety net at some fixed percentage of current benefits

9. Conforming Food Stamp and AFDC filing units or other program simplification measures *Child only - Southern states*

10. Counting housing assistance in calculating FS benefits

11. Advance payment of the EITC

*It would be better if it could be a letting.  
Big bucks. - 2500 - 716*

12. Capping administrative costs in WORK at different level or assuming more borne by employers *\$600m savings*

13. Treatment of part-time work

14. Whether additional time on welfare can be earned

15. Child support assumptions

16. Child care assumptions

17. Demos

We need more discussion of the above list and then an agreement with HHS about how to proceed to get more information about these or other issues.

18. Sanctions

19. Disabilities

20. Prevention

21. Paternity

22. Fraud - fingerprinting

23. UC/ETC costs

*5.3 B having →  
FS households*

WR-5

February 11, 1994

MEMORANDUM FOR ISABEL SAWHILL

FROM: Richard Bavier 

SUBJECT: Rough estimates of policies for Bruce Reed

The attached spreadsheet table provides the basis for a rough estimate of the cost effects of the two policies you described to me. (No behavioral effects are modeled. In other words, on this table, the program does not get anyone off the rolls any faster.)

- 1. Half of all post-transitional WORK assignments are in the private sector, with the government paying a subsidy equal to the AFDC benefit and the private sector employer picking up all administrative costs.

The underlined row titled "post-admin" reflects the administrative costs of the WORK program. These are high, and do not include child care. They are based on experience with AFDC work programs that involved considerable job development costs, as well as some monitoring. (I have encouraged HHS to look at the Ohio CWEP program from the mid-1980s, which is the closest thing to a saturation CWEP we've seen, and which probably has lower administrative costs, but I haven't made any progress yet.) It isn't clear how much of these costs could be transferred to private sector employers.

However, it is clear that a lot of the cost of the time-limit followed by community service is this administrative cost. With an estimate for total federal steady-state costs at around \$5 billion, administrative costs associated with WORK make up around 60 percent. (As the smaller attached table shows, this assumes a 50 percent federal match rate for these costs.) If half of all WORK slots were in the private sector with no administrative costs, steady-state federal costs would be about \$1.5 billion lower.

It's probably unrealistic to plan on avoiding all administrative costs for one-half the WORK slots. Job development would still be necessary. An average savings of 50 percent on administrative costs for such slots seems pretty optimistic. At 50 percent savings on 50 percent of the WORK slots, the federal savings relative to full administrative costs for this group would be about \$.75 billion in the steady state.

Experience with private sector employer subsidies (either OJT or tax credits) for hiring disadvantaged people should discourage us from hoping that 50 percent of those hitting the time-limit could be placed in subsidized private sector jobs. It looks like employers don't find it economical to hire these target groups because of the direct overhead (certification that employees are eligible, record-keeping, and reporting) and because of expectations about their lower productivity (sometimes characterized as "stigma"). A table summarizing recent programs and sections from analysis by one of the issue groups is attached.

Because AFDC parents reaching the two years are probably going to be among the least job-ready, persuading private sector employers to hire them will be even harder. (Attrition of less job-ready seems to be a large factor in the operation of intermediaries like America Works, too.) On the other hand, we know that even very disadvantaged AFDC mothers often obtain jobs without a subsidy, so we shouldn't conclude that they are all unemployable and subsidies are hopeless. A deep subsidy with few direct administrative burdens might induce more hiring. (It might induce abuse as well.) In any case, I don't know of evidence we could marshal to justify a prediction that half, or even one-fourth, of WORK participants would end up in subsidized private sector jobs.

2. Half of WORK participants are placed in jobs in expanding government programs, such as providing child care for other AFDC parents, working in Head Start programs, or monitoring other WORK participants.

This policy would reduce the cost of welfare reform by the amount of the benefits or wages paid to half the WORK participants (as compared to the first option that would reduce the administrative costs for half the WORK participants). The logic is that the costs of these services (e.g., child care) already appear in the welfare reform package, or in the Budget. If the benefits or wages of people performing these jobs instead are paid by welfare reform, an offsetting savings must appear somewhere else. The proposal attempts to get savings from the value of the work performed by the WORK participant.

It is stipulated that the jobs must be in expanding programs, in order to avoid running into displacement issues.

The range of offsetting jobs into which WORK participants could be placed is further limited by current cost-sharing arrangements and budget scoring rules. For example, placing a WORK participant in an expanding Head Start program could reduce the amount of Head Start funds needed for staffing the expansion. But there would be no automatic

savings to be scored because Head Start is a discretionary program with an annual appropriation. (On the other hand, if Head Start hired a WORK participant, that could reduce the number of WORK jobs needed.)

To get automatic savings, WORK participants would have to be placed in additional jobs planned under welfare reform (such as additional child care providers or additional monitors) or in some other open-ended entitlement which the Budget says will expand. Medicaid continues to grow. It may be that assignment of WORK participants to provide services for which Medicaid pays, for example nursing home care, could be scored as automatic Medicaid savings. That would be a longer reach than scoring automatic savings in AFDC child care from assignment of WORK participants to provide child care for other AFDC mothers. ✓

The underlined rows titled "Post-transition, AFDC/wages" reflect the benefits or wages paid to WORK participants. In a steady state, the federal share is estimated roughly around \$4.7 billion per year (assuming that federal matching for WORK pay is the current AFDC matching rate). If half were offset by mandatory budget savings, federal steady-state spending on welfare reform would be \$2.3 billion lower than otherwise. ||

While we have no experience on which to judge what proportion of WORK participants could be assigned to positions with offsetting savings, we have an indication from HHS that child care advocates would object to too many assignments to child care provider slots. Half of all WORK recipients is probably far too many to hope for in this status. One-fifth might be only optimistic if assignment of WORK participants to monitor other WORK participants were permitted. 20%

Attachments

cc: Barbara Selfridge  
Stacy Dean



No behavioral change

Baseline caseload 5,606,000  
 first-time applicants 1,066,877  
 all applicants 2,081,288

Up-front job search unit cost \$225  
 entry rates 70%

Transition program

monthly AFDC \$383  
 annual AFDC \$4,600  
 monthly food stamps \$374  
 annual food stamps \$3,898

non-parental caregivers 15%  
 deferred 21%  
 total 37%

transition period in years

average transition costs \$1,800  
 job search training \$3,000  
 child care \$1,100

transition participation

rate by non-parental 50%  
 rate by all 20%  
 participants in job search 50%  
 participants in training w/ child care 50%

Post transition

avg admin cost \$3,000  
 child care \$2,200  
 max years (1.2, 0.25) 20  
 wages \$4,400  
 food stamps \$3,000

In-kind value net

salary net/median 75%  
 voucher \$1,841  
 food stamps \$3,848

entry rates

effect on total net 100%  
 year 1 100%  
 year 2 100%  
 year 3 100%  
 year 4 100%  
 beyond 100%

effect on return rates

100%  
 0%

share of impacts on benefits

0%  
 0%

food stamp offsets from AFDC eligibility restrictions

cost of extra due to impacts on work percent funding for work 50%  
 annual savings \$8,345  
 food stamps \$1,880  
 EITC \$3,526

time-credit for part-time workers? yes

baseline part-timers 0%  
 additional part-timers 0%  
 total part-timers 0%  
 AFDC with half-time wages \$1,280  
 food stamps \$2,837  
 EITC \$1,768

### Employment and Wage Subsidies

The following matrix identifies major design dimensions of government subsidies of employment, lists the major alternative design features, then summarizes both the intended effects of incorporating the element in the design as well as collateral, often unintended and undesired, effects. The matrix focusses on aspects of job subsidies most relevant to planning for time-limited welfare policies. Some program design issues relevant to job subsidy programs in other contexts are ignored. For example, issues related to the counter-cyclical, GDP, and inflationary effects of job subsidies are not included. Nor are issues related to subsidies available to employees regardless of present or former welfare status, or available only to certain regions or certain industries. Although, arguably, it is just a variety of fully-subsidized job, public employment is not included here.

<u>Design Dimensions</u>	<u>Alternatives</u>	<u>Intended effects</u>	<u>Collateral effects</u>	<u>Examples</u>
Targeting	Less targeted	Ease of administration. More equitable than targeting on some basis other than need.	Increased costs.	NJTC, EITC <sup>1</sup>
	More targeted	Increased employment or wages for target group members. Efficiency.	Substitution of target group members for other employees. Induced increase in target group membership.	TJTC, OJT, NSWDC, work-supp, WINcredit, JOBS68, BRRs
Duration of program	Permanent	Predictability. Ease of administration.	Windfalls to employers who substitute subsidized for unsubsidized employees.	EITC, OJT, work-supp, TJTC, BRRs
	Temporary	Reduction in windfall to employers who would have hired anyway.	Accelerated, rather than increased, employment.  Insufficient time to increase employment by planning for substitution of factors or increase in scale.	NJTC, NSWDC, JOBS68, WINcredit

<sup>1</sup> EITC = Earned Income Tax Credit (1975 to present); NJTC = New Jobs Tax Credit (1977-78); TJTC = Targeted Jobs Tax Credit (1979 to present); JOBS68 = contracts to offset added costs of hiring disadvantaged (1968-73); WINcredit = TJTC predecessor for welfare recipients (1971-81); work-supp = grant diversion or work supplementation for AFDC recipients (1981 to present); NSWDC = National Supported Work Demonstration (1976-81); OJT = on-the-job-training under JTPA and predecessors; BRRs = income disregards lowering benefit reduction rates in AFDC (\$90/mo for work expenses, \$30 plus one-third for four months, then \$30 for another eight) and the Food Stamp Program (standard deduction and 20 percent of earnings) to offset work expenses and create work incentives.

<u>Design Dimensions</u>	<u>Alternatives</u>	<u>Intended effects</u>	<u>Collateral effects</u>	<u>Examples</u>
Qualified employment	All employment	Ease of administration.	Windfall to employers.	EITC, BRRs
	Additions to employment	Increase impact by subsidizing only increased employment. Reduce windfall.	Govt induced competitive disadvantage for employers unsubsidized due to inevitable arbitrariness in definition and error in measurement of incremental employment.	NJTC
Size of subsidy to employer relative to labor costs	Small	Lower program cost. Less windfall to employers.	Lower uptake due to less reduction in labor costs for employers. Substitute part-time for full-time employees.	
	Large	Greater incentive for participation.	Higher costs.	
Duration of subsidy	Temporary	Maximize efficiency of individual subsidies by not subsidizing after the point that employer would retain employee and employee would keep job without subsidy.	Induce turn-over when subsidy ends.	TJTC, NJTC, work-suppl, WINcredit, JOBS68, AFDC-BRR
	Permanent	Assure job retention and income floor for subsidized worker.	Reduce program efficiency - spend more of public resources on those who would remain employed anyway.	EITC, food stamps BRR
Purpose of subsidy	Increase hires	Accelerate hiring (that would have taken place anyway). Give foot-in-door to targeted employees, a chance to demonstrate productivity.	Induce turnover, lower average tenure.	JOBS68
	Subsidize training	Increase hiring and employment of workers who would not have been hired because of cost of training necessary to raise productivity.	Induce turnover. Net effect depends on human capital enhancement in training.	TJTC, NSWd, work-suppl, QJT

<u>Design Dimensions</u>	<u>Alternatives</u>	<u>Intended effects</u>	<u>Collateral effects</u>	<u>Examples</u>
	Subsidize wages	Increase labor force participation and income of workers whose reservation wage exceeds their marginal product.	Induce increase in target group membership. Inverse targeting - higher subsidies to those with higher wages. May increase hours of current employees rather than number of employees.	EITC
	Increase employment	Increase employment by inducing substitution of labor for other factors or increasing scale of production.	Induce increase in target group membership. Competitive disadvantage and reduced (probably skilled) employment in industries producing capital-intensive substitute goods.	NJTC, BRRs
Direct recipient	Employer	Provide incentive of reduced labor cost in most visible way.	Stigmatize subsidized workers. Impose cost of administration on employers.	TJTC, NJTC, work-sup, NSW, OJT, JOBS68, WINcredit
	Employee	Provide incentive of higher income in most visible way.	When targeted by income and permanent, increase "tax" rate on employee as income rises and subsidy phases out.	EITC, BRRs
Method	Tax credit to employer	Administrative efficiency of using current tax collection machinery - additional staff needed mainly for audit.		TJTC, NJTC, WINcredit
	Tax credit to employee	No welfare system contact. Uses current tax collection machinery - additional staff needed mainly for audit.	Low uptake in advance payment of credit, so potentially large lump sum payment at tax refund time. Experience with EITC suggests potential for fraud that is too expensive to audit and prosecute.	EITC
	Require hiring of target employees as condition of govt contract.	Efficiency - bids for lowest subsidy to include specified number of target employees in contract labor force.	Administrative costs of monitoring compliance. Depending on rules, incentive for phantom employees.	

<u>Design Dimensions</u>	<u>Alternatives</u>	<u>Intended effects</u>	<u>Collateral effects</u>	<u>Examples</u>
	Transfer to employer	More documentation can target subsidy to individual employee and employer characteristics and reduce fraud.	Higher administrative costs for employer and government.	OJT, work-supp, NSW, JOBS68
	Transfer to employee	Best targeting to employee's need. Sub-yearly eligibility period provides benefit closer to period of eligibility.	Employee must come into contact with welfare system. Higher levels of targeting, documentation, and audit impose higher administrative costs.	BRRs

as many as half of the mothers on welfare may be significantly underqualified for similar jobs. Welfare-dependent mothers are less likely to have job experience and more likely to face discrimination in the labor market.<sup>14</sup> This group is likely to include those who need a little extra help and encouragement as well as those who have intensive emotional, disciplinary or social problems.

c) **TAX INCENTIVES ALONE ARE NOT ENOUGH FOR EMPLOYERS.**

Employer incentives to hire welfare recipients have traditionally come in the form of targeted tax incentives. We find that the value of the tax incentive is often outweighed by the amount of paperwork required and the stigma attached to hiring welfare recipients. If targeted tax incentives are to be effective, they must be accompanied by additional services such as screening, preliminary training, or a probationary work period.

The evidence clearly indicates that tax incentives alone are not enough. Lerman<sup>15</sup> notes that under both the WIN program and the TJTC, only a small fraction of the employers claimed credits for which they were eligible. Burtless<sup>16</sup> conducted an experiment with employer vouchers for hiring disadvantaged workers. Members of the control group who had no voucher payment to offer had more success in obtaining employment. Employers did not want to hire workers marked as "damaged goods" despite generous voucher payments, some of which could be redeemed as cash instead of tax credits. In addition to the stigma explanation, Bishop and Kang<sup>17</sup> explain the low employer participation rates in incentive programs by the high level of administrative costs for processing the incentives.

On the other hand, tax incentives can be packaged together with other employer incentives to provide an attractive overall package.<sup>18</sup> The stigma problem may be overcome by providing subsidized recruiting and screening as well as the initial training and support in

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<sup>14</sup> Institute of Women's Policy Research. Testimony cited above.

<sup>15</sup> Lerman, Robert. "A Comparison of Employer and Worker Wage Subsidies" in Robert Haveman and John Palmer, *Jobs for Disadvantaged Workers: The Economics of Employment Subsidies*, The Brookings Institution: Washington, D.C., 1982.

<sup>16</sup> Burtless, Gary. "Are Targeted Wage Subsidies Harmful? Evidence from a Wage Voucher Experiment." *Industrial and Labor Relations Review*, Volume 39, Number 1, October 1985, pp. 105-114.

<sup>17</sup> 1991 .....

<sup>18</sup> Ernst and Young report on the value of America Works placement services. Forthcoming. The study indicates that employers may save as much as \$2500 per person by hiring through America works.

\* a new job.<sup>19</sup> Some employers have suggested a one-year exemption from the health care mandate for ex-welfare hires. In addition, employers can screen applicants further if allowed to hire the workers on a temporary basis before committing to permanent employment. Any federal assistance to promote bundling tax incentives with other employer incentives must be flexible enough to allow local markets to shape services for employers.

d) **TRAINING HAS MODERATE, BUT MEASURABLE EFFECTS.** Although low skills are a severe problem, training programs are not a quick fix for welfare dependency.

Inexpensive programs (\$100-1500 per person) provide short-term job search assistance, remedial education, vocational education or work experience. Despite variations in economic conditions and program design, the majority of the evaluations show some improvement in earnings, employment, and welfare exits in comparison to a control group.<sup>20</sup> However, even the most successful programs only raised employment levels from 24 percent in the control group to 35 percent in the training group. Thus, the training program only changed the outcome for about 10 percent of the group. While this improvement is worth achieving, it does not help the two-thirds of the group who would not get a job on their own or with the help of a training program. Additional caveats: 1) Exit rates from welfare tend to improve even less than employment rates. 2) The control group in the San Diego SWIM study caught up with the trained group by the fifth year after training.<sup>21</sup> 3) Neither the most job-ready nor the least job-ready benefit from inexpensive training as much as the middle group: the most job ready will find jobs anyway, and the least job-ready do not tend to get jobs after a quick program.<sup>22</sup>

More expensive, targeted training programs, such as the home health care aide demonstration, can cost from \$4,300 to \$8,700 per participant. Although intensive training programs tend to have less impact on rates of employment, they create larger boosts in earnings for those employed. Participants in the Home Health Care training increased their earnings by \$1,200 or \$2,600 per year.<sup>23</sup> In contrast, inexpensive job search or work experience programs tend to raise earnings on average by \$400 or less.<sup>24</sup> Intensive programs may be able to increase actual wage levels, while inexpensive programs simply increase hours worked.

Thus, even if we could afford to put every person on welfare through a quick or an

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<sup>19</sup> Supportive work demonstrations from the 1970s have had strong impacts on job retention and later employment. See background papers from the Transition Issue Group for references.

<sup>20</sup> Friedlander and Hamilton. Gueron.

<sup>21</sup> Friedlander and Hamilton.

<sup>22</sup> Gueron and Pauley.

<sup>23</sup> Bell and Orr

<sup>24</sup> Gueron and Pauley.



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

WR-5

February 14, 1994

MEMORANDUM FOR THE DIRECTOR  
DEPUTY DIRECTOR

FROM: Belle Sawhill *Belle*  
SUBJECT: Welfare Cost Estimates

The costs of welfare reform depend on

- the contents of the plan,
- the phase-in strategy and time period for which costs are estimated; and,
- the behavioral impacts of the plan.

This memo lays out some of the issues we face in each area and seeks your guidance in resolving them.

The Contents of the Plan

There are a large number of possible reform options consistent with the President's basic vision -- each with a different "steady-state" cost. ("Steady-state" means the cost once the plan has been fully phased in and any new rules or policies apply to the entire caseload, not just a portion of it.) I believe, based on our staffs' work, that the range of annual steady-state costs varies from zero to \$10 billion with the most reasonable estimates probably falling in the middle of this range. We are now working with HHS to specify the most relevant options within this range so that you and others can see what kind of policy you can buy for different prices. Although we will have much more detail for you later, the most relevant issues are likely to be: how much child care is expanded for the working poor, whether the work slots are time-limited, and the administrative costs of creating jobs.

## The Phase-In of the Plan

Most of those who have worked on the plan agree that it should be phased in gradually. Although there are numerous ways to do this (by state, by age, by length of time on the rolls, etc.), the most common assumption is that we will start with all new applicants (existing recipients would be grandmothers). Under this assumption, it turns out that the federal costs of a basic reform plan (the time-limit followed by community service, with related training and child care costs and assuming no behavioral effects), based on very preliminary estimates, are as follows:

First five years (cumulative):	\$3 billion
First ten years (cumulative):	18 billion
Steady state (one year):	5 billion
Steady state (five years):	25 billion

As these numbers plainly illustrate, the phase-in path is critical as is the specific time period for which costs are estimated and presented to the public. Depending on which period is picked we can say the same plan costs anywhere from \$3 to \$25 billion. Note that Senate scoring rules adopted in last year's budget resolution require a 10-year window. Moreover, journalists, aided by outside analysts, will surely be interested in presenting steady-state estimates even if we do not.

## Behavioral Impacts

To a large degree, the promise of reform is that it will affect behavior. The theme of parental responsibility, with its emphasis on child support enforcement and reducing teen births, is designed to reduce the number of people coming on to the rolls. The theme of work and responsibility, with its emphasis on education, training, and jobs, is intended to move people off the rolls. Many of us believe that over time these impacts will occur and will produce savings that help to offset (possibly even more than offset) the initial costs of reform. The problem is that it is doubtful that CBO will score much if any of these savings. (The estimates cited above do not assume any behavioral impacts.)

## Options

In the face of these facts, it seems to me that we have three basic options:

### Option One: Count Just the First Five Year Costs

If we did this we could propose quite a generous policy and fully offset it. The downside is that we could be blown out of the water by outside analysts and be

subject to a point of order in the Senate. Republicans would argue that we had launched an expensive policy and only paid for its opening wedge.

#### Option Two: Count the Steady-State Costs

This would be much more credible but would necessitate proposing a much tougher policy unless we come up with a lot bigger offsets than anyone is contemplating right now or assume much bigger behavioral impacts than CBO is likely to score. We would probably need to time limit the community service jobs, cut back on child care expansions for the working poor, and find creative ways to keep the costs of the work program down. A variety of popular add-ons (such as liberalizing the assets test, treating two-parent families more like one parent families, experimenting with child support guarantees) would probably have to be dropped.

#### Option Three: Propose a Five Year Program Only

We could make the argument that we believe that behavior is bound to change under our policy, but that we plan to rigorously evaluate the program over a five year period to measure its effects and the associated cost savings. We could propose to sunset the legislation at the end of five years at which time we might ask the Congress to extend and possibly modify it, depending on what was learned over the first five years. This is a sensible approach that avoids some scoring problems but could be criticized for not ending welfare as we know it but rather experimenting with welfare as we know it.

The above is just a first installment on what will undoubtedly be an extended discussion of these issues. I will be setting up some meetings so we can talk about them further and get your input.

cc. Bruce Reed  
Kathi Way  
Richard Bavier  
Stacy Dean



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.O. 20503

WR-COSTS

May 5, 1994

MEMORANDUM FOR WELFARE REFORM CO-CHAIRS

FROM: Isabel Sawhill *IS*

SUBJECT: Welfare Reform Costs

Working together, we have made steady progress toward developing the Administration's welfare reform proposal. To keep us on track for submitting legislation this Spring, it may be useful to lay out some of the cost issues that remain. A common understanding will help us deal with these issues systematically and quickly, and contribute to a better final product.

Cost issues that depend on resolving outstanding policy questions are outlined below. Attached is a list of requests for information on proposals where the policy is clear but the derivation of the specific estimates is, in our view, still somewhat unclear. These requests are based on the data provided in the cost tables in the draft memo prepared by HHS for the President and dated April 12, 1994 and the April 20, 1994 memo on "Cost estimate memo components" prepared by Don Oellerich and Jennifer Meazey.

Some of our questions may already have been answered, or may reflect an incomplete understanding of agreed-upon policies. If so, we'd welcome updates. Staff at both the Department and here at OMB have been working together to clarify outstanding issues, and have been sharing materials. Nevertheless, we still lack a great many details. Wherever possible, these details need to be spelled out in writing and any unresolved policy issues clearly identified. OMB's final comments on the bill's cost cannot be provided until we are able to review these details and the welfare reform legislation itself. Our hope is that this memo will help the process along.

COST ISSUES

1. Part-time work

In early cost modeling, it was assumed that part-time work policies would induce a large increase in part-time work. More recently, cost estimates have assumed there will be no change in behavior due to part-time work policies. While this

assumption may be consistent with some part-time work policies, until details of the policy proposal are settled and clearly communicated, it cannot be determined whether there will or won't be behavior-driven costs or savings.

## 2. Sanctions

At a recent specs meeting, it appeared that agreement had been reached among the co-chairs regarding some aspects of sanctions policy. HHS staff have indicated that they are developing cost estimates of sanctions effects. Until the policy proposal and the modeling are documented, we are not in a position to agree or disagree with related cost estimates.

## 3. Deferrals

The latest HHS caseload estimates we have show 16 percent of the phased-in caseload not subject to the JOBS and WORK requirements, and from 40 percent (in 1996) to 28 percent (in 2005) of the phased-in caseload in the deferred JOBS Prep status. The deferred are assumed to include: a) some who are categorically deferred, such as those with a disabled child; b) some who are deferred prior to exhausting their time-limits, at the discretion of the state, up to a maximum share of the caseload; and c) some who have been reassessed after a WORK assignment and are placed in JOBS Prep rather than given a new WORK assignment. At present, we have not seen a break-out of these sub-groups that totals to the overall JOBS Prep percentages modeled.

## 4. State flexibility

States are to be given flexibility to design their JOBS and WORK programs similar to the flexibility they have over their current JOBS programs. In 1988, CBO estimated that savings from the Family Support Act would be considerably below the Administration's estimate. The Administration had assumed that states would use their flexibility to implement the kinds of programs research showed to be most effective, while CBO assumed less effective programs would be implemented.

OMB staff understand the argument for assuming that a welfare reform implemented effectively could have impacts comparable to the SWIM demonstration. (Although SWIM was implemented in a flagship office, proposed JOBS participation rates will be half-again as high as SWIM's, and according to special analysis by MDRC, SWIM had caseload impacts on young mothers comparable to those on older mothers.) However, it appears that these impacts will have to be discounted to some extent to allow for state design choices that will be less effective than SWIM.

Other issues about the likely use of state flexibility arise with respect to the WORK program. States will be under predictable pressures to assign WORK slots with effectively higher wage rates. A full-time-equivalent slot can provide WORK assignments to more parents if each works fewer hours for their subsidized wages. And experience shows that, to the extent WORK slots are like real jobs rather than community service assignments, organized labor will pressure states to keep WORK wages near prevailing wages.

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The policy on state matching for these particular WORK subsidies is not clear to us, nor is the modeling. In addition, it seems that the considerably greater income available to WORK participants in these states could draw families onto welfare or slow their exits. Such an effect does not appear to be included in the cost estimates. To concur with these estimates, we will need to understand why such caseload effects can be ruled out.

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policy. From the research, we expect that whether such a policy would represent additional costs or savings would depend on details of its design.

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A central unresolved issue is the match rates to be proposed for each program. Match rates will be a key determinant of program success. Varying the match rate could have strong effects on:

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Given the Administration's focus on improving the Federal Government's effectiveness and efficiency, the details of how new and expanded programs will be implemented may merit extra attention. For example in the area of automation, ambitious plans for child support and beneficiary tracking systems are in the works. Automation is central to welfare reform and the success of the plan's implementation depends upon an efficient and quick systems development effort. The ability to track an individual over time is critical to the time limited component of JOBS and the long term success of the No Additional Benefits for Additional Children proposal. Given past GAO and HHS Inspector General reports critical of welfare automation projects, we should be aware of potential pitfalls in this area. We need to flesh out the details of the envisioned systems to ensure we have developed realistic implementation time frame and cost estimates.

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**ATTACHMENT**  
May 5, 1994

## GENERAL

The questions and comments on this attachment are provided with the objective of assuring that adequate detail is provided to explain current estimates. To do this most effectively detail for each provision and each affected program for the item should be provided; capped and uncapped spending should be split out from one another; all pricing should be provided in gross costs and savings; where applicable federal administration costs should be noted; it should be noted whether spending is envisioned to be discretionary, capped entitlement or open entitlement; and applicable interactions for each item whether the item is priced interactively or not, should also be noted. In addition, it would be very helpful to have FNS, Treasury and others provide pricing for their programs for each item.

### A. PARENTAL RESPONSIBILITY

#### 1. No Additional Benefits for Additional Children

*Proposal:*

A State option to deny benefit increases when additional children are conceived on AFDC.

*Comments:*

FNS should be asked to review ASPE pricing. Pricing for a national policy appears to be generally reasonable. In order to complete assessment of the pricing, analytical support for the determination on what proportion of states will adopt the proposal and what percentage of the caseload that will represent should be provided. Also, analytical support for behavioral assumptions should be provided.

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### 3. Child Support Enforcement -- Paternity Establishment and Enforcement Techniques

#### *Proposal:*

Changes to existing law are designed to increase paternities established, streamline current practices through administrative processes and improve the tracking of those paying child support. The proposals would also overhaul the existing financing and incentive structure for State child support agencies. Under the proposal, the Federal government would assume about 87% of all child support expenditures and recoup 40% of program savings. Overall, the changes are intended to generate more collections, and hence savings to the Federal and State governments.

#### *Comments:*

Achieving the net savings depends heavily upon States meeting rigorous performance standards. Specific legislative language will be needed to more accurately determine the savings associated with the changes.

Under current law, States "profit" from child support -- i.e. recoup more in incentives and collections than they pay for administrative costs. Currently, States "profit" by \$500 million annually. The proposed changes would generate \$5 billion more in State "profits" over the next ten years, by increasing match rates and collections. Evidence should be provided to support the proposition that a richer Federal match will result in improved State performance.

Paternity Establishment -- Current pricing assumes that 70% of mothers not cooperating fully with the child support agency will have paternity established within one year. The basis for this assumption is not clear.

Under current law AFDC mothers are required to cooperate with the CSE agency in establishing paternities and support orders. Why are there savings for the cooperation provisions when they are current law?

The interactions among child support provisions are not fully explained in current back-up documentation. For example, research shows that withholding licenses might increase collections by 3%. However the proposed CSE reforms are much wider in scope and the results of a single study (or proposal) may be diluted when States implement the broad changes. To fully explain the child support estimates, the detailed breakout of costs and savings by proposal should be accompanied by an explanation how the proposals interact and how the line items are discounted for the interactions.

#### 4. Child Support Enforcement -- Automation

*Proposal:*

An ambitious automation project to overhaul existing State automated systems is envisioned, as well as establishing Federal databases and central registries. Systems development costs would be matched at 90%.

*Comments:*

Systems implementation time frames and costs have historically been optimistic. A practical implementation plan and any new estimates for Child Support Enforcement automation should be provided.

#### 5. Child Support Enforcement -- Interaction with other provisions

*Proposal:*

Many WORK participants would be treated as non-AFDC cases in child support enforcement. States would be allowed to disregard more than \$50 in child support.

*Comments:*

This could significantly reduce the amount of child support available to offset AFDC costs, significantly increasing the cost of WORK/increasing net Federal costs of Child Support Enforcement. It is not clear if this is reflected in the pricing. This should be clarified.

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#### 1. Transitional Assistance Automation

*Proposal:*

The welfare reform proposal relies on automation to track clients, facilitate programmatic changes and reduce administrative expenditures.

*Comments:*

Given historical implementation time frames and costs, the cost estimates may be low. No back-up for the administrative savings resulting from automation has been available. The plan for how States would implement programmatic options and the implications for systems costs should be provided.

## D. TWO PARENT PROVISIONS

### *Proposal:*

States will have the option to remove all or some of the current eligibility restrictions that prevent two-parent households from obtaining AFDC-UP, even when income and asset levels are similar to those of one parent families.

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- *Administrative Costs--Pricing* for this proposal should consider the additional administrative costs associated with caseload increases. If these costs are to be subsumed under the teen case management grant, what will be the effect on the service levels envisioned for teens currently eligible for benefits?
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## E. DEMONSTRATIONS

It appears that current cost estimates for demonstration programs assume that demonstrations (and the benefits they give individuals) end abruptly. In general, demonstrations need to include a phase-down plan so that beneficiaries gradually return to the regular program. Cost estimates for demonstration programs should reflect gradual phase-outs (and phase-in's where appropriate).

### 1. Microenterprises

#### *Proposal:*

\$10 million per year for microenterprise demonstration activities.

#### *Comments:*

It should be clarified whether funds would be mandatory or discretionary. The estimates do not appear to include salary and expense for SBA and HHS, as well as evaluation funds for HHS. These items are generally considered discretionary.

### 2. Matching funds for individual development accounts

#### *Proposal:*

\$75 million per year for matching deposits into individual development accounts, with funds usable for self-employment/business capitalization, home purchase, post-secondary education, and retirement purposes

**Comments:**

Not clear whether funds would be mandatory or discretionary. No analysis is available to determine whether there would be interactive effects with other programs (e.g. Food Stamps).

3. Asset rules for assets in individual development accounts (other than those addressed immediately above)

**Proposal:**

Allow AFDC (and Food Stamp?) applicants and recipients to put assets into individual development accounts, with modest penalties for using them for non-approved purposes.

**Comments:**

It should be clarified whether this item is included in the package and specifics should be provided.

4. Child Support Assurance Demonstrations

**Proposal:**

Child Support Assurance demos -- Up to six States would test the success of the government guaranteeing child support payments

**Comments:**

It should be clarified whether funding is intended to be open ended mandatory, capped mandatory or discretionary? If open-ended, would there be a limit on the number of participants, or could the demonstration include all of the six largest States?

**F. IMPROVING GOVERNMENT ASSISTANCE**

1. State flexibility on earned income and child support disregards

**Proposal:**

States would be required to disregard the first \$120 in monthly earnings, with States deciding on any percentage disregards in addition to the \$120. For child support, States would be able to disregard more than the current \$50.

**Comments:**

Estimates assume that States would increase total benefits to recipients by \$250 million per year over and above the cost of current waivers. The basis for the cost estimates is not clear. Pricing should factor in Medicaid, Food Stamp, and child care

effects.

2. Conform AFDC to Food Stamp asset rules (except for automobiles)

*Proposal:*

Legislation would have AFDC adopt Food Stamp asset rules with the exception of the automobile exclusion. Regulations would be issued to increase the AFDC auto exclusion.

*Comments:*

It appears the estimates assume that liberalizing the automobile asset test by regulation will reduce the cost of increasing the liquid asset allowance. Since estimates must be against the FY95 Budget baseline, new regulatory changes may not reduce scorable costs. Medicaid costs do not appear to be included and should be.

3. Disregard the EITC from assets for a year after receipt

*Proposal:*

Disregard the EITC from assets for a year after receipt. Presumably, each family's asset limit would equal the basic asset limit plus the lesser of their EITC refund and their subsequent minimum liquid asset balance.

*Comments:*

Disregarding the EITC for a year after receipt for applicants effectively increases the liquid asset limit by up to \$3,370 (for a total of up to \$5,370), depending on family size and prior year earned income. The added eligibles and administrative complexity do not appear to have been factored in to cost estimates. Medicaid costs do not appear to be included and should be.

4. Conforming AFDC policy on correcting underpayments to Food Stamp policy.

*Proposal:*

Food Stamps will repay up to 12 months of agency-caused underpayments, and no client-caused underpayments. AFDC currently repays without regard to time or who was responsible for the error.

*Comments:*

While information for pricing is limited, it would be helpful to understand the assumptions used to estimate this item.

## CROSSCUTTING ISSUES

### 1. Federal Matching Rates

#### *Proposal*

Federal and State governments would share any new net costs of welfare reform at an 80/20% split respectively.

#### *Comments:*

All existing line items in the table should be shown at current law matching rates and the proposed matching rate (with a new line for aggregate matching rate adjustments in welfare programs as a whole.) That display would facilitate estimating the effects the proposed matching rates has on total spending and financial management. A full fiscal accounting under each program of Federal and State by State outcomes should also be provided.

### 2. Food Programs and Medicaid Costs

#### *Proposal:*

N/A

#### *Comments:*

In order to accurately price the program the collateral effects of the new JOBS/WORK and IGA on existing Food Programs, EITC and Medicaid programs should be provided. FNS, HCFA, Treasury and others should be asked to provide comments and pricing on the Task Force's proposal. For example, income earned while on the WORK program will be treated as earned income for the Food Stamps program. This will most likely increase Food Stamp benefits for those beneficiaries. Similarly, changes in two-parent provisions could increase the number of people eligible for Medicaid.

### 3. Baseline

#### *Proposal:*

Current law.

#### *Comments:*

Under the Budget Enforcement Act, the Welfare Reform proposal must <sup>be</sup> priced off of the January baseline. Savings from EITC and Health Care Reform cannot be assumed in pricing the proposal. If current cost estimates are not based on the OMB January 1994 baseline, please do so.

**4. Interactions Among Provisions**

*Proposal:*  
N/A

*Comments:*

It is not clear how many interactive effects among provisions have <sup>been</sup> included in pricing so far. For example, the WORK program might treat Child Support as non-AFDC collections, rather than AFDC collections. This might decrease the savings from child support provisions. It should be noted where items have been priced interactively and where they <sup>are</sup> might be interactions, but they have not been priced.

**5. Cost-neutral waivers**

*Proposal:*

Some States have cost-neutral waivers to demonstrate some of the changes that would become national policy or State options under the current proposal.

*Comments:*

Although under cost neutrality waivers may shift the fiscal years in which costs occur, they do not reduce the total cost of any of the legislative proposals. The proposal is priced in such a way that cost neutral waivers may be used to lower costs. This should be clarified and eliminated if true.

**6. Outlays vs. budget authority**

*Proposal:* NA

*Comments:*

It is not clear whether estimates are budget authority or outlays. Tables need to show both budget authority and outlays. It is likely that budget authority and outlays will be the same for some provisions, with budget authority higher than outlays for other provisions.



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

WR-Costs

May 5, 1994

MEMORANDUM FOR WELFARE REFORM CO-CHAIRS

FROM: Isabel Sawhill *IS*

SUBJECT: Welfare Reform Costs

Working together, we have made steady progress toward developing the Administration's welfare reform proposal. To keep us on track for submitting legislation this Spring, it may be useful to lay out some of the cost issues that remain. A common understanding will help us deal with these issues systematically and quickly, and contribute to a better final product.

Cost issues that depend on resolving outstanding policy questions are outlined below. Attached is a list of requests for information on proposals where the policy is clear but the derivation of the specific estimates is, in our view, still somewhat unclear. These requests are based on the data provided in the cost tables in the draft memo prepared by HHS for the President and dated April 12, 1994 and the April 20, 1994 memo on "Cost estimate memo components" prepared by Don Oellerich and Jennifer Meazey.

Some of our questions may already have been answered, or may reflect an incomplete understanding of agreed-upon policies. If so, we'd welcome updates. Staff at both the Department and here at OMB have been working together to clarify outstanding issues, and have been sharing materials. Nevertheless, we still lack a great many details. Wherever possible, these details need to be spelled out in writing and any unresolved policy issues clearly identified. OMB's final comments on the bill's cost cannot be provided until we are able to review these details and the welfare reform legislation itself. Our hope is that this memo will help the process along.

COST ISSUES

1. Part-time work

In early cost modeling, it was assumed that part-time work policies would induce a large increase in part-time work. More recently, cost estimates have assumed there will be no change in behavior due to part-time work policies. While this

assumption may be consistent with some part-time work policies, until details of the policy proposal are settled and clearly communicated, it cannot be determined whether there will or won't be behavior-driven costs or savings.

## 2. Sanctions

At a recent specs meeting, it appeared that agreement had been reached among the co-chairs regarding some aspects of sanctions policy. HHS staff have indicated that they are developing cost estimates of sanctions effects. Until the policy proposal and the modeling are documented, we are not in a position to agree or disagree with related cost estimates.

## 3. Deferrals

The latest HHS caseload estimates we have show 16 percent of the phased-in caseload not subject to the JOBS and WORK requirements, and from 40 percent (in 1996) to 28 percent (in 2005) of the phased-in caseload in the deferred JOBS Prep status. The deferred are assumed to include: a) some who are categorically deferred, such as those with a disabled child; b) some who are deferred prior to exhausting their time-limits, at the discretion of the state, up to a maximum share of the caseload; and c) some who have been reassessed after a WORK assignment and are placed in JOBS Prep rather than given a new WORK assignment. At present, we have not seen a break-out of these sub-groups that totals to the overall JOBS Prep percentages modeled.

## 4. State flexibility

States are to be given flexibility to design their JOBS and WORK programs similar to the flexibility they have over their current JOBS programs. In 1988, CBO estimated that savings from the Family Support Act would be considerably below the Administration's estimate. The Administration had assumed that states would use their flexibility to implement the kinds of programs research showed to be most effective, while CBO assumed less effective programs would be implemented.

OMB staff understand the argument for assuming that a welfare reform implemented effectively could have impacts comparable to the SWIM demonstration. (Although SWIM was implemented in a flagship office, proposed JOBS participation rates will be half-again as high as SWIM's, and according to special analysis by MDRC, SWIM had caseload impacts on young mothers comparable to those on older mothers.) However, it appears that these impacts will have to be discounted to some extent to allow for state design choices that will be less effective than SWIM.

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F. IMPROVING GOVERNMENT ASSISTANCE

1. State flexibility on earned income and child support disregards

*Proposal:*

States would be required to disregard the first \$120 in monthly earnings, with States deciding on any percentage disregards in addition to the \$120. For child support, States would be able to disregard more than the current \$50.

*Comments:*

Estimates assume that States would increase total benefits to recipients by \$250 million per year over and above the cost of current waivers. The basis for the cost estimates is not clear. Pricing should factor in Medicaid, Food Stamp, and child care

effects.

2. Conform AFDC to Food Stamp asset rules (except for automobiles)

*Proposal:*

Legislation would have AFDC adopt Food Stamp asset rules with the exception of the automobile exclusion. Regulations would be issued to increase the AFDC auto exclusion.

*Comments:*

It appears the estimates assume that liberalizing the automobile asset test by regulation will reduce the cost of increasing the liquid asset allowance. Since estimates must be against the FY95 Budget baseline, new regulatory changes may not reduce scorable costs. Medicaid costs do not appear to be included and should be.

3. Disregard the EITC from assets for a year after receipt

*Proposal:*

Disregard the EITC from assets for a year after receipt. Presumably, each family's asset limit would equal the basic asset limit plus the lesser of their EITC refund and their subsequent minimum liquid asset balance.

*Comments:*

Disregarding the EITC for a year after receipt for applicants effectively increases the liquid asset limit by up to \$3,370 (for a total of up to \$5,370), depending on family size and prior year earned income. The added eligibles and administrative complexity do not appear to have been factored in to cost estimates. Medicaid costs do not appear to be included and should be.

4. Conforming AFDC policy on correcting underpayments to Food Stamp policy.

*Proposal:*

Food Stamps will repay up to 12 months of agency-caused underpayments, and no client-caused underpayments. AFDC currently repays without regard to time or who was responsible for the error.

*Comments:*

While information for pricing is limited, it would be helpful to understand the assumptions used to estimate this item.

## CROSSCUTTING ISSUES

### 1. Federal Matching Rates

#### *Proposal*

Federal and State governments would share any new net costs of welfare reform at an 80/20% split respectively.

#### *Comments:*

All existing line items in the table should be shown at current law matching rates and the proposed matching rate (with a new line for aggregate matching rate adjustments in welfare programs as a whole.) That display would facilitate estimating the effects the proposed matching rates has on total spending and financial management. A full fiscal accounting under each program of Federal and State by State outcomes should also be provided.

### 2. Food Programs and Medicaid Costs

#### *Proposal:*

N/A

#### *Comments:*

In order to accurately price the program the collateral effects of the new JOBS/WORK and IGA on existing Food Programs, EITC and Medicaid programs should be provided. FNS, HCFA, Treasury and others should be asked to provide comments and pricing on the Task Force's proposal. For example, income earned while on the WORK program will be treated as earned income for the Food Stamps program. This will most likely increase Food Stamp benefits for those beneficiaries. Similarly, changes in two-parent provisions could increase the number of people eligible for Medicaid.

### 3. Baseline

#### *Proposal:*

Current law.

#### *Comments:*

Under the Budget Enforcement Act, the Welfare Reform proposal must <sup>be</sup> priced off of the January baseline. Savings from EITC and Health Care Reform cannot be assumed in pricing the proposal. If current cost estimates are not based on the OMB January 1994 baseline, please do so.

#### 4. Interactions Among Provisions

*Proposal:*

N/A

*Comments:*

It is not clear how many interactive effects among provisions have <sup>been</sup> included in pricing so far. For example, the WORK program might treat Child Support as non-AFDC collections, rather than AFDC collections. This might decrease the savings from child support provisions. It should be noted where items have been priced interactively and where they <sup>may</sup> might be interactions, but they have not been priced.

#### 5. Cost-neutral waivers

*Proposal:*

Some States have cost-neutral waivers to demonstrate some of the changes that would become national policy or State options under the current proposal.

*Comments:*

Although under cost neutrality waivers may shift the fiscal years in which costs occur, they do not reduce the total cost of any of the legislative proposals. The proposal is priced in such a way that cost neutral waivers may be used to lower costs. This should be clarified and eliminated if true.

#### 6. Outlays vs. budget authority

*Proposal:* NA

*Comments:*

It is not clear whether estimates are budget authority or outlays. Tables need to show both budget authority and outlays. It is likely that budget authority and outlays will be the same for some provisions, with budget authority higher than outlays for other provisions.