

Bruce Reed

WR-Plans

~~Confidential~~⁷⁰⁵

WELFARE REFORM ISSUE PAPER

February 24, 1994

Bruce -

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on Friday 4/94

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WELFARE REFORM ISSUE PAPER

INTRODUCTION

Everyone is frustrated with the welfare system. Welfare reform is designed to change the very culture of the support system and reinforce basic values of work and responsibility. The current system pays cash when people fail to provide for their families. We propose a new vision aimed at helping people regain the means of supporting themselves and holding people responsible for themselves and their families. The proposal indicates 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, then requires work, preferably in the private sector, but in community service jobs if necessary. Ultimately, this requires changing almost everything about the way in which we deliver support to struggling families. Most importantly, it requires changing the culture of welfare offices, getting them out of the check-writing business and into the training and job placement business.

Fundamentally, this plan is about giving people back the dignity and control that comes from work and independence. It is about reinforcing work and family and opportunity and responsibility. To achieve this vision, the plan has four main elements:

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, to those who are past the time limit and to those who are currently not yet ready to work. Those who are unable to work due to disability or other reasons will not be put into time-limited assistance until they are ready.
- Training, education and employment 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 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 JTPA, School-to-Work and vocational education.
- Time limits. People who are able to work will generally 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 will be granted in a limited number of cases.
- 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.

Tab

Making Work Pay

Health Reform. An essential part of moving people from welfare to work is ensuring that working persons 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. Mechanisms will be put in place to ensure that 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.

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 non-custodial parents will be mounted.
- 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 developed.
- Efforts to Promote Two-Parent Families. We will provide better support for two-parent families by eliminating the current bias in the welfare system in which two-parent families are subject to more stringent eligibility rules than single-parent families.

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 for the system will be designed to bring about a change in the culture of welfare offices toward, and an emphasis on, work and performance.

This paper lays out the major unresolved 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

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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.)

There are four particularly significant issues that need to be resolved:

- **The Scale and Phase-In of the Reformed Welfare System**--Should we seek to bring in all persons quickly, or should we initially target our resources to sub-groups, such as new applicants or persons born after 1969? under 25
youngst 1/3
- **The Structure and Requirements of the Work Program for People Who Have Exceeded the Time Limit**--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? How many hours of work should be required? What methods should we use to minimize long-term participation in this work program?
- **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 if there is insufficient money to guarantee coverage for all working poor families? ?
- **Financing**--What measures should be used to finance the welfare reform package? How should the burden be shared between States and the Federal government?

Financing is not discussed in this paper.

This draft issue paper is designed to serve as the background for the key decisions which remain. To provide a sense of the scale of a program and the cost of particular elements, we have created a hypothetical proposal. The actual cost of the program will differ depending on what decisions are made. In the remainder of the document, we will refer to this baseline and indicate where different programmatic decisions would have led to a larger or smaller program. This table is only provided 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
PARENTAL RESPONSIBILITY						
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)
Child Support Enforcement						
Paternity Establishment (Net)	5	20	(95)	(140)	(175)	(385)
Enforcement (Net)	0	(30)	(100)	(105)	(350)	(585)
Computer Costs	15	35	95	160	160	465
Non-Custodial Parent Provisions	0	30	85	110	165	390
Access Grants and Parenting Demonstrations	20	25	30	30	30	135
Child Support Assurance Demonstrations	0	0	100	200	250	550
SUBTOTAL, CSE	40	80	115	255	80	570
TRANSITIONAL ASSISTANCE FOLLOWED BY WORK						
JOBS-Prep	0	15	50	60	70	195
Additional JOBS Spending	0	260	620	940	980	3,000
WORK Program	0	0	0	120	620	740
Additional Child Care for JOBS/WORK	0	240	680	750	870	2,540
Transitional Child Care	0	85	250	300	350	985
Enhanced Teen Case Management	0	30	90	105	110	335
Economic Development	0	0	100	100	100	300
Savings - Caseload Reduction	0	(10)	(40)	(90)	(100)	(240)
SUBTOTAL, JOBS/WORK	0	620	1,950	2,285	3,000	7,855
MAKING WORK PAY						
Working Poor Child Care	0	500	1,000	1,500	2,000	5,000
Advance EITC	0	0	0	0	0	0
GRAND TOTAL	5	1,105	3,395	4,580	5,875	14,960

Note: Parentheses denote savings.

Source: ASPE Staff Calculations

SEE APPENDIX FOR ENDNOTES TO TABLE

Does not represent consensus recommendation of Wkg Group

TRANSITIONAL ASSISTANCE FOLLOWED BY WORK

Perhaps the most critical and difficult goal of welfare reform is to reshape the very mission of the current support system from one focused on writing checks to one focused on work, opportunity, and responsibility. The Working Group proposal calls for replacing the AFDC program with transitional assistance followed by work. The new program includes four key elements: full participation, education and training, time-limits, and work.

- **Full Participation.** Everyone who wishes to receive cash support will be expected to do something to help themselves and their community. Recipients will sign a personal responsibility contract indicating exactly what is expected of them and the government. Most will go immediately into the JOBS program. A limited number of persons who are not yet in a position to work or train (because of disability or the need to care for an infant or disabled child) will be assigned to a JOBS-Prep program until they are ready for the time-limited JOBS program. Everyone has something to contribute. Everyone has a responsibility to move toward work and independence.
- **Training, Education, and Placement (the JOBS program).** The focus of the two years of transitional support will be an expanded and improved JOBS program, which was established by the Family Support Act of 1988 and provides training, education, and job placement services to AFDC recipients. Every aspect of the program will emphasize paid work. Recipients and workers will design an employability plan. One option would be to require all applicants to go through supervised job search. For those who need it, the JOBS program will help recipients gain access to the education and training programs in order to find an appropriate job. Recipients who willfully fail to comply with their JOBS program employability plan will be sanctioned. The new effort will seek close coordination with the JTPA program and other mainstream training programs and educational resources. It will also include a recognition that supporting workers who have recently left welfare to keep their jobs may be the best form of help we can offer.
- **Time Limits.** Persons able to work will generally be limited to two years of cash assistance. While two years will be the maximum period for the receipt of cash aid by people able to work, the goal will be to place people in private sector jobs long before the end of the two-year period. In a limited number of cases, extensions of the time limit will be granted for completion of an educational or training program or in unusual circumstances. The time limit is a lifetime limit, but persons who had left welfare would earn back *potential* time on assistance for time spent off welfare.
- **Work (the WORK program).** Those persons who are not able to find employment within the two years would be required to take a job in the WORK program. WORK program jobs would include subsidized private sector jobs, as well as positions with local not-for-profit organizations and public sector positions. The positions are intended to be short-term, last-resort jobs, designed neither to displace existing workers, nor to serve as substitutes for unsubsidized private sector employment. The primary emphasis of the WORK program will be on securing private sector employment.

Ultimately changing what happens in welfare offices will require significant changes in what is measured and rewarded. The Federal government will create strong financial incentives linked to long-term job placement and minimizing the number of people who reach the two-year limit. Ultimately the best time-limited welfare system is one in which nobody hits the limit because they are all working before that point.

Six key questions need to be addressed in designing the program of transitional assistance followed by work.

- **Focus and Phase-In.** How quickly should the reforms be phased in and who should be targeted initially?
- **JOBS-Prep Rules.** Who should be put assigned to the JOBS-Prep program because they are not able to work or are needed at home? How many persons should States be allowed to place in the JOBS-Prep program?
- **JOBS Extensions.** Who should be granted extensions of the two-year time limit? What limits, if any, should be put on the number of extensions allowed?
- **Work for Wages Versus Work for Welfare.** Should States be required to provide jobs, paying wages, to those in the WORK program? Would States be allowed to use CWEP placements for all or part of the WORK slots?
- **Part-time versus Full-time Work Expectations** Should persons working part-time while on welfare be subject to time limits? How many hours should WORK participants be required to work? Should States be allowed or required to supplement WORK earnings in a work-for-wages program?
- **Discouraging Extended WORK Participation.** What can be done to keep the duration of WORK participation short and to move people into unsubsidized work? Should the EITC be denied to work program participants? Should any particular WORK placement be limited to 12 months? Should the total time people are allowed to spend in the WORK program be limited?

Focus and Phase-in

The ultimate distribution of persons among the various elements of the program (JOBS-Prep, JOBS and WORK) depends on policy decisions. As a starting point, consider what would happen if we chose to undertake the extremely ambitious task of beginning the program full scale in 1997--most States will need at least 2 years to pass implementing legislation and get the program up and running. This would entail requiring everyone on welfare in 1997 and all those who applied subsequently to meet the new requirements. The JOBS program, which now serves an average of 600,000 persons monthly, would have to expand to almost 3,000,000 participants in 1997. By the year 2000, 750,000 WORK slots might be needed for persons who had reached the two-year time limit.

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It is unimaginable that States could accomplish this mammoth task virtually overnight. Even if resources were plentiful, such a rapid phase-in almost guarantees that the JOBS program will be poorly administered, with limited real content, in many States. Facing the need to serve millions of new JOBS clients and to create hundreds of thousands of WORK slots, many States would likely to provide minimal services to participants in the JOBS program. An effective JOBS program is essential to moving people from welfare to work and to transforming the culture of welfare offices. Accordingly, it is critical that States, as part of the welfare reform effort, be able to focus on the JOBS program. Moreover, the threat of WORK slots displacing existing public and private sector employees would be much greater with such a swift build-up.

Phasing in the program gradually, starting with a subset of recipients, seems clearly preferable. There are a number of different strategies for a more gradual phase-in. The House Republican bill applies the new rules, including time limits, to applicants (both new and returning). This strategy has the obvious appeal of changing the rules initially for people who enter the welfare system in the future, rather than for those who entered earlier, under a different set of expectations. This method, however, raises serious equity concerns. A 25-year old mother who had children before age 20 and had been on welfare continuously since that point would face no time limit for several years, so long as she remained on assistance. Meanwhile, another mother of the same age, with the same number of children, who had been married or had worked to stay off welfare but suddenly found herself in need of support would be subject to time limits.

doesn't work

Applying the time limits to re-applicants also creates very perverse incentives to *stay on welfare*. Most of the persons who leave welfare do return at some stage, and consequently many recipients who would otherwise have left might be inclined to stay on welfare to avoid the time limit. Another related option would be to focus only on new applicants, but since there is little reliable data on past welfare receipt, such a plan creates a virtually insurmountable verification problem. Individuals who were in fact new applicants could easily claim to have been on welfare in the past.

An alternate strategy would be to phase in by State. The costs to the Federal Government during the phase-in period would be lower, since not all States would be implementing the program at the same time, but the implementing States would still have to grapple with the difficulties accompanying the sort of massive expansion of services described earlier in this paper.

An attractive alternative is to focus on young parents--such as those age 25 or under. It is the younger generation of actual and potential welfare recipients that are the source of greatest concern. They are, however, also the group for which there probably is the greatest hope of making a profound difference. Younger recipients are likely to have the longest stays on welfare, in part because they are at the beginning of their spells. Under this approach, we would devote energy and resources to trying to "rescue" the next generation, rather than spreading efforts so thin that little real help is provided.

and welfare for

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One method of focusing on younger recipients would be to place all persons born after 1969 (under age 26 in 1995) into the transformed transitional support system. All persons of the same age and circumstances would then face the same rules, regardless of when they entered the system. This plan implies a gradual phase-in of more and more of the caseload, since the fraction of those on welfare

**PROJECTED CASELOADS UNDER PROGRAM FOR
OCTOBER 1996 IMPLEMENTATION FOR PERSONS BORN AFTER 1969**

	FY 1997	FY 1999	FY 2004
Projected Adult Cases With Parent Born After 1969 Without Reform	1.28 million	1.68 million	2.75 million
Off Welfare with Reform (health reform after 1999, EITC, child support enforcement, child care, JOBS, WORK, etc.)	.05 million	.10 million	.70 million
Program Participants	1.23 million	1.58 million	2.05 million
Working While on Welfare	.14 million	.19 million	.26 million
JOBS participants	.78 million	.86 million	.74 million
WORK participants	.00 million	.13 million	.54 million
JOBS-Prep--disability	.14 million	.20 million	.26 million
JOBS-Prep--severely disabled child	.03 million	.04 million	.05 million
JOBS-Prep--caring for child under 1	.14 million	.16 million	.20 million

Notes:

Numbers assume modest behavioral effects including an increase in part-time work among those on welfare. Figures for 2004 are subject to considerable error, since it is difficult to make caseload projections or to determine the impact of WORK requirements on behavior. Figures for 2004 also assume behavioral effects from full implementation of health reform.

who were born after 1969 would rise with each year. In 1995 everyone under age 26 would be under the new regime. Ten years later, everyone under age 36 would be in the new, revamped transitional support structure. For this age cohort and all younger cohorts following, the welfare system would be transformed. If we were able to successfully implement the program for the younger generation, we could then move onto older recipients. Note that such a plan would not contemplate any reduction in existing education and training services for older recipients. They would still be eligible for JOBS services. But the new resources would be focused on young people.

Reassess
in 1999,
calculate
it effects
as we hope

The number of persons served under such a strategy is shown on the table on the following page. In 1997, the first year of implementation, everyone in the program would be either working, in JOBS-Prep, or in the JOBS program. There would be no one in the WORK program until 1999, when persons began to reach the two-year limit. Note that most people who enter the welfare system in 1997 will not hit the limit in 1999. Many leave welfare within a short period of time and never hit the limit. Others cycle on and off welfare and accumulate 24 months of receipt over a four or five-year period. Estimates indicate that as a result of the implementation of the new program and other reforms (health reform, child care for the working poor) more people will choose to work while on welfare and others who would not have left otherwise will leave altogether.

Note that the projected caseload if no reform were undertaken grows relatively rapidly over time, because a larger and larger portion of the caseload will have been born after 1969. In 1997, roughly 30 percent of the projected caseload would be in this group. By 2004, more than 50 percent would be included.

The projected costs of focusing on this target group are shown on Table 1 in the introduction. The five-year 1995-1999 costs are roughly \$7.6 billion. Clearly, phasing in a larger group would increase these costs, while targeting a smaller group would decrease them.

A decision to focus on young people initially in no way precludes adding all or part of the older cohorts to the program at a later time. If in four or five years time, the program is working as hoped and it is feasible to augment the capacity, expansion could be undertaken at that point.

e.g.
state option
to go quicker

JOBS-Prep Rules

Any policy where work is required and time-limits imposed must take account of differences in the ability to work. People who are permanently disabled and thus are unable to work for at least one year should in theory be covered under the Supplemental Security Income (SSI) Program. But some disabilities and most illnesses, even severe ones, last less than a year. Many other people suffer from partial disabilities that limit their ability to work. Sometimes a parent is needed in the home to care for a severely disabled child. There are admittedly also persons who have great difficulty coping with the day-to-day challenges of parenting and survival in what are often highly stressful environments.

One solution would be to simply exempt a significant number of persons from any participation requirements, as is the case under current law. Having large numbers of exemptions, however, may serve as an obstacle to changing the culture of welfare offices. Moreover, deferrals are not necessarily beneficial to those who receive them. Advocates for persons with disabilities often complain that current programs send both explicit and subtle messages that persons with disabilities

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cannot and should not work, and thus cannot really contribute to themselves or their communities. Still, for many persons, immediate work or training may not be appropriate.

One very intriguing formulation has been proposed by the American Public Welfare Association. They suggest creation of a "JOBS-Prep" program for persons not yet able to work or enter an education or training program. Everyone in the JOBS-Prep program would be expected to do something to contribute to themselves and their community, but would not be subject to the time limit until they were ready to enter the JOBS program. We have adopted this formulation with our JOBS-Prep program.

The nomenclature of JOBS-Prep is appealing, for it establishes the expectation that eventually many, if not most, people in the group will be able to join the regular JOBS program. But who should be placed in JOBS-Prep status? Virtually everyone seems to agree that persons of advanced age (over 60), those with severe disabilities or those who are caring for a severely disabled child should be assigned to the JOBS-prep program. But the question of how far along the continuum of disability the line should be drawn is difficult.

A somewhat different set of problems is posed by the mothers of very young children. Should all mothers with (healthy) children be expected to work? The Family Support Act exempted mothers with children under the age of 3 from participation in the JOBS program. States had the option of requiring participation of mothers with children over the age of 1 if they chose to do so. As of Fiscal Year 1993, eight States had elected this stricter option. Two other States require mothers of children over 2 to participate.

Obviously, the more people who are placed in the JOBS-Prep program and consequently not yet subject to a time limit, the fewer people will be in the JOBS and WORK programs. It is estimated that the following percentage of the current caseload would be in JOBS-Prep under different policies:

Option A: Case head is 60 years or over, case head has a severe disability or is caring for a child with a severe disability.

8 percent in JOBS-Prep

Option B: Case head is 60 years or over, case head has a disability which limits work, or is caring for a child with a severe disability.

15 percent in JOBS-Prep

Option C: Option B, plus cases with a child under one in the household or with a woman in the final trimester of pregnancy. Children conceived while the mother is on welfare would qualify the mother for only 4 months of JOBS-Prep.

25 percent in JOBS-Prep

3 mos.

Option D: Option B, plus cases with child under 3 years in the household or woman in the final trimester of pregnancy. Children conceived while the mother is on welfare would qualify the mother for only 4 months of JOBS-Prep.

45 percent in JOBS-Prep

3 mos.

Option D is essentially the strategy used in the Family Support Act, though States are currently permitted to elect Option C now (as noted above, only eight have done so). The Working Group recommends Option C, and that policy is the one used for all the estimates in this package.

cut # of exemptions by half

It is easy to determine the age of youngest child, but difficult to define disability, illness or the need to care for a relative for purposes of assignment to JOBS-prep as opposed to JOBS. Rather than set up elaborate Federal rules for defining ability to work and then auditing performance, the Working Group recommends that the Federal government set a maximum percentage of the caseload which can be placed in JOBS-Prep for reasons other than the age of the youngest child and provide guidance as to the other criteria for assignment to the JOBS-Prep program. The estimates presented assume the cap is set at 15 percent.

Total 25%?

Extensions

A related, but conceptually distinct question is that of extensions. Two years is not sufficient time to complete some educational programs. In some cases, persons may be so educationally disadvantaged that they are unable to even complete high school or gain a GED within two years. In other cases, persons seeking post-secondary education, including a four year college degree, would need more than two years to complete their education. Some programs, including school-to-work programs, involve both a period to finish high school and an additional year of training.

There seems to be little disagreement that persons who are making satisfactory progress toward the completion of a GED or high school degree should be granted extensions. Similarly, persons in School-to-Work or similar programs should be encouraged to complete the program. There are others who may need more time to get adequate schooling. Persons with language difficulties may need, for example, to complete an English as a Second Language (ESL) course before they can obtain a GED or job training.

The controversial question is whether a person should be able to receive full welfare benefits while he or she goes on to complete a four-year college degree. Those who favor such a proposal emphasize that assisting people to obtain a bachelor's degree is the best way to ensure that they do not return to welfare. Pushing people into low-wage positions which do not bring the family up to the poverty line or offer upward mobility may be counter-productive.

Those who oppose extensions to complete a four-year college note that only one-quarter of all high school graduates obtain a four-year college degree, and that among welfare recipients the fraction is much lower. They question whether it is fair to use welfare benefits to help support persons who are getting college degrees when the vast majority of persons paying for that support will never get such a degree. There is also a concern that single parents would actually have greater access to economic support for higher education than persons who did not become single parents. A partial resolution to this dilemma may emerge if part-time work fulfills the work obligation. In those circumstances, persons working part time and attending school part time would continue to be eligible for some supplemental cash support in most States.

As with the issue of assignments to JOBS-Prep, the Working Group recommends that the number of extensions be capped at a fixed percentage of the caseload. The current proposal allows States to

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grant extensions to persons for attaining a GED or for completing a school-to-work or similar structured learning program, as well as to persons facing a language barrier or other serious obstacle to employment. States could also opt to use extensions for persons in post-secondary education, especially persons in work-study programs. We believe that setting the cap at 10 percent of the total TAP caseload will provide States a sufficient number of extensions, barring unusual circumstances.

A State could apply to the Secretary of HHS for additional extensions as an amendment to the State plan if it could demonstrate that its caseload is very different from that in the nation as a whole or if it had developed an alternative program which is structured in such a way that additional extensions are required.

TOTAL deferral +
ext = 1/3
(same as GOP?)

Work for Wages Versus Work for Welfare

Unquestionably the hardest part of designing a time-limited welfare system is structuring the work program for persons who have reached the time limit. The welfare reform effort will focus on making work pay, collecting child support, and creating a first-rate education, training and placement program in order to keep the number of persons reaching the time limit to a minimum. In addition, all persons approaching the two-year limit will be required to engage in a period of intensive job search. Despite these efforts, some persons will hit the time limit without finding a job on their own, and work opportunities must be provided for them.

The first and most visible choice in the WORK program involves work for wages versus work for welfare. Under a *work-for-wages* plan, the State or locality is required to offer a work opportunity to persons who have reached the time limit. Hours and wages are set by the State or locality. Persons receive a paycheck for hours worked. If the person does not work, he or she does not get paid. In principle, persons are wage earners rather than recipients. In a *work-for-welfare* plan, the person continues to receive a welfare check but is required to work at a designated community service job as a condition of eligibility for cash benefits. Persons who fail to report for work or who perform poorly can have their welfare benefits reduced, so long as the State can establish that there was no good cause for their absence or poor performance. Persons remain recipients, but they have additional obligations.

There seems to be little disagreement within the Administration on the strong appeal of a work-for-wages model. The structure is seen as providing a traditional work opportunity with the dignity and the responsibilities of a standard work place. Persons would receive wages rather than a welfare check. The major question to be resolved is not whether to encourage States, both with some sort of financial incentives and with technical assistance, to adopt a work-for-wages model. The question, rather, is whether to allow States to opt for a work-for-welfare model if they chose to do so. Those who argue for State flexibility on this issue point to two major concerns: *implementation* and *recipient protection*.

A work program of this type and magnitude for this population has not been mounted before. While the Working Group has worked hard to resolve as many issues as possible, some questions cannot be answered without more experience. The Working Group recommends a very flexible work-for-wages model with considerable State and local discretion in the operation of the program. Many of the details are quite consciously left to the States and to local communities, which know their own needs and opportunities best.

Communities will have to establish a system for linking WORK participants with the private sector, as well as with the not-for-profit and public sectors. They must determine how and by what method to pay organizations who employ WORK participants. In addition, they will need to set up procedures for monitoring WORK program participation and resolving disputes. There are also difficult questions involving worker protection. What happens if a WORK participant, or his or her child, is sick? What happens if the adult simply fails to show up for work repeatedly? What if the worker feels the work place is dangerous or abusive? These issues will be discussed further below, but we have limited real experience to draw on in addressing these concerns.

By contrast, work for welfare has been tried in various forms. Many States have experience with it. The payment structure is easy--participants get a welfare check. Dispute resolution is handled within the same sanctioning and appeal structure used for other disputes concerning cash benefits. States still have to find work sites, but protection for workers may be less of a problem, since the check continues to be paid unless the State decides to begin a sanctioning process.

The burden of performance shifts at least partially to the State. Before the State can reduce the check it must establish that the person failed to meet his or her work obligations for no good reason. Such a test would never be met if a child were sick or transportation broke down. Though few people like the existing work-for-welfare programs (usually called CWEP for Community Work Experience Program), and evidence on their impact on employment and earnings is not encouraging, work for welfare is a known entity. Both the Republican plan and the plan from the American Public Welfare Association call for CWEP after two years.

Those who urge against allowing State flexibility in this area regard the implementation questions as difficult, but surmountable, especially if the program initially focusses on younger recipients. They fear that if States are given the option of choosing CWEP, many, if not most will choose the devil that they know, which would undermine the goals and philosophy of this reform plan. As noted above, States would be given enormous flexibility in deciding how to implement a work-for-wages model. Moreover, the number of work slots will grow gradually, due to the targeting of young parents, giving States the time they need to design and implement new systems. The scale, rather than the structure, of the WORK program may be the primary concern for States.

Work-for-welfare sends adverse messages to recipients, prospective employers, and the public. CWEP slots are not perceived as "real jobs" by anyone. CWEP participants in arguably one of the best run programs (in San Diego) reported that they thought the work requirement was fair, but they felt like they were working for free. There is little evidence that persons who go through CWEP subsequently fare better in the work place than people who were just on welfare. And no wonder. Employers will probably never see CWEP experience as serious work experience. No regular job pays its employees regardless of when and whether they show up unless the employer can prove the person did not stay out for good cause. Placements are virtually never in the private sector, nor are they likely to be. Work-for-wages programs by contrast can target private sector employers. Perhaps most importantly, without the responsibilities of regular work and the paycheck tied to performance, there will be far less dignity in WORK.

Advocates for a work-for-wages policy note that such a model would distinguish this Administration's plan from the Republicans' and serve to define and delineate our vision. A work-for-wages plan

whereby persons are given transitional aid and training and then offered a job if they can't find one on their own contrasts sharply with a plan which calls for people to work off their welfare check after two years. Unions have vociferously opposed CWEP and have indicated that they will continue to do so. While they are deeply concerned about a work-for-wages strategy as well, there is room for negotiation around such a plan. Most advocates for the poor and women strongly favor work-for-wages, though they want protections for workers built in and favor wages above the minimum.

NO

Part-time versus Full-time Work Expectations

The transitional support program focuses heavily on work. Persons cannot collect welfare benefits indefinitely without working. But what level of work should be expected? Everyone agrees that the ultimate goal is self-sufficiency, but what are the minimum work expectations? Is part-time work sufficient or should everyone be expected to work full time?

NOT CLEAR

Allowing part-time work to count as meeting the participation and work requirements has several advantages. First, it may be the most realistic standard for single parents, especially those with young children. All working parents face significant burdens in dealing with school schedules, child care, sick children, doctor visits, and the like. Though the vast majority of married mothers work, only about 1/3 work full-time all year, and they have help from the second spouse. Currently only 8 percent of adult AFDC recipients work in a given month. Getting people working even part time perhaps should be seen as a major accomplishment.

Second, part-time work may serve as a stepping stone to both full-time work and to better paying jobs. Given that so few mothers now work while on welfare, part-time work is a natural starting point for these more disadvantaged women. It may be counterproductive in the long run to pull people out of part-time private sector work to put them into full-time WORK slots. Employers typically have a strong preference for work experience in unsubsidized private jobs. Some of the parents working part-time would be able to obtain further education and training outside the JOBS program by, for example, attending community college on a part-time basis.

Finally, the cost of mandating full-time work could be very high. Full-time child care for young children would be quite expensive. After-school care would have to be provided for many other children. Perhaps most importantly, if full-time work were required at the end of two years of cash assistance, we could be in the position of pulling parents out of unsubsidized private jobs to place them in a subsidized community work program. Unless stricter rules induced many part-time workers to leave welfare entirely for full-time work, such a full-time work requirement would significantly increase the number of WORK slots needed. The cost of providing a full-time work slot, apart from the child care expense noted above, would be significant.

Note that full-time work would always be much more financially rewarding than part-time work. Part-time workers would generally be poor, even with their supplemental benefits. Note also that the Administration's pledge that a family with a full-time worker should not be poor explicitly assumes very low-wage workers will still get food stamps.

so?

Those who argue for expecting more than part-time work worry that the transitional program could become a work supplementation program. They ask whether we ought to let people collect

supplemental cash assistance indefinitely if they are working part time. The ultimate goal is to move people off of welfare to work, not have people combining work and welfare.

Allowing part-time work to count as full participation also raises equity questions. Many other mothers, especially single parents off of welfare, feel compelled by economic necessity to work full time. Thus a question of equity arises.

With these arguments as background, ^{who have not reached time limit} two related decisions must be made: 1) How will part-time work be treated for people working in unsubsidized private jobs while still getting some supplementary welfare benefits and 2) How many hours should be expected of those in the WORK program.

Mixing Unsubsidized Work With Welfare

Consider first the situation facing someone who is working part-time at a minimum wage job. In most States, the individual would still be eligible for some supplemental cash benefits. Currently only 8 percent of the caseload has reported earnings in any given month. There are, however, indications that a much higher percentage work at some point during the period in which they receive AFDC. Part of the reason so few work part-time at any point is that currently there are few incentives to mix work and welfare. Benefits decline dollar for dollar with earnings. The administrative and reporting burden on the recipient and welfare worker alike when the recipient goes to work is considerable. With the expanded EITC and other reinventing government assistance policies, however, there may be considerably more incentive to work at least part-time. If the time-limit clock was stopped in months where a person was working part-time, there ^{might} be even more incentive to work.

Under such a structure, working part-time would both stop the clock and count as JOBS participation. Persons working part-time would, as under current law, be entitled to supplemental cash benefits if they still met the eligibility criteria (e.g., income limits). Of course, such persons would receive significantly less cash aid than non-workers, since income net of work expenses reduces benefits. If the person had already reached the two-year time limit, 20-hour per week unsubsidized private work would meet the WORK obligation. This policy implicitly sets the minimum work expectation at 20 hours. People working 20 hours or more would be allowed to collect supplemental aid indefinitely.

An alternative is to stop the clock only when some higher level of work is achieved, such as 30 or 40 hours per week. Another would be to treat 20 hours of work per week as part-time work for purposes of stopping the time limit clock, provided the parent had a young child, but set the standard for part-time work at a higher level for parents of older children. Finally, the decision as to the treatment of part-time work could be left to States, which would have the option of stopping the clock for persons working part time.

The exact impact of allowing part-time unsubsidized work to count as participation is hard to determine. It could be very expensive and difficult to get everyone working full-time. Requiring part-time workers to also participate in the JOBS and WORK programs would be likely to significantly increase the number of persons for whom WORK slots have to be generated. In addition, if part-time workers lose their opportunity to participate in JOBS because the clock keeps running, recipients in some cases may give up unsubsidized work to get training while they have the

Time limiting part time work
EITC as income

chance. On the other hand, a full-time work expectation may cause some people to find full-time unsubsidized work and leave welfare entirely. The current cost estimates assume that part-time work counts as full participation, stopping the clock for such workers. They also assume somewhat more people choose to work part-time in unsubsidized employment than are doing so now.

Work expectations in the WORK program

A much more significant issue than the treatment of unsubsidized work is the level of work expectation in the WORK program. An obvious strategy would be to calculate the required hours of work in the program by dividing the cash welfare benefit by the minimum wage. This simple formula, however, is not very practical. Assume for a moment that a work-for-wages plan is chosen.

First, in low-benefit States and for persons with non-welfare income, the hours of work required per week would be quite low. In Mississippi, a mother with two children would be required to work just 10 hours per week, hardly a practical work experience. One solution is to set a minimum level of work, say 15 hours per week. If one pays the minimum wage for each hour worked, setting a minimum has the effect of increasing the cash income of WORK participants relative to that of people not working and on welfare. Under a work-for-welfare model, recipients could be required to work off food stamps benefits as well as cash assistance in order to increase required hours of work to a minimum level. That would, however, lead to serious issues of equity and administrative complexity, since recipients in some States would be working off their cash benefits plus food stamps, while others would only be working off their cash grant.

*Real jobs,
real hours*

By contrast, in high benefit States, more than 35 hours per week would be required to earn wages equal to the welfare payment. This implies that some sort of supplement must be paid to persons in WORK slots to ensure that they are not worse off than those who are not working and who have not yet hit the time limit. Full-time work implies high child care costs and difficult placements.

The problem of low or irregular hours of work is inherent to a CWEP model, as CWEP hours are determined by dividing the benefit by the minimum wage, as described above.

The current draft discussion paper recommends giving States the option of setting work hours between 15 and 35, according to whatever criterion they choose, so long as at least minimum wage is paid for each hour. If the expected earnings (less work expenses) are less than the amount the person would have collected on welfare, then the State would have to provide a supplemental work payment. Note that in the median State (Pennsylvania), a woman would need to work 29 hours a week to receive as much income as on welfare. If every State chose 20 hours of work, most States would need to supplement earnings to some extent. If every State chose to assign the number of hours needed to reach the welfare benefit up to 35 hours, many fewer States would need to supplement the WORK earnings for a family of three.

Cost estimates here assume that States are allowed to choose WORK hours between 15 and 35, and are required to supplement if necessary.

Discouraging extended WORK participation

JD

WORK program jobs are not intended to substitute for or displace private sector placements. Rather they are designed to provide temporary, last-resort work for persons who have reached the time limit without finding a private sector job. Unless long-term participation is deterred, the size of the WORK program could become prohibitively large. Indeed, the ultimate goal of the WORK program is to place people into unsubsidized work.

There are various ways in which a WORK program can be designed in order to discourage or prevent extended participation. These include the following: limiting the duration of each individual WORK assignment, requiring frequent job search, denying the EITC to WORK program participants, and placing limits on the total length of time people are allowed to spend in WORK assignments.

Limiting the duration of individual WORK assignments and following them with intensive job search:

There is little disagreement that individual WORK placements ought to be limited in duration to perhaps 12 months. This limit is designed to prevent participants from becoming attached to particular subsidized jobs. Of course, there will be strong encouragement and incentives for employers to hire WORK participants as unsubsidized employees before or at the end of the 12 months. Before and after each WORK assignment, job search would be required.

Denying the EITC to WORK program participants: Perhaps the best way to ensure that people do not eschew private sector jobs for WORK positions is to make certain that any private sector position pays better than a WORK job. Though there are various mechanisms for accomplishing this, one of the easiest is to deny the EITC for money earned in the subsidized WORK assignments. Since WORK slots are already subsidized, it could be argued that it would not be appropriate to offer the additional subsidy of the EITC. There will be some administrative complexity to treating earnings received while a WORK participant differently from other earnings.

Current cost estimates assume a relatively modest effect of denying the EITC to WORK participants because there are no reliable estimates of the impact of this policy on the attractiveness of unsubsidized employment. The effect could well be large, however, given that private sector jobs would then pay up to 40 percent more than WORK slots (the EITC is effectively a 40 percent pay raise for persons with two children).

^{Some} (Unions and many advocates for the poor) argue that if persons are being expected to work in real jobs they ought to receive the same benefits as other workers. They believe that limits on the duration of WORK assignments, frequent job search and the possibility of promotion will lead people to move toward private work without the need for special "penalties" for WORK workers.

Requiring acceptance of any private sector job offer: Both JOBS and WORK program participants could be required to accept any unsubsidized job offer or be denied aid or a WORK job for several months. After two refusals, the person might be permanently denied access to a WORK assignment. Some [advocates for the poor] argue that such provisions are unnecessary, hard to administer, and potentially unfair, especially if the EITC is denied to WORK workers.

Limiting the total time people can be in the WORK program: The most controversial way to limit WORK participation is to time limit WORK, just as welfare is time-limited. Those who favor limiting the total length of time in WORK assignments to two or three years argue that other persons

are not guaranteed paid work if they cannot find it on their own. Theoretically, persons could stay in the WORK program for many years, and such extended WORK participation is seen by some as creating a work entitlement that may become as unpopular as welfare did.

A second argument involves the best use of resources. WORK slots require resources for job creation and child care. If people have been in the WORK program for two years and in the JOBS program for two years prior to that, resources and WORK slots might be better focused on other recipients.

The big problem with limiting the duration of WORK participation is deciding what to do when individuals hit such a WORK time limit. One strategy would be to dramatically reduce or end cash assistance altogether, perhaps offering some form of additional housing aid. Another plan would be to let persons who had reached a WORK time limit return to cash assistance, perhaps with a lower benefit. Such a strategy would ensure that WORK slots are preserved for those first hitting the time limit. One need not require States to limit WORK assignments; one might only provide the flexibility to do so. The Republican plan does allow States to terminate or reduce public assistance after 3 years in CWEP.

Opponents argue that there is no justification for limiting participation in the WORK program, especially if WORK participants are denied the EITC. If all previously WORK-limiting provisions are adopted, anyone still eligible for a WORK assignment after, say, 2 or 3 years will have successfully met all WORK requirements in several different placements, been through 3 or 4 intensive searches for unsubsidized employment, not refused any private sector job offer, and will be seeking a WORK assignment even though any private sector job opportunity would pay 40 percent more and probably offer a better future. Opponents of WORK time limits argue that such people are most likely people who genuinely cannot find any private sector employment either because they live in a weak labor market, or because they are not wanted for existing jobs. Denying them the opportunity to participate in the WORK program would very likely cause their incomes to fall sharply, potentially putting the family at serious risk of homelessness or other crisis. Virtually none of these families would have had incomes above the poverty line *while* they were in the WORK program. Unless we are willing to provide cash benefits without a work expectation for people who are no longer eligible for the WORK program, we will be placed in the position of denying support to persons who had demonstrated a willingness to work. Finally, there is the question of what happens to people who have exhausted both their JOBS support and WORK support, succeeded in finding work, but lost that work when the economy changed or they lost their job for other reasons. What would be the temporary safety net for such families?

Limiting WORK assignments will not have any effect on cost estimates in the five-year cost estimation window used for the budget. Since it will take States two years to begin implementing the program, even a strict two-year limit on JOBS followed by a strict two-year limit on WORK would not affect anyone for six years. Since most people do not stay on welfare continuously for four years, in most cases it would not have any effect for seven or eight years. Eventually, however, limits on WORK could have a significant impact. Unfortunately, we have no information on the extent to which extended stays in the WORK program will be a problem, nor any understanding of what would be the reasons for such extended stays. The issue could be revisited in later years if extended spells in WORK became a problem.

ADDENDUM: WORK FOR WAGES PROGRAM DESIGN

The following are key policy elements and the initial recommended design. Elements with an * contain controversial policy questions:

Administration: States are required to develop a WORK plan for joint approval by the Secretaries of HHS and Labor. States are required to have WORK advisory panel with membership from labor, business and from community organizations. To be resolved: membership and links to Private Industry Councils (PICs) and Workforce Investment Boards (WIBs). The advisory panel must approve the WORK plan.

Funding: For each WORK placement, States would receive a flat amount for administrative costs and would be reimbursed for wages paid (hours times wage) according to a specified set of matching rules. Federal matching rates would decline significantly the longer the person stayed in the WORK program as a further incentive for States to move people into unsubsidized work. Additional monies or a higher match would be available to States in times of recession.

Placements: Placements in private sector establishments would be strongly preferred. States would be free to negotiate contracts with private companies, placement services, community organizations, State and local government agencies, and other organizations to accept or place WORK participants in exchange for payments from the government. Private sector placements would require that at least some portion of the wage be paid by the employer.

In addition, a major effort would be undertaken with State and Federal government agencies to find job placements through existing initiatives and program expansions such as child care, Head Start centers, housing rehab projects, Empowerment Zones, and many others.

National Service placements would be acceptable WORK assignments. States would be given the option of contracting with the National Service Board to provide a certain number of National Service Placements. In addition, National Service workers could be used to help work with and supervise WORK participants in community service activities.

***Displacement:** Language to be negotiated, with National Service non-displacement language serving as the base.

***Hours:** Hours are set by the State, minimum 15 hours, maximum 35. States are free to use whatever criteria they choose in deciding upon hours so long as each hour of work is paid.

States can choose to offer anything from part-time to full-time work. States which offer jobs which pay less than what would have been received under AFDC would pay a supplement (see below). Requiring full-time work is considerably more expensive, more than doubling the cost of the WORK program and complicating the job creation problem considerably. Particularly for mothers with young children, full-time work may not be deemed appropriate or practical by the local community.

***Wages, Working Conditions, and Benefits:** Wages must be set at no lower than the higher of the Federal and any State or local minimum wage, but States and localities can choose to set a higher

wage rate in specific cases. Wage rates are among the most contentious elements from a union perspective. Unions would like explicit language indicating that total compensation (including any subsidized child care and other benefits) paid to the worker would have to be similar to that paid to workers of comparable experience and skills in the same job. At a minimum, unions would like a provision allowing a veto over the placement of a WORK recipient into a bargaining unit unless compensation is similar. Sick rules and absentee policy would be the same as that of similar workers in the establishment. States would set or negotiate such rules in cases where a new organization or establishment is being formed to employ WORK participants. Workers compensation would be paid for WORK participants, though who bore the costs would be negotiated. Social Security payments would be required. Unemployment insurance payments would not be required.

LEAVE
OUT

Supplementary Support: If expected WORK program earnings net of work expenses are less than would have been received by a non-working family on cash assistance, the State will pay the difference as a supplemental benefit. Note that such a supplemental benefit would never be higher than the supplement that would be paid under transitional assistance for someone with the same earnings in a private sector job.

*Treatment of earnings from WORK program for other government benefits: For purposes of determining eligibility and benefits for other government programs, the following rules would apply:

- Food stamp, housing and other benefits would be calculated treating wages paid under the WORK program as earnings. Benefits would be calculated on a 3 month prospective basis under the assumption that the person will work the full number of hours assigned. No increases in food stamps or supplementary benefits would occur if the person did not work the required hours, provided he or she did not have good cause (e.g., a serious illness) for the missed work.
- Earnings received under the WORK program would not be eligible for the EITC and would not be included in adjusted gross income for tax purposes. This provision is designed to ensure that private unsubsidized work would always be significantly more attractive than WORK.

Limits on the duration of each placement with frequent requirements for supervised job search:

WORK slots are designed to be temporary, available only when people really cannot find private sector work. Each individual placement should last no more than 12 months as a subsidized placement and be preceded and followed by a period of intensive job search. If the employer agreed to take the person on as an unsubsidized worker, the individual would be considered out of the WORK program.

*Required acceptance of any private sector job offer: WORK program participants could be required to accept any unsubsidized job offer or be denied a WORK job for several months. After two refusals, the person might be permanently denied access to a WORK assignment.

Tracking of Placement and Retention Records: States will be asked to maintain records on the rate at which WORK workers are retained by their WORK employers or placed in unsubsidized jobs by

placement services. Preference should be given to employers or placement services with the best performance. At a future date, the Secretary of HHS may impose retention or placement standards.

Returns to JOBS-Prep: Persons who become temporarily ill or face a major new impediment to work may seek to be re-evaluated and placed in the JOBS-Prep program until such time as the State deems them ready to work. Persons in this status count against the limit on JOBS-Prep placements.

*Insufficient WORK slots: In cases where there are insufficient WORK slots, first preference goes to people just reaching the time limit. States are required to pay ongoing cash benefits to persons who are not placed in WORK assignments and are reimbursed at a significantly reduced match. The reduced match ^{is} waived in periods of high local unemployment.

might be

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MAKING WORK PAY/CHILD CARE

A crucial component of welfare reform based on work and responsibility is making work pay. Last summer's expansion of the Earned Income Tax Credit (EITC) was a crucial step toward making it possible for low-wage workers to support themselves and their families above poverty. The welfare reform proposal will include provisions to make sure the EITC can be delivered on a regular, advance-payment basis. The next crucial step will come with health care reform. Many recipients are trapped on welfare by their inability to find or keep jobs with health benefits that provide the security they need.

The key missing component for making work pay is subsidized day care. In order for families, especially single-parent families, to be able to work and prepare themselves for work, they need care for their children.

There are two major issues as we think about day care in the context of welfare reform:

- How much subsidized day care should be made available, and for whom?
- What investments and/or requirements should be put in place to improve the quality of child care and the coordination of child care programs funded under different mechanisms?

ISSUE: HOW MUCH AND FOR WHOM?

There are three categories of low-income families with day care needs that we ought to consider. They are families which are:

- On welfare, in JOBS, working or in the WORK program
- Working, in "transition" off welfare
- Working, never on welfare or after transition.

All three categories have legitimate claims on day care subsidies. Families who are required to participate in JOBS are currently, rightly, guaranteed child care. People who are working but still on welfare have their day care subsidized through disregards from their AFDC and food stamp benefits and sometimes through subsidies. We propose to continue current guarantees of child care subsidies for these categories of recipients. People in the WORK program are like welfare recipients in that they are working as a condition of receiving continued support; they are working at the minimum wage, and they are not receiving the EITC. The proposal would guarantee their child care, just as it is guaranteed for JOBS and AFDC participants. The estimated costs of extending day care to new JOBS and WORK participants are \$900 million in 1999 and \$2.6 billion over five years.

Under current law, people who move off welfare and are working are guaranteed subsidized child care for a year in order to ease the transition. We propose to continue that guarantee for participants

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in the Transitional Assistance Program who move into private sector work. The estimated costs of transitional child care for the new program are \$340 million in 1999 and \$1.0 billion over five years.

It is hard to argue, however, that low-income working families who are not on welfare or are transitioning off welfare are less needing or deserving of child care subsidies than people who are on welfare. It seems quite inequitable to provide child care subsidies to one family and to deny them to another whose circumstances are identical except for the fact that the first family is or has been on welfare. The crucial issue to be decided is the size and shape of a day care subsidy program for the working poor. This program should almost certainly be designed as a capped entitlement. There are three basic options, which reflect different overall levels of resources and different targeting strategies.

Capped Entitlement: Full-Service Level

If we genuinely want to make work pay, to make work more attractive than welfare, and to maintain equity between those who have and have not been on welfare, it is very important that day care subsidies be available for the working poor, independent of their prior welfare status. The ideal approach, if resources were no constraint, would be to guarantee a day care subsidy to all working poor families who needed it, with a reasonable ceiling on cost per child. The cost of such a full-service entitlement is estimated to be between \$2 and \$3 billion per year of net new Federal and State spending.

This estimate is very uncertain. Because it is based on current usage, it does not reflect potential changes in work behavior and child care choices that might result if new subsidies were available. [It may, therefore, be substantially underestimated.] On the other hand, experience to date suggests that actual day care usage is often much lower than planners predict; based on this experience, the estimate could be too high. Because of the great uncertainty of the estimates of providing subsidized child care for the working poor, however, it is almost certainly unwise at this point to establish an uncapped entitlement which could potentially become quite expensive.

*dangerous
admission*

The obvious alternative is a capped entitlement set at a level that reflects available resources. Capping the entitlement guarantees that spending will not exceed the specified limit.

We suggest a funding level less than full service in order to reflect available resources. The proposal is for \$2.0 billion in 1999, with a five-year cost of \$5.0 billion. This is less than our estimates for full service, and therefore, requires some method of allocation.

Allocating a Capped Entitlement: State Discretion

The most obvious way of structuring a capped entitlement to day care for the working poor, whether at the full-service level or at a lower level, is to allot available funds to the States and allow them to use the funds for services to families as they see fit. This approach should work very well if the funds are set at the full-service level. At a lower funding level, however, a problem arises because the funds are almost inevitably less than the demand, and criteria for which families to serve are difficult to set. Day care subsidies tend, therefore, to be distributed inequitably, often on the basis of a first-come, first-served strategy that cannot address relative need.

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Allocating a Capped Entitlement: Targeted

An alternative would be a targeted capped entitlement. Because it would be capped, spending levels would be controlled. But if it were targeted at a population sub-group, and set at a level that was estimated to be sufficient to serve that sub-group, the allocation problem of the normal, capped entitlement could be alleviated. The question, therefore, is whether there is a sub-group that could be targeted that makes sense programmatically and that could be served with a reasonable resource allocation.

An intriguing possibility is to target young families, along the same lines and for the same reasons that we are targeting young AFDC applicants and recipients. This strategy has many attractive features. It can be justified on the same grounds that we justify the focus in the transitional program--investing in young families. It also neatly solves the problem of equity between welfare and non-welfare recipients. Everyone born after 1969 receives services in the welfare program and day care subsidies if they are working, whether or not they are or have been on welfare. The disadvantage of this kind of targeting, obviously, is that it denies services to older mothers simply on the basis of their birth date. Focusing day care subsidies on young mothers may send a wrong message about the desirability of deferring parenthood.

The estimated additional costs of day care subsidies for young families are about \$750 million per year. Our suggested funding level would, therefore, be sufficient to serve all young families and a portion of older families.

Quality and Coordination Issues

The issue of quality versus quantity in day care has a long and contentious history. At one extreme are those who argue that child care subsidies should only be available for care that meets Federally-defined quality standards, that professionalized group care should be preferred over informal care, and that rates should be set in such a way that expensive care is not only eligible for subsidy but is encouraged. At the other extreme are those who argue that day care subsidies should be able to be used for any kind of care that the parent can find, with a strong preference for inexpensive and informal care.

Head Start

Fortunately, some agreements and accommodations have been emerging that can guide an approach to child care. Nearly everyone agrees that Head Start, with its high quality comprehensive approach to child development, should be the preferred service for as many three- and four-year-olds as possible, with supplementary child care as needed. This Administration's commitment to expanding Head Start, and to developing more full-day and full-year Head Start slots, will ensure that as many as 1,000,000 low-income children in 1999 will be served by Head Start.

Parental Choice and State Oversight

Nearly everyone also agrees that for other child care arrangements, parents should have nearly unlimited choice, constrained only by State regulations and by minimum health and safety standards. The general principle is that providers who receive subsidies should meet State licensing or registration standards. Providers that are exempt from State regulatory standards (most States exempt baby-sitting and small in-home care arrangements for two or three children, and some States exempt sectarian and other providers of more formal care) would be required to register with the State and to meet State-defined requirements for the prevention and control of infectious diseases, building and physical premise safety and minimum health and safety training of providers.

Investments in Quality and Supply

A third point of general agreement is that some funds ought to be available for investments in child care quality and supply. We propose setting aside a portion of child care funds for the following: resource and referral programs; grants or loans to assist in meeting State and local standards; monitoring of compliance with licensing and regulatory requirements; training and technical assistance to providers; and enhancements to compensation for providers. We also propose to ensure that training and technical assistance are available to enable welfare recipients to become Head Start and day care providers. These programs should be an important source of private sector jobs and of WORK program slots for people moving off welfare.

Rates

In general, States pay subsidies for child care equal to the cost of child care up to some maximum. This maximum should be set in a way that it reflects reasonable costs of care. It should also be the same across child care programs and payment mechanisms. The current maximum payment for child care subsidized through the AFDC child care disregard was set at \$175 per month in 1988. This level needs to be raised to reflect current market conditions and defined in such a way that it can vary over time and perhaps geographically.

Program Coordination

Finally, there is agreement that day care programs and funding streams should be designed in ways that are easy to administer and appear "seamless" to parents. This can be achieved both through program consolidation, when possible, and through coordination of rules, procedures and automated systems. Because it is not fiscally possible to consolidate day care programs on the discretionary side, and since it is probably not politically possible to consolidate day care programs on the entitlement side, full consolidation seems unable to be achieved. Nonetheless, full coordination ought to be an important goal.

PROMOTING PARENTAL RESPONSIBILITY AND PREVENTING TEEN PREGNANCY

The best way to end welfare dependency is to eliminate the need for welfare in the first place. High rates of female-headed family formation and the startlingly high poverty rates of those families lie behind our large and growing welfare rolls. We are approaching the point when one out of every three babies in America will be born to an unwed mother, the majority of whom will receive welfare at some point. Births to school-age unwed mothers are an especially enduring tragedy. Too many children are not receiving financial support from both their parents. This too contributes to rates of welfare receipt that are much higher than we would like.

Concern over the dramatic increases in out-of-wedlock births has led some commentators to advocate largely punitive solutions. The most extreme of these would cut off welfare for unwed mothers, a "cure" that might well have disastrous effects on the children of these mothers, increase the need for spending on foster care and orphanages, and almost certainly increase the number of abortions. At the other end of the spectrum, some advocate massive spending on comprehensive social services for high-risk youth, despite the limited evidence of its impact on teen pregnancy.

potentially

In contrast to both these approaches, we believe that the best prevention strategy is one that focuses on parental responsibility and provides opportunities for exercising it, supplemented by increased family planning efforts and demonstrations of service programs aimed at preventing teen pregnancy. We believe that very clear and consistent messages about parenthood, and the ensuing responsibilities which will be enforced, hold the best chance of encouraging young people to think about the consequences of their actions and defer parenthood. A boy who sees his brother required to pay 17 percent of his income in child support for 18 years may think twice about becoming a father. A girl who knows that young motherhood will not relieve her of obligations to live at home and to go to school may come to prefer other opportunities.

The current welfare system sends very different messages, often letting fathers off the hook, and expecting little from mothers. We hope and expect that a reformed system that strongly reinforces the responsibilities of both parents will help prevent too-early parenthood.

Along with responsibility, though, we must support opportunity. Telling young people to be responsible, without providing them the means to exercise responsibility and the hope that playing by the rules will lead to a better life, is cruelly hypocritical. Both our child support proposals and our transitional assistance proposals are designed to offer opportunity to work and prepare for work, built on the experience of effective programs. Unfortunately, the knowledge base for developing effective programs that prevent too-early parenthood by offering alternative hopeful futures is sadly lacking. Our strategy, therefore emphasizes trying many approaches and learning about which strategies are most effective.

not enough

Our approach has five components:

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- Child support enforcement
- Responsibilities of school-age parents
- Responsible family planning
- Learning from comprehensive prevention approaches
- Supporting two-parent families.

Child Support Enforcement

The responsibilities of both parents are emphasized in an approach to child support enforcement that holds both parents responsible for supporting children. It makes clear to fathers, as well as to mothers, that parenthood brings with it clear obligations, and that these obligations will be enforced, with serious and predictable consequences for those who become parents. The child support enforcement reform proposal has three major elements:

- Establish awards in every case
- Ensure fair award levels
- Collect awards that are owed.

Establish Awards in Every Case

Our goal is to establish paternity for all out-of-wedlock births. This will be accomplished by offering States performance-based incentives for all paternities established, whether or not the mother is currently on welfare, expanding the in-hospital paternity establishment provisions enacted as part of OBRA 1993, and expanding education and outreach efforts to stress that having a child is a two-parent responsibility.

The proposal streamlines the legal process for establishing paternity, enabling States to establish paternity much more quickly. This will be accomplished by requiring "up front" cooperation (prior to receipt of welfare benefits), by establishing clear responsibility for the IV-D agency to make the cooperation and sanction determination, and by streamlining the legal process.

The responsibility for paternity establishment will be clearly delineated. Mothers will be required to cooperate in establishing paternity as a condition of receipt of welfare under a very strict cooperation requirement. This requires the mother to provide both the name of the father and information sufficient to verify the identity of the person named. (Good cause exceptions would be granted only under narrow circumstances.) In turn, the States will have a clear responsibility to establish paternity when the mother has fully cooperated. We propose that the States be held fully responsible for the cost of benefits paid to mothers who have cooperated fully but for whom paternity has not been established within a strictly defined time frame.

While the proposal is very tough and strict in its approach to paternity establishment, it is balanced and sensible. Applicants must *meet the new stricter cooperation requirement prior to the receipt of benefits*, but when the mother has fully cooperated and provided complete information, the burden shifts to the State to establish paternity. In contrast, some have proposed that the mother must *have paternity established prior to receipt of benefits*. The mother who has done everything that can be expected of her is unfairly penalized under this approach for the State's inaction or inefficiency in getting paternity established. She could be denied benefits for a long time through no fault of her own.

Ensure Fair Award Levels

The proposal will establish a National Guidelines Commission to study and report to Congress on the adequacy of award levels, the variability of award levels and the desirability of national guidelines.

The proposal will also require the universal, periodic updating of awards so that all awards will closely reflect the current ability of the noncustodial parent to pay support. States must establish simplified administrative procedures to update the awards.

In addition, present child support distribution rules will be changed to strengthen families and assist families making the transition from welfare to work.

Collect Awards that are Owed

The proposal seeks to develop a child support system for the 21st century. All States must maintain a central registry and centralized collection and disbursement capability. States must be able to monitor support payments and take appropriate enforcement actions immediately when support payments are missed. Certain routine enforcement remedies will be imposed administratively at the State level, thus taking advantage of computers and automation to handle these measures using mass case-processing techniques. A higher Federal match rate will be provided to implement new technologies.

To improve collections in interstate cases, a Federal Child Support Enforcement Clearinghouse will be created to track parents across State lines. This will include a National Directory of New Hires so that wage withholding could be instituted in appropriate cases from the first paycheck. The adoption of the Uniform Interstate Family Support Act (UIFSA) and other measures will make procedures in interstate cases more routine. In addition, the IRS role in full collections and tax refund offsets will be strengthened, and access to IRS income and asset information will be expanded.

States also will be provided with the tools they need, such as the authority to revoke licenses and access other data bases, so that the child support enforcement system is able to crack down on those noncustodial parents who otherwise find ways to avoid payment of their support obligations. For instance, frequent and routine matches will be made against appropriate data bases to find location, asset, and income information on those who try to hide in order to escape payment.

The funding and incentive structure will be changed in order to provide the necessary resources for States to run good programs, and performance-based incentives will be utilized to reward States for good performance.

The child support enforcement provisions described above are expected to save \$585 million over five years. By 1999, annual savings will be approaching \$365 million.

ISSUE: CHILD SUPPORT ENFORCEMENT AND ASSURANCE (CSEA)

For children to achieve real economic security and to avoid the need for welfare, they ultimately need support from both parents. The proposals described above are designed to collect as much money from absent parents as possible. But what happens when little or no money is collected from the noncustodial parent either because the child support enforcement system is ineffective, or because the absent parent is unable to contribute much due to low earnings? In those circumstances, a child support enforcement and assurance system would guarantee that the custodial parent gets some assured level of child support, even when collections from the absent parent fall below that level. Thus, single parents with a child support award in place could count on some level of child support which they could then use to supplement their earnings. Numerous State and national reform commissions (including the National Commission on Children) have called for demonstrations of this concept.

Proponents argue that child support enforcement and assurance will significantly ease the difficult task of moving people from welfare to work. If single parents can count on some child support, usually from the noncustodial parent, but from the assured child support payment if the noncustodial parent fails to pay, then they can build a reliable combination of their own earnings plus child support which will offer real security. CSEA is not unlike unemployment insurance for intact families. When an absent parent becomes unemployed or cannot pay child support, the child still has some protection. And since CSEA is not income tested, there are no reporting requirements, no welfare offices, no benefit offsets and no welfare stigma. Proponents also suggest that CSEA benefits be subtracted dollar for dollar from welfare payments. Thus a woman on welfare is no better off with CSEA. But if she goes to work, she can count on her child support payments; thus, the rewards from working rise considerably. Essentially all of the net new costs of a CSEA protection program would thus go for supporting custodial parents who are off welfare and working. Finally proponents argue that if CSEA protection is provided only to people who have a child support award in place, women will have much more incentive to cooperate in the identification and location of the absent father, since they can count on receiving benefits.

Opponents worry that CSEA will dilute the pressure to actually collect child support. If mothers can count on the money regardless of whether the State actually collects the amount owed, less effort may be put into collections. States may choose not to try to increase collections, especially if the Federal government is paying for CSEA. There is also a danger that CSEA will be seen as welfare by another name, since it is a source of support for single parents. Some opponents also argue that there will be fewer incentives for absent parents to pay child support since their children are assured of some level of support even if they fail to pay.

One proposal is to spend \$550 million over 5 years to fund demonstrations in six States.

ISSUE: ENHANCING RESPONSIBILITY AND OPPORTUNITY FOR NONCUSTODIAL PARENTS

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Under the present system, the needs, concerns and responsibilities of noncustodial parents are often ignored. The system needs to focus more attention on this population and send the message that "fathers matter". We ought to encourage noncustodial parents to remain involved in their children's lives--not drive them further away. The well-being of children who only live with one parent would be enhanced if both emotional and financial support were provided by both of their parents.

Ultimately, the system's expectations of mothers and fathers should be parallel. Whatever is expected of the mother should be expected of the father, and whatever education and training opportunities are provided to custodial parents, similar opportunities should be available to noncustodial parents who pay their child support and remain involved. If they can improve their earnings capacity and maintain relationships with their children, they will be a source of both financial and emotional support.

Much needs to be learned, partly because we have focused less attention on this population in the past and we know less about what types of programs would work. [New programs should be modest and flexible, growing only as evaluation findings begin to identify the most effective strategies.] We propose the following approaches:

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Work opportunities and obligations for non-custodial parents. A portion of JOBS and WORK program funding could be reserved for training, work readiness, educational remediation and mandatory work programs for noncustodial parents of AFDC recipient children who cannot pay child support due to unemployment, underemployment or other employability problems. In addition, States may have an option for mandatory work programs for non-custodial parents. States would have considerable flexibility to design their own programs.

Grants for access and parenting programs. We propose grants to States for programs which reinforce the need for children to have continued access to and visitation by both parents. These programs include mediation (both voluntary and mandatory), counseling, education, development of parenting plans, visitation enforcement including monitoring, supervision and neutral drop-off and pick-up, and development of guidelines for visitation and alternative custody arrangements.

We also propose demonstration grants to States and/or community-based organizations to develop and implement noncustodial-parent (fathers) components for existing programs for high-risk families (e.g. Head Start, Healthy Start, family preservation, teen pregnancy and prevention) to promote responsible parenting, including the importance of paternity establishment and economic security for children and the development of parenting skills.

Finally, we propose expanded authority and additional funding for the Commission on Child and Family Welfare to study access and visitation issues.

We estimate the costs of demonstrations for work obligations and opportunities for non-custodial parents at \$390 million over five years, and of the grants for access and parenting programs at \$135 million over five years.

Responsibilities of School-age Parents

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The program of transitional assistance followed by work that was outlined earlier in this document focuses on the responsibilities of custodial parents, especially young parents, to work and prepare for work as a condition of receiving benefits. All young single parents seeking government assistance will be expected to prepare for and go to work. Like the child support provisions, the obligations inherent in the program send a clear message about the consequences of parenthood, ensuring that welfare receipt does not release either parent from their responsibilities to work and support their children.

Minor mothers, those under age 18, have special needs and deserve special consideration. This is a relatively small part of the caseload at any point in time, but it is a disproportionate contributor to long-term dependency. We have four proposals that affect minor and school-age parents:

- Minor Mothers Live at Home. We propose requiring that minor parents live in a household with a responsible adult, preferably a parent (with certain exceptions, such as when the minor parent is married or if there is a danger of abuse to the minor parent). Current AFDC rules permit minor mothers to be "adult caretakers" of their own children. We believe that having a child does not change the fact that minor mothers need nurturing and supervision themselves. Under current law, States do have the option of requiring minor mothers to reside in their parents' household (with certain exceptions), but only five have included this in their State plans. This proposal would make that option a requirement for all States.
- Mentoring by Older Welfare Mothers. We propose to allow States to utilize older welfare mothers to mentor at-risk school age parents as part of their community service assignment. This model could be especially effective in reaching younger recipients because of the credibility, relevance and personal experience of older welfare recipients who were once teen mothers themselves. Training and experience might be offered to the most promising candidates for mentoring who are currently receiving welfare benefits.
- Targeting school-age parents. We will ensure that every school-age parent or pregnant teenager who is on or applies for welfare enrolls in the JOBS program, finishes their education, and is put on a track to self-sufficiency. Every school-age parent (male or female, case head or not, or of any age) will be mandated to participate in JOBS from the moment the pregnancy or paternity is established. All JOBS rules pertaining to personal responsibility contracts, employability plans, and participation will apply to teen parents. We propose to require case management and special services, including family planning counseling, for these teens.
- State options for behavioral incentives. We propose to give States the option to use monetary incentives combined with sanctions as inducements to remain in school or GED class. They may also use incentives and sanctions to encourage participation in appropriate parenting activities.

The requirement for minor mothers to live at home is estimated to save \$195 million over five years. The costs of the options are trivial.

Encouragements for Responsible Family Planning

Responsible parenting requires access to information and services designed to discourage early sexual behavior and to prevent pregnancy. We propose the following:

- A national campaign against teen pregnancy. We propose that the President lead a national campaign against teen pregnancy, involving the media, community organizations, churches and others in a concerted effort to change perceptions. The campaign would set national prevention goals and challenge the States to come up with school or community based plans to meet those goals.
- Increased funding for family planning services through Title X. Responsible family planning requires that family planning services be available for those who need them. A request for increased funding for Title X was included in the FY 1995 budget submission.

ISSUE: FAMILY CAPS

The issue is whether States should be allowed or required to limit benefit increases when additional children are conceived by parents already on AFDC if the State ensures that parents have access to family planning services. Non-welfare working families do not receive a pay raise when they have an additional child, even though the tax deduction and the EITC may increase. However, families on welfare receive additional support because their AFDC benefits increase automatically to include the needs of an additional child.

Proponents of family caps argue that they would reinforce parental responsibility by keeping AFDC (but not food stamps) benefits constant when a child is conceived while the parent is on welfare. The message of responsibility would be further strengthened by permitting the family to earn more or receive more in child support without penalty as a substitute for the automatic AFDC benefit increase under current law.

Opponents of family caps argue that there is no evidence that they deter births, and that they deny benefits to needy children. They argue that the value of the benefit increase is similar to the value of the tax deductions and EITC increase for a working family that has an additional child. (The tax deduction and EITC increase for the second child is worth \$1,241 at the \$20,000 income level; the tax deduction is worth \$686 at \$60,000. AFDC benefits increase \$684 per year for the second child in the median State; including food stamps increases benefits by \$1,584.)

A State option policy where States representing 50 percent of the effected caseload adopt a family cap provision might save \$290 million over five years.

--Footnote
Says 33%

Learning from Prevention Approaches that Engage Every Sector of the Society in Promoting Responsibility

Solely changing the welfare system is insufficient as a prevention strategy. For the most part, the disturbing social trends that lead to welfare dependency are not caused by the welfare system but reflect a larger shift in societal mores and values. Teen pregnancy appears to be part of a more general pattern of high-risk behavior among youth.

The Administration is developing several initiatives that aim to improve the opportunities available to young people and to provide alternatives to high-risk behavior. The School-to-Work initiative, for example, will provide opportunities for young people to combine school with work experience and on-the-job training, as a way of easing the transition into the workplace. The crime bill focuses additional resources on crime prevention, especially on youth in disadvantaged neighborhoods. Initiatives like these are aimed at raising aspirations and hope among young people who might otherwise become parents too early.

In addition, we ought to direct some attention to specifically preventing teen pregnancy. The basic issue in designing a prevention approach is to balance the magnitude of the problem with the paucity of proven approaches for dealing with it. Because the problem is so compelling, it is tempting to propose substantial increases in spending on services and approaches to deal with it. Unfortunately, although there are numerous anecdotal reports on effective programs, none of the rigorous evaluations of service-based attempts to prevent teen pregnancy has shown demonstrated success.

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We believe that large scale spending on unproven approaches would be irresponsible. Instead, we need a strategic approach that develops and funds some substantial demonstration programs, and evaluates them for their potential to be more broadly effective.

Demonstrations. Early childbearing and other problem behaviors are interrelated and strongly influenced by the general life-experience associated with poverty. Changing the circumstances in which people live, and consequently how they view themselves, is needed to affect the decisions young people make in regard to their lives. To maximize effectiveness, interventions should address a wide spectrum of areas including, among others, economic opportunity, safety, health and education. Particular emphasis must be placed on the prevention of adolescent pregnancy, through measures which include sex education, abstinence education, life skills education and contraceptive services. Comprehensive community based interventions show great promise, especially those efforts that combine education.

We propose comprehensive demonstration grants that would try different approaches to changing the environment in which youth live and carefully evaluate their effects. These grants would be of sufficient size or "critical mass" to significantly improve the day-to-day experiences, decisions and behaviors of youth. They would seek to change neighborhoods as well as directly support youth and families and would particularly focus on adolescent pregnancy prevention. While models exist for this type of comprehensive effort, few have been rigorously evaluated. We propose a systematic strategy to learn from variations in different types of approaches. All demonstrations will include a strong evaluation component.

We propose spending \$200 million over five years on these demonstrations.

Supporting Two-Parent Families

The Reinventing Government section includes provisions to end the current bias in the welfare system against two-parent families by: 1) eliminating the more stringent rules for two-parent families that exist in current law; and 2) allowing States to provide benefits to two-parent families continuously, instead of limiting provision of such benefits to 6 months. Allowing two parent families to receive the same

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benefits that single parents receive should encourage families to stay together, remove disincentives for parents to marry and send a strong message about the value of both parents.

This benefit expansion is estimated to cost \$800 million in 1999, and \$1.8 billion over five years.

APPENDIX: ENDNOTES TO TABLE I

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, Inc.

Child Support Enforcement Estimates

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.
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.

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 1969 are subject to the time limit beginning in October 1996 (FY 1997). The cost estimates assume about one third of the States will implement the policy a year earlier than required. This follows State implementations under the Family Support Act. 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 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 120,000 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 ACF baseline in the FY 1995 budget.
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 on 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. As we have virtually no idea what services States will provide during the JOBS-Prep program (candidates include parenting skills classes, life skills training, vocational rehabilitation and substance abuse treatment), arriving at a cost per participant figure for the program is challenging.

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. Given that many of the persons in the JOBS-Prep program will have some serious issues to contend with (although some, such as most mothers of children under one, will not) a fairly intensive level of case management would be required.

What's to manage?

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 above phase-in assumptions described 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 them will potentially need child care because of their parents' work status, and 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.

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THE TRANSITIONAL ASSISTANCE PROGRAM

Perhaps the most critical and difficult goal of welfare reform is to reshape the very mission of the current support system from one focussed on welfare to one focussed on work, opportunity, and responsibility. The Working Group proposal calls for replacing the AFDC program with a new Transitional Assistance Program (TAP). The TAP program includes four key elements: full participation, education and training, time-limits, and work.

- **Full Participation**--Everyone who wishes TAP cash support will be expected to do something to help themselves and their community. Everyone has something to contribute. Everyone has a responsibility to move towards work and independence.
- **Education and Training (the LEAP program)**--TAP will be refocussed by expanding and improving the employment, education and training programs developed under the Family Support Act. The clear focus will be to help people make the leap quickly from welfare to work and to place them in jobs where they can support themselves and their families.
- **Time Limits**--Persons able to work will generally be limited to two years of cash assistance. The goal is to place people in private jobs long before the two years is up, but two years will be the maximum period for the receipt of cash aid by people able to work. In a limited number of cases extensions to complete an educational program will be granted.
- **Work (the WORK program)**--Those persons who have still been unable to find work at the end of two years, will be required to work. As many people as possible will be placed in private sector positions, others will be placed with local non-profit community organizations, still others may work in public service positions. These are intended to be short term, last resort jobs, designed neither to displace existing workers nor to serve as substitutes for unsubsidized private sector employment.

Everyone who seeks welfare (AFDC) will immediately undergo an assessment. Based on this assessment, most persons will immediately be placed in the LEAP program--the successor program to the JOBS program under the Family Support Act. The LEAP program will be designed to help people make the leap from welfare to work and independence. A LEAP program will be developed by a LEAP worker and the client. In some cases the focus will be on immediate job placement. In others, the LEAP program will help recipients gain access to education and training programs they need in order to find an appropriate job. Education and training services will be coordinated with and often provided through mainstream state and federal programs open to both welfare and non-welfare recipients. Recipients who fail to comply with their LEAP program will be sanctioned.

Most recipients are expected to find work through the LEAP program. LEAP program benefits will normally be limited to two years. After that time, those persons still on welfare would be required to enter the WORK program. Those in the WORK program would be required to work

in order to get income support. The exact nature of the WORK program depends on decisions presented in this document. But the goal is quite clear. Person still needing aid after two years would be placed in jobs where the income they will be paid for the work they do. The work should bring benefits to the community and dignity to the worker. But they will not be designed to become long-term subsidized jobs. Various incentives will be used to encourage people to take unsubsidized private jobs as soon as they can find them.

A limited number of persons will be put into a Pre-LEAP program. This program is designed for persons who are not currently in a position to work. At a minimum the Pre-LEAP program would include persons who have a disability which limits work, those who are required at home to care for a severely disabled child or relative, and persons of advanced age. It might also include mothers with very young children. While persons are in Pre-LEAP status, time-limits would not be imposed. But those in the Pre-LEAP program would not be excused from obligations or expectations. Rather they would be expected to engage in a broader set of activities than those in the LEAP program. Everyone getting aid will have responsibilities and opportunities.

Though the ultimate mix of people in various parts of TAP depends on policy decisions. But as a starting point, consider what would happen to the projected AFDC caseload in 1999 with a fully phased in program in steady state. We do not anticipate that any program could be fully phased in that quickly, but 1999 provides a helpful baseline.

PROJECTED STEADY STATE CASELOADS--WITH FULL IMPLEMENTATION	
Projected 1999 Adult Cases Without Reform	4.7 million
Off Welfare with Reform (health reform, EITC, child care, LEAP, WORK, etc.)	1.2 million
TAP Participants	3.5 million
Working While on Welfare:	0.7 million
LEAP participants	0.9 million
WORK participants	0.7 million
Pre-LEAP--disability/age limits work	0.5 million
Pre-LEAP--severely disabled child	0.2 million
Pre-LEAP--caring for child under 1 year	0.5 million

The category working while on welfare assumes that persons who are working at least part-time while on welfare meet participation requirement and do not face time limits. The implications and alternatives to this policy are discussed below.

The major cost elements of the program involve the LEAP and Pre-LEAP program and the WORK program. The gross cost of the program (not counting savings) are shown below:

Gross and Net Costs of TAP in Steady State – 1995 Dollars	
LEAP and Pre-LEAP training/education	\$x.x billion
Child Care for LEAP/Pre-LEAP participants	\$x.x billion
WORK program job development	\$x.x billion
WORK program child care	\$x.x billion
Total Gross Cost	\$x.x billion
AFDC, Food Stamps, and Medicaid Savings directly attributable to TAP program	-\$x.x billion
Total Net Cost	\$x.x billion

Six key questions need to be addressed in designing the TAP program

- **Part-time work**--How should people who work part time be treated in the TAP program? In particular, should part-time workers face additional participation and work requirements and be subject to time-limits?
- **Pre-LEAP rules**--Who should be put into the Pre-LEAP program because they are not able to work or needed at home? What caps should be put on the number of persons in the Pre-LEAP program?
- **LEAP Extensions**--Who should be granted extensions under the LEAP program? What limits, if any, should be put on the number of extensions allowed?

- **WORK Program Design**--Should states be required to create jobs paying wages which are provided to those in the WORK program? Would states be allowed to use CWEP jobs for all or part of the WORK placements?
- **WORK Program Limits**--Should limits be placed on the duration of WORK jobs, on receipt of the EITC, on child care for WORK participants etc.?
- **Phase-In**--How quickly should the reforms be phased in and how should it be phased in?

Part-Time Work

If someone is working part-time at a minimum wage job, they will still be eligible for AFDC benefits in many states. What expectations should we have for such people?

One possibility is to allow part-time workers (20 hours per week) to continue to collect benefits if they still qualify for them, and that the two-year clock would not run during such periods. If the person had exhausted their two-year limit, part-time unsubsidized private work would count as meeting the work obligation. The other alternative is to let the clock run except in circumstances when the person was working at least 30, 35, or 40 hours per week.

Allowing part-time work to count as meeting the training and work obligation has several advantages. First, it may be the most realistic standard for single parents, especially those with young children. All working parents face significant burdens in dealing with school schedules, child care, sick children, doctor visits, and the like. Though the vast majority of married mothers work, only about 1/3 work full-time all year, and they have help from the second spouse. Many single parents may find it impossible to work more than 2/3s of married mothers do. Part-time work would actually be a dramatic change from current situation where only 9% (?) of adult recipients work at all.

Second, part-time work may serve as a stepping stone to both full-time work and to better paying jobs. Given that so few mothers now work while on welfare, it is a natural starting point for the more disadvantaged women. It may be counterproductive in the long run to pull people out of part-time private sector work to put them into full-time WORK slots. Employers typically have a strong preference for work experience in unsubsidized private jobs. And some of the parents working part-time could conceivably spend other time getting further education and training in the mainstream training sector. Part-time workers could attend training schools or colleges on a part-time basis.

Finally the cost of mandating full-time work could be very high. Full-time child care for young children would be great. After school care would have to be provided for many other children. Perhaps most importantly, if one required full-time work and guaranteed jobs at the end of two years, one would be in the position of pulling parents out of unsubsidized private jobs to place them in a community work program. This would significantly increase the number of WORK

slots needed and the cost of providing a full-time work slot and full-time child care will be significant.

Those who think part-time workers should be subject to time-limits and work requirements worry that the AFDC program may become a work supplementation program. Some persons might remain on AFDC for many years while working part-time. If the ultimate goal is to move people completely off of welfare, allowing and even encouraging people to mix work and welfare is sending a mixed message. Many parents outside of welfare feel they must work full time in support of their family. Should part-time work be enough indefinitely? One alternative would be to allow part-time work to count for some period, but to eventually require full-time work. Note that regardless of what policy is chosen, full-time workers will always be better off than part-time workers.

Program and Cost Implications:

	<u>Allowing Part-Time Work</u>	<u>Limiting Part-Time Work</u>
LEAP Participants	.9 million	1.1 million
WORK Participants	.7 million	1.2 million
Net LEAP/WORK costs	\$x.x billion	\$x.x billion

Pre-LEAP Rules

Any policy where work is required and time-limits imposed must take account of differences in the ability to work. People who are permanently disabled and thus are unable to work for at least one year are supposed to be covered under the Supplemental Security Income (SSI) Program. But some disabilities and most illnesses, even severe ones, last less than a year. Many other people suffer partial disabilities that limit their ability to work. Sometimes a parent is needed to care for a severely disabled child. And there are a variety of cases which some have labelled the "walking wounded"--people who have such trouble coping with even day-to-day challenges of parenting and survival in an often highly stressful environment.

One solution would be to simply defer a significant number of persons from participation requirements. But having large numbers of complete deferrals can interfere with the goal of changing the culture of welfare offices and expecting everyone to do something. And deferrals are not necessarily beneficial to those who receive them. States and localities may send the signal that those who are deferred should not be subject to high expectations. Advocates for persons with disabilities often complain that current programs send both explicit and subtle messages that persons with disabilities cannot and should not work, and thus cannot really contribute to themselves or their communities. Still, for many, immediate work or training may not be appropriate.

One very intriguing formulation has been proposed by the American Public Welfare Association. They suggested creation of a "Pre-JOBS" program where everyone would be expected to do

something to contribute to themselves and their community, but until they reached a certain stage, expectations would be different from those facing people in the time-limited training and cash aid program. We have adopted this formulation with our Pre-LEAP program.

The nomenclature of Pre-LEAP is appealing for it indicates that the expectation is that eventually most people in the group will be able to join the regular LEAP program. But who should be placed in a Pre-LEAP status? Virtually everyone seems to agree that persons of advanced age (over 60), with severe disabilities themselves, or who are caring for a severely disabled child should be deferred. But the question of how far along the continuum of disability the line should be drawn is difficult.

A somewhat different set of problems is posed by the mothers of very young children. Should all mothers with (healthy) children be expected to work? The Family Support Act exempted mothers with children under the age of 3 from mandatory education, training or work expectations. States had the option of requiring participation of mothers with children over the age of 1 if they chose to do so. X states have elected this stricter option. The arguments for and against participation by mothers of very young children are straightforward to describe, but the issues pose deep philosophical and financial questions.

There simply is not sufficient social and behavioral science evidence to determine definitively whether and when it is appropriate to require a parent to participate in a work or training activity. Some developmental psychologists believe strongly that a parent should stay home and nurture the child if possible during these years. Yet well over half of the mothers with children under three now work at least part-time. Many of those seeking to move women from welfare to work argue that 3 years is too long to wait before exposing people to participation expectations. The most recent evidence regarding work by mothers does not show clear harm or benefit to children of mothers working outside the home. There is, however, a strong hint in existing studies that children of working mothers who feel positively about work do better than children of mothers who are unhappy working and who feel forced into an unpleasant job by economic necessity. It is clear that when a mother goes to work for the first time, it is initially stressful for the family. But work can bring

Using existing survey data, Working Group staff have created the following table which illustrates the implications of different Pre-LEAP policies on the fraction of the existing caseload which would be in various elements of the TAP program.

**NUMBER OF PERSONS IN VARIOUS TAP ELEMENTS AND
NET COST UNDER VARIOUS PRE-LEAP OPTIONS**

	<u>Option A</u>	<u>Option B</u>	<u>Option C</u>	<u>Option D</u>
Pre-LEAP	0.3 million	0.7 million	1.2 million	x.x million
% of projected TAP caseload	9%	20%	33%	yy%
LEAP	.y million	.y million	.9 million	.y million
WORK	.y million	.y million	.7 million	.y million
Net Cost	\$x.x billion	\$x.x billion	\$x.x billion	\$x.x billion

Option A: Case head is 60 years or over, case head has severe disability, or child with severe disability

Option B: Case head is 60 years or over, case head has disability which limits work, or child with severe disability

Option C: Option B, plus cases with child under 1 year in the household or woman in the final trimester of pregnancy

Option D: Option B, plus cases with child under 3 years in the household or woman in the final trimester of pregnancy

In evaluating these percentages, recall they are off of a much smaller base than the current AFDC program since other elements should remove a quarter of the caseload or more. The remaining participants are more likely to be disabled. Option C for example is only 25% of the projected AFDC caseload without reform.

Determining who should go into LEAP and who enters Pre-LEAP creates difficult administrative and oversight issues. It is extremely difficult to define tightly exactly which are cases where someone can and cannot work. Highly detailed federal guidelines can lead precisely to the kind of preoccupation with paper and process rather than a focus on moving people forward that so often seems at the heart of the current welfare failures. And there are inevitably cases that just don't seem to fit in one category or another. Working Group staff recommend that the Federal government set a percentage of the caseload which can be placed in Pre-LEAP, provide guidance as to who should be placed in the program, but then to allow states considerable latitude in determining which particular cases will be selected.

Extensions

A related, but conceptually distinct question is that of extensions. Two-years is not enough time to complete some educational programs. In some cases, persons may be so educationally disadvantaged that they are unable to even complete high school or gain a GED within two years. In other cases, persons seeking post secondary education including a four year college degree would need more than two years to complete their education. Some programs such as the school-to-work program involve both a period to finish high school and an additional year of training.

There seems little disagreement that persons who are making satisfactory progress toward the completion of their GED or high school degree should be granted extensions. Similarly, persons in School-to-Work or similar programs should be encouraged to continue their education. There are others who may need more time to get adequate schooling. Persons with language difficulties may need to learn English before they can complete a GED or get additional training.

The controversial question is whether persons should be able to receive full welfare benefits while they go on to complete a four year college degree. Those who favor such a proposal emphasize that the only way to a really secure future off of welfare is an excellent education. Pushing people into lower paying jobs which do not offer high enough pay or upward mobility may be counter-productive. Those who oppose extensions to complete a 4 year college note that only 1/4 of each cohort of graduates from all incomes and backgrounds receive a 4 year degree, and among welfare recipients the fraction is much lower. They wonder whether it is fair to use welfare benefits to help support persons who are getting college degrees when the vast majority of persons paying for that support will never get such a degree. There is also a concern that single parents would actually have greater access to economic support for higher education than persons who did not become single parents. A partial resolution to this dilemma may emerge is part-time work fulfills the work obligation. In those circumstances, persons working part time and schooling part time would continue to be eligible for some support in most states.

The same administrative questions that arise with deferment policy occur here as well. Writing complicated federal rules regarding who can be deferred and when is likely to lead to a nightmare of audits and litigation. Working group staff recommend that just as with deferments, states be given a limited number of extensions with broad guidelines as to how they can be used, but that states are responsible for determining the best way to use them. But what number of extensions makes sense?

DRAFT

2/22/94

THE TRANSITIONAL ASSISTANCE PROGRAM

Perhaps the most critical and difficult goal of welfare reform is to reshape the very mission of the current support system from one focussed on welfare to one focussed on work, opportunity, and responsibility. The Working Group proposal calls for replacing the AFDC program with a new Transitional Assistance Program (TAP). The TAP program includes four key elements: full participation, education and training, time-limits, and work.

NO-
Don't change
JOBS

- **Full Participation**--Everyone who wishes TAP cash support will be expected to do something to help themselves and their community. Everyone has something to contribute. Everyone has a responsibility to move toward work and independence.
- **Training, Education, and Placement (the JOBS program)**--TAP will be refocused by expanding and improving JOBS program which provides the training, education, and placement services as developed under the Family Support Act. The JOBS program will probably have to be renamed (to avoid confusion with the WORK program), but the basic program will be quite similar. The clear focus of public assistance will be to help people move quickly from welfare to work and to place them in jobs where they can support themselves and their families. Every aspect of the program will emphasize private placements and work. The services will focus on using existing JTPA, educational opportunities, and other mainstream training programs as much as possible.
- **Time Limits**--Persons able to work will generally be limited to two years of cash assistance. The goal is to place people in private jobs long before the two years is up, but two years will be the maximum period for the receipt of cash aid by people able to work. In a limited number of cases extensions to complete an educational program will be granted. The time limit is a lifetime limit, though recipients could earn back some additional time for time they are off welfare.
- **Work (the WORK program)**--Those persons who have still been unable to find work at the end of two years, will be required to work. As many people as possible will be placed in private sector positions, others will be placed with local nonprofit community organizations, still others may work in public service positions. These are intended to be short term, last resort jobs, designed neither to displace existing workers nor to serve as substitutes for unsubsidized private sector employment.

change culture
of W office

Everyone who seeks welfare (AFDC) will immediately undergo an assessment. Based on this assessment, most persons will immediately be placed in the JOBS program or its successor. JOBS program will be a strategy will be developed by a JOBS worker and the client designed to help people move from welfare to work and independence. In some cases the focus will be on immediate job placement, and states will have the option of requiring immediate job search for all persons. Where needed, the JOBS program will help recipients gain access to education and training programs they need in order to find an appropriate job. Education and training services will be coordinated with and often provided through mainstream state and federal programs open

social
contract

why?
option

Doesn't sound different enough

to both welfare and non-welfare recipients. Recipients who fail to comply with their JOBS program will be sanctioned.

Most recipients are expected to find work through the JOBS program. JOBS program benefits will normally be limited to two years. After that time, those persons still on welfare would be required to enter the WORK program. Those in the WORK program would be required to work in order to get income support. The exact nature of the WORK program depends on decisions presented in this document. But the goal is quite clear. Person still needing aid after two years would be placed in jobs where the income they ^{earn} will be paid for the work they do. The work should bring benefits to the community and dignity to the worker. But they will not be designed to become long-term subsidized jobs. Various incentives will be used to encourage people to take unsubsidized private jobs as soon as they can find them.

A limited number of persons will be put into a JOBS-Prep program. This program is designed for persons who are not currently in a position to work. At a minimum the JOBS-Prep program would include persons who have a disability which limits work, those who are required at home to care for a severely disabled child or relative, and persons of advanced age. It might also include mothers with very young ^{infant} children. While persons are in JOBS-Prep status, time-limits would not be imposed. But those in the JOBS-Prep program would not be excused from obligations or expectations. Rather they would be expected to engage in a broader set of activities than those in the JOBS program. Everyone getting aid will have responsibilities and opportunities.

TAP class

Six key questions need to be addressed in designing the TAP program

- **Focus and Phase-In** --How quickly should the reforms be phased in and who should be targeted initially?
- **Part-time work**--How should people who work part time be treated in the TAP program? In particular, should part-time workers face additional participation and work requirements and be subject to time-limits?
- **JOBS-Prep rules**--Who should be put into the JOBS-Prep program because they are not able to work or needed at home? What caps should be put on the number of persons in the JOBS-Prep program?
- **JOBS Extensions**--Who should be granted extensions under the JOBS program? What limits, if any, should be put on the number of extensions allowed?
- **Work for Wages Versus Work for Welfare**--Should states be required to create jobs paying wages which are provided to those in the WORK program? Would states be allowed to use CWEP jobs for all or part of the WORK placements?

Sanctions
Job Search
Bonuses
What kinds of jobs
Everybody does something
Steady State

- **The Hours of Work Required of WORK participants--**How many hours should WORK participants be required to provide? Should states be allowed or required to supplement WORK earnings in a work for wages program?
- **Discouraging extended WORK participation--**What can be done to keep the duration of WORK participation short and to move people into unsubsidized work? Should the EITC be denied to work program participants? Should any particular WORK placement be limited to 12 months? Should the total time people are allowed in the WORK program be limited?

Focus and Phase-in

The ultimate mix of people in various parts of TAP depends on policy decisions. But as a starting point, consider what would happen if we chose undertake the extremely ambitious task of beginning TAP full scale in October 1996 (most states will require 2 years to pass implementing legislation and get the program up and running) and requiring everyone now on welfare and all those who apply subsequently to meet the new requirements. Then by October 1996, everyone currently on welfare and everyone entering who is able to work will get 24 additional months of welfare. The table below shows what the caseloads might look like under one set of policies. Note that making different choices about part-time work, JOBS-Prep and extension policy, and the nature of the WORK program will affect these estimates. Note also that the figures for 2004 assume the passage and full-implementation of health reform. Earlier years assume the current system. Without health reform, JOBS and WORK figures would be significantly larger.

**PROJECTED CASELOADS UNDER PROGRAM FOR
OCTOBER 1996 IMPLEMENTATION FOR ALL PERSONS**
IMMEDIATE

	FY 1997	FY 1999	FY 2004
Projected Adult Cases Without Reform	4.5 million	4.7 million	5.1 million
Off Welfare with Reform (health reform after 1999, EITC, child care, JOBS, WORK, etc.)	.1 million	.5 million	1.2 million
TAP Participants	4.4 million	4.2 million	3.8 million
Working While on Welfare	.3 million	.4 million	.6 million
JOBS participants	3.1 million	2.1 million	1.2 million
WORK participants	0 million	.6 million	1.0 million
JOBS-Prep--disability	.4 million	.4 million	.4 million
JOBS-Prep--severely disabled child	.3 million	.3 million	.3 million
JOBS-Prep--caring for child under 1	.4 million	.4 million	.4 million

optimistic?

The table illustrates the dynamics of the program over time with immediate implementation. In 1997, the first year of implementation, everyone who is not working or in JOBS-Prep is in the JOBS program, since no one will have hit the two year time limit. By 1999, there are fewer people in the JOBS program and more in the WORK program as some people have hit the limit. Note that most people on welfare in 1997 will not hit the limit in 1999. Many leave welfare and never hit the limit. Others cycle on and off welfare and accumulate 24 months of receipt over a 4 or 5 year period. In addition, as a result of the program and other reforms (health reform, the expanded EITC, child care for the working poor) people leave welfare who would otherwise have been on it and more people choose to work while on welfare. This leaves fewer people to be served in the JOBS/WORK program. Note that by 2004, of the projected 5.2 million people expected to be on welfare in the absence of reform, 3 million are now off welfare, or working while on welfare, or in the WORK program.

The current JOBS program serves roughly 600,000 persons monthly. The immediate phase in scenario implies that over 3 million people annually (and probably half that number in any given

month) would have to be served by 1997 in the JOBS program. Moreover, states would have to be gearing up for a work program that would approach the size of CETA in the year 2000. It is unimaginable that states could move this quickly, even if resources were plentiful, such a massive and immediate expansion almost guarantees that the JOBS program will be poorly-administered with limited real content in many states. There is much greater threat of displacement with such a rapid build up. Facing the need to serve millions of new JOBS clients and the prospect of substantial job creation, states are likely to do the minimum they can in the JOBS program. The JOBS program, which is essential to moving people from welfare to work and to transforming the culture of welfare offices will not get the attention that is critical to this reform.

NO

The final concern is cost. The table below illustrates the cost of the program (in 1995 dollars) for the first 5 years, and for 2004. In reading the table note that the first column is a 5 year number (with implementation in October 1996) and the second column is a 1 year number.

NO

Gross and Net Costs of TAP Under October 1996 Implementation for All Persons--Combined State and Federal Costs		
Cost Element	1995-1999	2004
JOBS training/education	\$xx.x billion	\$x.x billion
WORK program job development	\$x.x billion	\$x.x billion
JOBS/WORK program child care	\$x.x billion	\$x.x billion
Total Gross Cost	\$xx.x billion	\$x.x billion
AFDC, Food Stamps, and Medicaid Savings directly attributable to TAP program	-\$x.x billion	-\$x.x billion
Total Net Cost	\$xx.x billion	\$x.x billion

Have us pushing loads of systems not backing away

It seems essential to phase in more slowly by than this. A slower approach also has the considerable advantage that one can learn and adjust as the program grows. There are a number of ways one could select a group to start with. The House Republican bill starts with applicants (both new and returning). This strategy has the obvious appeal of changing the rules initially for people who enter welfare rather than those who came on with different expectations. But it raises serious equity concerns. A person who had children young and who has been on welfare for many years would face no time limit initially. Meanwhile another person of the same age and

NO NEED TO TRASH GOP ON THIS SCORE

same number of children who was married or worked to stay off welfare, who suddenly needs support would be subject to time limits. Having reapplicants face time limits also creates very perverse incentives to *stay on welfare*. Most who leave welfare do return at some stage, so many may be inclined to stay on welfare to avoid leaving and coming back under a new set of rules. One might try focussing only on new applicants, but since there is little reliable data on past welfare receipt, such a plan creates a virtually impossible verification problem if people say they've been on welfare before.

good pt.

One might also phase in by state, but that simply means this sort of massive expansion in JOBS services and WORK will have to be done at the state scale. The costs to the Federal Government might be lower, but the administrative struggles, the job creation, the displacement, and other problems will be just as great in states that must implement the program.

A particularly attractive alternative is to focus on is young people--such as those under 25 in 1995. It is the younger generation of actual and potential welfare recipients that are the source of greatest concern, but also the group where there probably is the greatest hope of making a profound difference. These are also the people likely to have the longest stays on welfare, in part because they are just beginning their stays. And one can then devote the energy and resources to trying to "rescue" the next generation, rather than spreading efforts so thin that little real help is provided.

LEAD WITH THIS, MORE ON Philos. rationale

One strategy would be to put all persons born after 1970 (under 25 in 1995) under the transformed transitional support system. All persons of the same age and circumstance would face the same rules regardless of when they started welfare. Such a system automatically phases in since the fraction of those on welfare who were born after 1970 increases with time. In 1995 such a plan includes everyone on welfare who is under 25. Ten years later, it includes everyone who is under 35. For this cohort and all who follow, the welfare system is transformed. If we successfully implement the program for the younger generation, we can then move onto older recipients. Note that such a plan would not contemplate removing any existing education and training services from older recipients. They would still be eligible for JOBS services. But the *new* resources would be focussed on young people.

- capacity
- FSA

The number of persons served under such a strategy is as follows:

- How WE GET TO FULL PHASE-IN AFTER REASSESSMENT

**PROJECTED CASELOADS UNDER PROGRAM FOR
OCTOBER 1996 IMPLEMENTATION FOR PERSONS BORN AFTER 1970**

	FY 1997	FY 1999	FY 2004
Projected Adult Cases With Parent Born Before 1970 Without Reform	1.25 million	1.69 million	2.77 million
Off Welfare with Reform (health reform after 1999, EITC, child care, JOBS, WORK, etc.)	.00 million	.16 million	.66 million
TAP Participants	1.25 million	1.54 million	2.11 million
Working While on Welfare	.10 million	.13 million	.31 million
JOBS participants	.86 million	.94 million	.76 million
WORK participants	.00 million	.11 million	.57 million
JOBS-Prep--disability	.10 million	.12 million	.18 million
JOBS-Prep--severely disabled child	.05 million	.06 million	.08 million
JOBS-Prep--caring for child under 1	.15 million	.18 million	.20 million

The projected caseload numbers without reform grow rapidly because a larger and larger portion of the caseload will have been born after 1970. In 1997, roughly 30% of the projected caseload is in this group. By 2004, more than half are included.

The projected costs of focusing on this target group are as follows:

Gross and Net Costs of TAP Under October 1996 Implementation for Persons Born After 1970--Combined State and Federal Costs		
Cost Element	1995-1999	2004
JOBS training/education	\$xx.x billion	\$x.x billion
WORK program job development	\$x.x billion	\$x.x billion
JOBS/WORK program child care	\$x.x billion	\$x.x billion
Total Gross Cost	\$xx.x billion	\$x.x billion
AFDC, Food Stamps, and Medicaid Savings directly attributable to TAP program	-\$x.x billion	-\$x.x billion
Total Net Cost	\$xx.x billion	\$x.x billion

A decision to focus on young people initially in no way precludes adding all or part of the rest of the population to the program at any time. States could be given the option of doing so. If in 4 or 5 years time, the program is working well and it is feasible to expand capacity we can do so at that time.

Of course other types of phase-in/targeting strategies could be used. One could focus on people who are younger and get smaller numbers. Or one could start with a group that included somewhat older persons (perhaps all those born after 1965), or add new applicants to this target group and get larger estimates. Still in the opinion of the Working Group staff and chairs, this seems the appropriate magnitude if the goal is to fundamentally change the system and help people help themselves.

*An
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JOBS-Prep Rules

Any policy where work is required and time-limits imposed must take account of differences in the ability to work. People who are permanently disabled and thus are unable to work for at least one year are supposed to be covered under the Supplemental Security Income (SSI) Program. But some disabilities and most illnesses, even severe ones, last less than a year. Many other people suffer partial disabilities that limit their ability to work. Sometimes a parent is needed to care for a severely disabled child. And there are a variety of cases which some have labelled the "walking wounded"--people who have such trouble coping with even day-to-day challenges of parenting and survival in an often highly stressful environment.

One solution would be to simply defer a significant number of persons from participation requirements. But having large numbers of complete deferrals can interfere with the goal of changing the culture of welfare offices and expecting everyone to do something. And deferrals are not necessarily beneficial to those who receive them. States and localities may send the signal that those who are deferred should not be subject to high expectations. Advocates for persons with disabilities often complain that current programs send both explicit and subtle messages that persons with disabilities cannot and should not work, and thus cannot really contribute to themselves or their communities. Still, for many, immediate work or training may not be appropriate.

One very intriguing formulation has been proposed by the American Public Welfare Association. They suggested creation of a "JOBS-Prep" program where everyone would be expected to do something to contribute to themselves and their community, but until they reached a certain stage, expectations would be different from those facing people in the time-limited training and cash aid program. We have adopted this formulation with our JOBS-Prep program.

The nomenclature of JOBS-Prep is appealing for it indicates that the expectation is that eventually most people in the group will be able to join the regular JOBS program. But who should be placed in a JOBS-Prep status? Virtually everyone seems to agree that persons of advanced age (over 60), with severe disabilities themselves, or who are caring for a severely disabled child should be deferred. But the question of how far along the continuum of disability the line should be drawn is difficult.

A somewhat different set of problems is posed by the mothers of very young children. Should all mothers with (healthy) children be expected to work? The Family Support Act exempted mothers with children under the age of 3 from mandatory education, training or work expectations. States had the option of requiring participation of mothers with children over the age of 1 if they chose to do so. X states have elected this stricter option.

Obviously the more people who are put into a JOBS-Prep program and not immediately subject to a time limit, the fewer people will be in the JOBS and WORK programs. Working Group staff have indicated the following percentage of the current caseload would be in JOBS-Prep under different policies:

Option A: Case head is 60 years or over, case head has severe disability, or child with severe disability -- x%

Option B: Case head is 60 years or over, case head has disability which limits work, or child with severe disability -- x%

→ 60P regnts
→ Current caseload - restricting #

Option C: Option B, plus cases with child under 1 year in the household or woman in the final trimester of pregnancy. Children conceived while the mother is on welfare would qualify the mother for only 4 months of JOBS-Prep.--x%

~~8-10-7~~
25

Option D: Option B, plus cases with child under 3 years in the household or woman in the final trimester of pregnancy. Children conceived while the mother is on welfare would qualify the mother for only 4 months of JOBS-Prep.--x%

45

Staff recommend selecting Option C, and that option is the one used in baseline estimates. It is easy to determine the age of youngest child, but difficult to determine exact rules regarding disability, illness, and the need to care for a relative. Rather than set up elaborate Federal rules for defining ability to work and then auditing performance, Working Group staff recommend that the Federal government set a maximum percentage of the caseload which can be placed in JOBS-Prep for reasons other than the age of the youngest child, while providing guidance as to who should be placed in the program.

Extensions

A related, but conceptually distinct question is that of extensions. Two-years is not enough time to complete some educational programs. In some cases, persons may be so educationally disadvantaged that they are unable to even complete high school or gain a GED within two years. In other cases, persons seeking post secondary education including a four year college degree would need more than two years to complete their education. Some programs such as the school-to-work program involve both a period to finish high school and an additional year of training.

There seems little disagreement that persons who are making satisfactory progress toward the completion of their GED or high school degree should be granted extensions. Similarly, persons in School-to-Work or similar programs should be encouraged to continue their education. There are others who may need more time to get adequate schooling. Persons with language difficulties may need to learn English before they can complete a GED or get additional training.

The controversial question is whether persons should be able to receive full welfare benefits while they go on to complete a four year college degree. Those who favor such a proposal emphasize that the only way to a really secure future off of welfare is an excellent education. Pushing people into lower paying jobs which do not offer high enough pay or upward mobility may be counter-productive. Those who oppose extensions to complete a 4 year college note that only 1/4 of each cohort of graduates from all incomes and backgrounds receive a 4 year degree, and among welfare recipients the fraction is much lower. They wonder whether it is fair to use welfare benefits to help support persons who are getting college degrees when the vast majority of persons paying for that support will never get such a degree. There is also a concern that single parents would actually have greater access to economic support for higher education than persons who did not become single parents. A partial resolution to this dilemma may emerge if part-time

work fulfills the work obligation. In those circumstances, persons working part time and schooling part time would continue to be eligible for some support in most states.

Just as in the previous case, staff recommend that a fixed percentage be selected as a cap on extensions. The current proposal allows states to use extensions for persons completing their GED, completing a structured School-to-Work or similar learning program, persons needing to overcome a language barrier and other reasons. States could also use extensions for persons in college work study programs. Staff believe that a figure of x% of the total TAP caseload (roughly 25% of those who will exhaust their 2 year limit) will offer sufficient extensions in most cases. States could apply to the Secretary for additional extensions as a state plan amendment if they can demonstrate their caseload is very different from that in the nation as a whole or if they have developed an alternative program which is structured in a way that additional extensions are required. 10%

Work for Wages Versus Work for Welfare

Unquestionably the hardest part of designing a time-limited welfare system is designing the work program after the time-limit is reached. Much of the energy is focused on making work pay, collecting child support, and creating a first rate education, training and placement program in order to keep the number of persons reaching the time-limit to a minimum. Before the end of the time-limit all persons will be required to engage in a period of intensive job search. Some will hit the time-limit nonetheless, and a work opportunity must be provided.

The first and most visible choice in the WORK program involves work for wages versus work for welfare. In a *work for wages* plan, welfare benefits end when the time-limit is reached. The state or locality is required to offer a work opportunity to the person. Hours and wages are set by the state or locality. Persons are paid in a paycheck for hours worked. If the person does not work, they do not get paid. In principle they go from being a "recipient" to a worker. In a *work for welfare* plan, the person continues to receive a welfare check, and is required to work at a designated community service job. Persons who fail to report for work or who perform poorly can be sanctioned with reduced welfare benefits, so long as the state can establish their poor performance was not for a good cause. Persons remain recipients, but they have increased obligations.

There seems little disagreement within the administration on the strong appeal of a work for wages model. It provides a paycheck instead of a welfare check. It is seen as providing a traditional work opportunity with the dignity and the responsibilities of an ordinary workplace. The major question to be resolved is not whether to encourage states both with some sort of financial incentives and with technical assistance to adopt a work-for-wages model. The question is whether to allow states to use a work-for-welfare model if they choose. Thus the real issue is how much flexibility to allow the states in deciding which model to adopt.

Those who argue for state flexibility on this issue point to two major concerns: *implementation* and *recipient protection*. A work program of this type for this population has never been

mounted in this country, and though the Working Group has worked hard to resolve as many issues as possible, some questions cannot be resolved without more experience. As discussed below, the Working Group recommends a very flexible work for wages program with considerable state and local flexibility over the use of funds to create work slots. Many of the details are quite consciously left to the local community which knows its own needs and opportunities best. Communities will have to set up a whole new system for linking with the private sector, determining how and how much organizations who employ the work program recipients will be paid, resolving disputes, determining how placements will be made, and monitoring performance. There are also difficult questions involving worker protection. What happens if a worker is sick, or if their child is sick? What happens if the adult simply fails to show up for work repeatedly? What if the worker feels the workplace is dangerous or abusive? Issues such as these will be discussed below, but we have limited real experience for deciding the answers.

By contrast, work for welfare has been tried in various forms. Many states have experience with it. The payment structure is easy: participants get a welfare check. And dispute resolution involves the existing sanctioning and appeal process. States still have to find work sites, but monitoring and worker protections may be less of a problem since the check continues to be paid unless the state decides to begin a sanctioning process. The burden of performance shifts at least partially to the state. Before the state can reduce the check it must establish that the persons inappropriately violated their obligations. Such a test would never be met if a child was sick or transportation broke down. Though few people like the existing work-for-welfare programs (usually called CWEP for Community Work Experience Program), it is a known entity. Both the Republican plan and the plan from the American Public Welfare Association called for CWEP after two years. Throughout most of the rest of the plan, we have sought to give states as much flexibility as possible in deciding how to implement the program. - FKA

Those who urge against allowing state flexibility in this area regard the implementation questions as difficult, but surmountable, especially if the program initially focusses on younger recipients. They fear that if states are given the option of choosing CWEP, most will and that will undermine the goals and philosophy of this plan. States will be given enormous flexibility within the work for wages model. And the number of work slots contemplated under the program targeted on young people grows gradually, giving states the time they need to design and implement new systems. Worse, work-for-welfare sends adverse messages to recipients, prospective employers, and the public. CWEP slots are not perceived as "real jobs" by anyone. CWEP participants in one of the best run programs (in San Diego) reported that they thought the work requirement was fail, but they felt like they were working for free. There is little evidence that persons who go through CWEP subsequently fare better in the workplace than people who were just on welfare. And no wonder. Employers will probably never see CWEP experience as serious work experience. No regular job pays its employees regardless of when and whether they show up unless the employer can prove the person did not stay out for good cause. Placements are virtually never in the private sector, nor are they likely to be. Work-for-wages programs by contrast can target private sector employers. Perhaps most importantly, without the

responsibilities of regular work and the paycheck tied to performance, there will be far less dignity in WORK.

Advocates for a work-for-wages policy would distinguish this Administration's plan from the Republican and serve to define and delineate the vision. A work-for-wages plan whereby persons are given transitional aid and training and then offered a job if they can't find one on their own contrasts sharply with a plan which calls for people to work off their welfare check after 2 years. Most of the traditional Democratic constituencies strongly favor work-for-wages. Unions have vociferously opposed CWEP and have indicated that they will continue to do so. (They are deeply concerned about a work-for-wages strategy as well, but there is room for negotiation in such a plan.) Most advocates for the poor and women strongly favor work-for-wages, though they want some worker protections built in and favor wages above the minimum.

Part-time versus Full-time Work Expectations

The TAP program focuses heavily on work. Persons cannot collect welfare benefits indefinitely without working. But what level of work should be expected? Is part-time work sufficient or should persons be expected to work full-time.

Allowing part-time work to count as meeting the participation and work requirements has several advantages. First, it may be the most realistic standard for single parents, especially those with young children. All working parents face significant burdens in dealing with school schedules, child care, sick children, doctor visits, and the like. Though the vast majority of married mothers work, only about 1/3 work full-time all year, and they have help from the second spouse. Currently only 7% of adult recipients work in a given month. Getting people working even part time perhaps should be seen as a major accomplishment.

Second, part-time work may serve as a stepping stone to both full-time work and to better paying jobs. Given that so few mothers now work while on welfare, it is a natural starting point for the more disadvantaged women. It may be counterproductive in the long run to pull people out of part-time private sector work to put them into full-time WORK slots. Employers typically have a strong preference for work experience in unsubsidized private jobs. And some of the parents working part-time could conceivably spend other time getting further education and training in the mainstream training sector. Part-time workers could attend training schools or colleges on a part-time basis.

3
sentences

Finally the cost of mandating full-time work could be very high. Full-time child care for young children would be great. After school care would have to be provided for many other children. Perhaps most importantly, if one required full-time work and guaranteed jobs at the end of two years, one could be in the position of pulling parents out of unsubsidized private jobs to place them in a community work program. Unless, stricter rules induced many part-time workers to leave welfare entirely for full-time work, this would significantly increase the number of WORK slots needed and the cost of providing a full-time work slot and full-time child care will be significant.

Note that full-time work would always be much financially rewarding than part-time work. Part-time workers would still generally still be poor even with their supplemental benefits. Note also that the current pledge that full-time worker should not be poor explicitly assumes very low wage workers will still get food stamps.

Those who think part-time worker should not be allowed indefinitely worry that the TAP program may become a work supplementation program. Some persons might remain on TAP for many years while working part-time. If the ultimate goal is to move people completely off of welfare, allowing people to mix work and welfare is sending a mixed message. Many parents outside of welfare feel they must work full time in support of their family. Some mothers who might work part-time and get supplemental welfare benefits might choose to leave welfare altogether if they were forced to work full-time.

With these arguments as background, two related decisions must be made: how will part-time work be treated for people working in unsubsidized private jobs while still getting some supplementaty welfare benefits, and how many hours should be expected of those in the WORK program.

Mixing Unsubsidized Work With Welfare

Consider first the situation facing someone who is working part-time at a minimum wage job. In most states, they would still be eligible for some supplemental AFDC benefits. Currently only 7% of the caseload has reported earnings in any given month. There are indications that many more than that work at some point during the period when they receive AFDC. Part of the reason so few work part-time is that currently there are few incentives to mix work and welfare. Benefits decline dollar for dollar and the administrative and reporting burden on the client and welfare worker when someone goes to work is considerable. But with the expanded EITC and other reinventing government assistance policies, there may be considerably more incentive to work. And if the time-limit clock was stopped in months where a person was working part-time, there would be even more incentive to work.

One possibility would be to count part-time unsubsidized work as full participation and the clock stops during periods of work. Persons would be entitled to any supplemental cash benefits if they still qualify for them under welfare rules. Of course, such persons would receive significantly less cash aid than non-workers since benefits are reduced for income net of work expenses. If the person had exhausted their two-year limit in JOBS prior to working part-time, 20 hour per week unsubsidized private work would count as meeting the WORK obligation. This policy implicitly sets the minimum work expectation at 20 hours. People working 20 hours or more would be allowed to collect supplemental aid indefinitely.

An alternative is to stop the clock only when some higher level of work is achieved, such as 30 or 40 hours per week. Or one could allow part-time work to count so long as children are below

some age, and then set higher hours when children are older. Presumably one would set the same or greater minimum hours in the WORK program.

The exact impact of allowing part-time unsubsidized work to count as participation is hard to determine. It could be very expensive and difficult to get everyone working full-time. And because part-time workers would be expected to participate in other ways, such a decision is likely to significantly increase the number of persons for whom WORK slots have to be generated. In addition, if part-time workers lose their opportunity to participate in JOBS because the clock keeps running. People may give up existing work to get training while they have the chance. On the other hand, a full-time work expectation may cause some people to find full-time unsubsidized work and leave welfare entirely. The current cost estimates assume that part-time work counts as full participation and that over time, more people choose to work part-time in unsubsidized employment. If part-time work was not counted, and if we do not observe a significant behavioral effect, by 2004, a total of 600,000 more people would have to be served in the JOBS or WORK program for a TAP program reaching all recipients. Half that number would need to be accommodated if young people were targetted.

Work expectations in the WORK program

A much more significant issue than the treatment of unsubsidized work is the level of work expectation in the WORK program. An obvious starting point to select hours as the welfare benefit divided by the minimum wage. But this simple formula is not very practical. Assume for a moment that a work-for-wages plan is chosen.

First, in low benefit states and for persons with non-welfare income, the hours of work per week can be quite low. In Mississippi, a mother with two children would be required to work just 6.5 hours per week, hardly a practical work experience. One solution is to set a minimum level of work, say 15 hours per week. If one pays the minimum wage for each hour worked, setting a minimum has the effect of increasing the amount WORK participants get relative to people on welfare.

By contrast, in high benefit states, more than 35 hours per week would be required to earn enough to equal the welfare payment. This implies that some sort of supplement must be paid to ensure people working in the WORK program garner as much income as those who are not working who have not yet hit the time limit. Full-time work implies high child care costs and difficult placements.

Count as
Food
Stamps
^

These issues are present but less obvious in a CWEP program. States still set work hours and pay the ongoing welfare benefit. Low work hours or implicit subsidies are still an issue, but what is wage and what is supplement is less obvious.

The Working Group staff and chairs recommend giving states the option of setting work hours between say 15 and 35 hours according to whatever criterion they choose, so long as the at least minimum wage is paid for each hour. If the expected earnings (less work expenses) are less than

the amount the person would have collected on welfare, then the state would have to provide a supplemental work payment. Note that in the median state (Pennsylvania), a woman would need to work 29 hours to receive as much income as on welfare. If every state chose 20 hours of work, most states would need to supplement earnings somewhat. If every state chose to assign the number of hours needed to reach the welfare benefit up to 35 hours, roughly x states would need to supplement the WORK earnings for a family of three. Allowing states the option to assign part-time work to at least some recipients and to supplement the earnings is most compatible with a plan to allow persons in unsubsidized part-time work to collect whatever supplementary benefits they qualify for. In effect this plan would allow states to choose whether TAP could be used as a work supplement for part-time workers or as a mechanism for pushing people off of welfare and into full-time work.

Cost estimates here assume that states are allowed to choose WORK hours between 15 and 35, and are required to supplement if necessary.

Discouraging extended WORK participation

WORK program jobs are not intended to substitute for or displace private sector placements. Rather they are designed to provide temporary last resort work after the time-limit has been reached when people cannot find private sector jobs. Unless long term participation is deterred, the size of the WORK program could become prohibitively large. Indeed, the ultimate goal of the WORK program is to place people into unsubsidized work.

There are various ways in which a WORK program can be designed in order to discourage or prevent extended participation. These include: limits on the duration of each individual WORK assignments, requiring frequent job search, denying the EITC to WORK program participants, and placing limits on the total time people are allowed to spend in WORK assignments.

Limits on the duration of individual WORK assignments followed by intensive job search: There is little disagreement that individual WORK placements ought to be limited in duration to perhaps 12 months. This limitation is designed to prevent participants from becoming attached to particular subsidized jobs. Of course, there will be strong encouragement and incentives for employers to retain WORK workers in unsubsidized positions at the end of 12 months. Before and after each WORK assignment, job search would be required.

Denying the EITC to WORK program participants: Perhaps the best way to ensure that people do not eschew private sector jobs for WORK positions is to make certain that any private sector position pays better than a WORK job. Though there are various mechanisms for accomplishing this, one of the easiest is to deny the EITC for money earned in the subsidized WORK assignments. Since WORK slots are already subsidized and it may not be appropriate to offer the additional subsidy of the EITC. There will be some administrative complexity to treating earnings received while a WORK participant are not treated the same as other earnings.

Current cost estimates assume a relatively modest effect of denying the EITC to WORK participants because there are no reliable estimates of how much difference it would make to deny the EITC to WORK participants. But independent economic simulation models suggest potentially large effects, for private sector jobs would then pay up to 40% more than WORK slots (the EITC is effectively a 40% pay raise for persons with two children).

Unions and many advocates for the poor argue that if persons are being expected to work in real jobs they ought to receive the same benefits as other workers. They believe that limits on the duration of WORK assignments and frequent job search will lead people to move toward private work without the need for special "penalties" for WORK workers.

Requiring acceptance of any private sector job offer: WORK program participants could be required to accept any unsubsidized job offer or be denied a WORK job for several months. After two refusals, the person might be denied a WORK indefinitely. Some advocates for the poor argue that such provisions are unnecessary, hard to administer, and potentially unfair, especially if the EITC is denied to WORK workers.

Limiting the total time people can be in the WORK program: The most controversial way to limit WORK participation is to time limit WORK, just as welfare is time-limited. Those who favor limiting WORK assignments to 2 or 3 years argue that other persons are not guaranteed that they will be provided work until they are able to find it. Theoretically persons could stay on the WORK program for many years, and such extended WORK participation is seen by some as creating a work entitlement that may become as unpopular as welfare did. Moreover, especially if full implementation is chosen the only way to guarantee WORK slots will not reach 1 million or more in a way that could be scored by CBO is to place absolute limits on the duration of WORK assignments.

The big problem with limiting the WORK durations is deciding what to do when participants hit the WORK limit. One strategy would be to end or dramatically reduce cash assistance altogether, perhaps offering some form of additional housing aid. Another plan would be to let WORK exhaustees return to cash assistance, perhaps with a lower benefit. Such a strategy would ensure that WORK slots are preserved for those first hitting the time limit. One needn't require states to limit WORK assignments, one might provide the flexibility to do so. The Republican plan does allow states to terminate or reduce public assistance after 3 years in CWEP.

Opponents argue that there is no justification for limiting participation in the WORK program, especially if WORK participants are denied the EITC. If all previous WORK limiting provisions are adopted, anyone still eligible for a WORK assignment after say 2 or 3 years will have successfully met all WORK requirements in several different placements, been through 3 or 4 intensive private sector job searches, not refused any private offer, and will be seeking a WORK assignment even though any private sector job opportunity would pay 40% more and probably offer a better future. Opponents of WORK time-limits argue that such people are most likely people who genuinely cannot find any private sector employment either because they live in a

weak labor market, or because they are not wanted for existing jobs. Thus cutting them off of WORK or sharply reducing their income would very likely cause their incomes to fall, potentially putting the family in a desperate position with a serious risk of homelessness and family crises. Virtually none of these families would have had incomes above the poverty line *before* their incomes were cut. Unless we are willing to provide cash benefits without a work expectation for people who have exhausted WORK,

Limiting WORK assignments will not have any effect on cost estimates in the five-year cost estimation window used for the budget. Since the program will take states 2 years to implement, even a strict two-year limit on JOBS followed by a strict two-year limit on WORK would not affect anyone for 6 years. And since most people do not stay on welfare continuously for 4 years, in most cases, it would not have any effect for 7 or 8 years. Eventually, however, limits on WORK could have significant effects. If people tend to remain in the WORK program as long as they stay on welfare today, a 3 year limit on WORK placements could push up to 50% of WORK participants off of support. Unfortunately we have no information on the extent to which extended stays on WORK will be a problem, nor any understanding of what the reasons for extended stays would be. The issue could be revisited in later years if extended spells in WORK become a problem.

12yr?

NOT TRUE

Addendum: Work for Wages Program Design

The following are key policy elements and the initial recommended design. Elements with a * contain controversial policy questions:

Administration: States are required to develop a WORK plan for joint approval by the Secretaries of HHS and Labor. States are required to have WORK advisory panel with membership from Labor, Business, Community Organizations. To be resolved: membership and links to PIC and WHxxs. The advisory panel must approve the WORK plan.

Funding: For each WORK placement: states would receive a flat amount for administrative costs and would be reimbursed for expected earnings (hours times wage) according to a specified set of matching rules. Federal matching rates would decline significantly the longer the person stayed in the WORK program as a further incentive for states to move people into unsubsidized work.

Block grant

good

[Additional monies or a higher match would be available to states in times of recession] ?

Placements: Placements in private sector establishments would be strongly preferred. States would be free to negotiate contracts with private companies, placement services, community organizations, state and local government agencies, and other organizations to accept or place WORK participants in exchange for payments from the government. Private sector placements would require that at least some portion of the wage be paid by the employer.

[Could talk about child care, other government programs ala HUD, etc]

National Service placements would be acceptable WORK placements. States would be given the option of contracting with the National Service Board to provide a certain number of National Service Placements. In addition, National Service workers could be used to help work with and supervise WORK participants in community service activities.

*Displacement: Language to be negotiated with National Service displacement language including labor veto over placements in existing bargaining unit positions serving as a model.

*Hours: Hours are set by the state, minimum 15 hours, maximum 35. States are free to use whatever criterion they choose in deciding upon hours so long as each hour of work is paid. Two policy decisions are implicit in this policy.

States can choose to offer anything from part-time to full-time work. States which offer jobs which pay less than what would have been received in AFDC would pay a supplement (see below). Requiring full-time work is considerably more expensive, more than doubling the cost of the WORK program and complicating the job creation problem considerably. Particularly for mothers with young children, full-time work may not be deemed appropriate or practical by the local community.

*Wages, Working Conditions, and Benefits: Wages are set at the minimum wage, but states and localities can choose to set a higher wage rate in specific cases. Wage rates are among the most contentious elements among unions. Unions would like explicit language indicating that total compensation (including any subsidized child care and other benefits) paid to the worker would have to be similar to that paid workers of comparable experience and skills in the same job. At a minimum, unions would like a provision allowing a veto over the placement of a WORK recipient into a bargaining unit unless compensation is similar. Sick rules and absentee policy would be the same that of similar workers in the establishment. States would set or negotiate such rules in cases where a new organization or establishment is being formed to employ WORK participants. Workers compensation would be paid for WORK, though who bore the costs would be negotiated. Social Security payments would be required. Unemployment insurance payments would not be required.

Supplementary Support: If expected earnings net of work expenses in the WORK program are less than would have been received by a non-working family on cash assistance, the state will pay the difference as a supplemental benefit. Note that such a supplemental benefit would never be higher than the supplement that would be paid under TAP for someone with the same earnings in a private sector job.

*Treatment of earnings from WORK program for other government benefits: For purposes of determining eligibility and benefits for other government programs, the following rules would apply:

- Food stamp, housing and other benefits would be calculated treating wages paid under the WORK program as earnings. Benefits would be calculated on a 3 month prospective basis under the assumption that the person works the full number of hours assigned. No increases in food stamps or supplementary benefits would occur if the person did not work the required hours.
- Earnings received under the WORK program would not be eligible for the EITC and would not be included in adjusted gross income for tax purposes. This provision is designed to ensure that private unsubsidized work would always be significantly more attractive than WORK. Since WORK slots are already subsidized and it may not be appropriate to offer the additional subsidy of the EITC.

Limits on the duration of each placement with frequent requirements for private job search:

WORK slots are designed to be temporary, available only when people really cannot find private sector work. Each individual placement should itself last no more than 12 months as a subsidized placement and be preceded and followed by a period of intensive private sector job search, unless the employer agrees to take the person on as an unsubsidized worker (removing the person from the WORK program).

*Required acceptance of any private sector job offer: WORK program participants could be required to accept any unsubsidized job offer or be denied a WORK job for several months. After two refusals, the person might be denied a WORK indefinitely. ?

Tracking of Placement and Retention Records: States will be asked to maintain records on the rate at which WORK workers are retained or placed by their WORK employers in unsubsidized jobs. Preference should be given to employers or placement services that perform better. At a future date, the Secretary may impose retention or placement standards.

Returns to TAP: Persons who become temporarily ill or face a new major new impediment to work may seek to be re-evaluated and placed in the JOBS-Prep program until such time as the state deems them ready to work. Persons in this status count against the limit on JOBS-Prep placements.

*Insufficient WORK slots: In cases where there are insufficient work slots, first preference goes to people just reaching the time limit. States are required to pay ongoing cash benefits to persons who are not placed in WORK programs and a reimbursed at a significantly reduced match. Reduced match is waived in periods of high local unemployment. ?

MAKING WORK PAY/CHILD CARE

A crucial component of welfare reform based on work and responsibility is making work pay. Last summer's expansion of the earned income tax credit was a crucial step toward making it possible for low wage workers to support themselves and their families above poverty. The welfare reform proposal will include provisions to make sure the EITC can be delivered on a regular, advance-payment basis. The next crucial step will come with health care reform. Many recipients are trapped on welfare by their inability to find or keep jobs with health benefits that provide the security they need.

The key missing component for making work pay is subsidized day care. In order for families, especially single parent families, to be able to work and prepare themselves for work, they need care for their children.

There are two major issues as we think about day care in the context of welfare reform:

- o How much subsidized day care should be made available, and for whom?
- o What investments and/or requirements should be put in place to improve the quality of child care and the coordination of child care programs funded under different mechanisms?

How much and for whom

There are three categories of low income families with day care needs that we need to think about:

- o on welfare, in JOBS or working (including subsidized WORK slots)
- o working, in "transition" off welfare
- o working, never on welfare or after transition.

All three categories have legitimate claims on day care subsidies. Families who are required to participate in JOBS are currently, rightly, guaranteed child care. People who are working but still on welfare have their day care subsidized through disregards from their welfare benefits and sometimes through subsidies. People who move off welfare and are working are guaranteed subsidized child care for a year in order to ease the transition. We propose to continue current guarantees of child care subsidies for these categories of recipients.

It is hard to argue, however, that low income working families who are not on welfare or transitioning off welfare are less needing or deserving of child care subsidies than people who are. It seems quite inequitable to provide child care subsidies to one family and to deny them to another whose circumstances are identical except for the fact that the first family is or has been on welfare.

The problem, of course, is the potential cost of extending subsidies to working poor families who have never been on welfare. Expanding JOBS and creating WORK programs for welfare recipients demand new resources for day care, which presumably must be provided before new claims on resources can be entertained. Current estimates of the net new federal and state costs of these new demands for day care are:

- o \$1.3 billion for those in JOBS, in WORK and working while on welfare. This estimate does not reflect our new phase in strategy, but is a pretty solid estimate of day care costs for welfare recipients at full implementation of the plan.
- o \$1.2 billion for those transitioning off welfare. This is a theoretical estimate, not a projection from current spending on transitional child care, which is very low.

(Note: All cost estimates in this section assume current costs per child, which are lower than the costs per child used by CBO; we will work with them to try to resolve differences. Cost estimates are net of current spending, except for spending on Head Start, which is not yet netted out. WE OBVIOUSLY NEED NEW COST ESTIMATES HERE THAT REFLECT OUR TARGETTING STRATEGY.)

If these costs are pretty much given, (after reestimation to reflect our targetting strategy), then the crucial issue to be decided is the size and shape of a day care subsidy program for the working poor.

would not raise uncapped financing point

Uncapped v. capped entitlement. If we genuinely want to make work pay, to make work more attractive than welfare, and to maintain equity between those who have and have not been on welfare, it is very important that day care subsidies be available for the working poor independent of their prior welfare status. The ideal approach, if resources were no constraint, would be to guarantee a day care subsidy to all working poor families who needed it, with a reasonable ceiling on cost per child. The cost of such an entitlement is estimated to be:

- o \$3.8 billion for the working poor. This estimate is

based on what seem to be quite good assumptions about workforce participation and take-up rates for subsidized child care, but it is certainly not iron clad. It is net of current spending on the small at-risk child care program and the larger Child Care and Development Block Grant, but not net of Head Start spending.

This estimate is very uncertain. Because it is based on current usage, it does not reflect potential changes in work behavior and child care choices that might result if new subsidies were available. It may, therefore, be substantially underestimated. On the other hand, experience to date suggests that actual day care usage is often much lower than planners predict; based on this experience the estimate could be too high. Because of the great uncertainty of the estimates of providing subsidized child care for the working poor, however, it is almost certainly unwise at this point to establish an uncapped entitlement which could potentially become quite expensive.

The obvious alternative is a capped entitlement, set at a level that reflects available resources, for a fixed authorization period. Capping the entitlement guarantees that spending will not exceed the specified limit. A fixed authorization period of something like seven years allows time for assessment and reconsideration of both the levels and the nature of the entitlement on the basis of experience.

*Several
problems*

Capped entitlement; state discretion. The most obvious way of structuring a capped entitlement to day care for the working poor is to follow the precedent of two current programs, the \$900 million discretionary Child Care and Development Block Grant, and the \$300 million capped entitlement program for those "at-risk" of AFDC receipt. Both these programs allot available funds to the states and allow them to use the funds for services to families as they see fit. There are two problems with this approach, however. One problem arises because the funds are almost inevitably less than the demand and criteria are hard to set. Day care subsidies tend, therefore, to be distributed inequitably, often on the basis of a first come first served strategy that cannot address relative need. A second problem arises if capped entitlement funds must be matched by states in a context where there is no individual entitlement or expectation, that pushes fiscally-pressed states to actually provide the services. This has been the experience in many states with even the very small (\$300 million) at-risk capped entitlement.

Capped entitlement; targetted. An alternative would be a targetted capped entitlement. Because it would be capped, spending levels would be controlled. But if it were targetted at a population subgroup, and set at a level that was estimated to be sufficient to serve that sub-group, both of the problems of

the normal capped entitlement could be alleviated. The question, therefore, is whether there is a sub-group that could be targetted that makes sense programatically and that could be served with a reasonable resource allocation.

An intriguing possibility is to target young families, along the same lines and for the same reasons that we are targetting young AFDC applicants and recipients. This strategy has many attractive features. It can be justified on the same grounds that we justify the focus in the transitional program, of investing in young families. It also neatly solves the problem of equity between welfare and non-welfare recipients. Everyone born after a certain date (we suggest 1970) receives services in the welfare program and day care subsidies if they are working, whether or not they are or have been on welfare.

This targetting also has the potential for coming in at reasonable cost. About a third of low income women with children under 6 are themselves under 25. This suggests to me that no more than a third of day care usage would be by families headed by someone under 25. If we put \$1.3 billion new money into working poor day care, we could probably serve all young working poor families. WE OBVIOUSLY NEED SOME REAL COST ESTIMATES HERE. Since take up would be gradual, a phase in of the program could easily come in under \$5 billion over 5 years. If we followed the cohort principle and increased the age of eligibility over time, costs would grow, though very gradually, and they would still be quite reasonable at the end of a seven year authorization period. Costs and usage could be assessed at the end of the authorization period in order to decide whether the program should continue to expand and whether it should continue to target by cohort or perhaps by age, income or other criteria.

Why reward young & for having young children?
Age of child
3-5, need that

Quality issues

The issue of quality v. quantity in day care has a long and rancorous history. At one extreme are those who argue that child care subsidies should only be available for care that meets federally defined quality standards, that professionalized group care should be preferred over informal care, and that rates should be set in such a way that expensive care is not only eligible for subsidy but is encouraged. At the other extreme are those who argue that day care subsidies should be able to be used for any kind of care that the parent chooses, with a strong preference for inexpensive and informal care. The quality issue is often illustrated by stories and color glossy photos of truly dreadful child care settings, of which there are of course some. The choice issue is often illustrated by stories of grandmothers who could be forbidden to care for children and of costs that might approach \$10,000/year /child.

Head Start. Luckily, some agreements and accommodations have been emerging that can guide an approach to child care. Nearly everyone agrees that Head Start, with its high quality comprehensive approach to child development, should be the preferred service for as many three and four year olds as possible, with supplementary other child care as needed. This administration's commitment to expanding Head Start, and to developing more full-day and full-year Head Start slots, will ensure that as many as **NEED AN ESTIMATE HERE** of low income children who need day care will be served by Head Start.

Parental choice and state oversight. Nearly everyone also agrees that for other child care arrangements, parents should have nearly unlimited choice, constrained only by state regulations and by minimal health and safety standards. This is the approach incorporated into the Child Care and Development Block Grant, which requires that parents have maximum feasible choice and that the state provide mechanisms for providing customer education and for dealing with parent complaints. It also requires that all providers who receive subsidies be "legal" under state standards--either licensed, regulated or exempt from regulation. Providers that are exempt from state regulatory standards (all states exempt baby-sitting and small in-home care arrangements for two or three children and some states exempt sectarian and other providers of more formal care) are required by the CCDBG to register with the state and to meet state defined requirements for the prevention and control of infectious diseases, building and physical premise safety and minimum health and safety training of providers. We propose extending this sensible approach to all child care providers who receive any federal subsidy.

sounds scary

Investments in quality and supply. A third point of general agreement is that some funds ought to be available for investments in child care quality and supply. Again, the CCDBG sets a good precedent. It requires that 5 percent of the funds be set aside for the following uses: resource and referral programs; grants or loans to assist in meeting state and local standards; monitoring of compliance with licensing and regulatory requirements; training and technical assistance to providers; and enhancements to compensation for providers. We propose setting aside a portion of all child care funds for these same purposes. We also propose to ensure that training and technical assistance, is available to enable welfare recipients to become Head Start and day care providers. These programs should be an important source of private sector jobs and of WORK program slots for people moving off welfare.

fraction of 570

Program coordination. Finally, there is agreement that day care programs and funding streams be designed in ways that are easy to administer and appear "seamless" to parents. This can be achieved both through program consolidations, when possible, and

through coordination of rules, procedures and automated systems. Because it is not fiscally possible to consolidate day care programs on the discretionary side, and since it is probably not politically possible to consolidate day care programs on the entitlement side, full consolidation seems unachievable. Nonetheless, full coordination ought to be an important goal.

There are obviously a number of details that need to be worked out in the process of drafting legislative specifications. If the basic issues on the scale of the program are decided and the basic approach to quality agreed on, we can proceed to work through the specifics.

DRAFT

2/22

**PROMOTING PARENTAL RESPONSIBILITY
AND PREVENTING TEEN PREGNANCY**

The best way to end welfare dependency is to eliminate the need for welfare in the first place. High rates of female-headed family formation and the startlingly high poverty rates of those families lie behind our large and growing welfare rolls. We are approaching the point when one out of every three babies in America will be born to an unwed mother, the majority of whom will receive welfare at some point. Births to school-age unwed mothers are a special and enduring tragedy. Too many children are not receiving financial support from both their parents. This too contributes to rates of welfare receipt that are much higher than we would like.

The society, and its welfare system, must find ways to send the signal that men and women should not become parents until they are able to nurture and support their children. If they do become parents, their responsibilities to their children should be articulated and enforced. Accomplishing this goal requires emphasizing both responsibilities and opportunities; not only changing the welfare system, but also involving every sector of our society in this effort.

The basic dilemma in designing a prevention and parental responsibility strategy is the lack of fit between the magnitude of the problem and the dearth of demonstrably effective responses for dealing with it. Frustration over the dramatic increases in out-of-wedlock births has led some commentators to advocate strongly punitive solutions, the most extreme of which is cutting off welfare for unwed mothers, that would have disastrous effects on children, doom the society to making massive investments in foster care and orphanages, and almost certainly increase the already too high number of abortions. At the other end of the spectrum, some advocate massive spending on comprehensive services for high risk youth, despite the discouraging evidence on the effects on teen pregnancy from social services programs.

We believe that the best approach to prevention is a strategy that focuses on parental responsibility and provides opportunities for exercising it, supplemented by family planning efforts and demonstrations of services programs aimed at preventing teen pregnancy. We believe that very clear and consistent messages about parenthood bringing with it serious responsibilities that will be enforced hold the best chance of encouraging young people to think about the consequences of their actions and defer parenthood. A boy who sees his brother required to pay 17 percent of his income in child support for 18 years may think twice about becoming a father. A girl who knows that young motherhood will not relieve her of obligations to live at home and to go to school may come to prefer other opportunities. We hope and expect but we cannot prove that a system that strongly reinforces the

responsibilities of both parents will prevent too-early parenthood. We know that parental financial support can help keep families off welfare. And that reinforcing parental responsibility is the right thing to do.

Along with responsibility, though, we must support opportunity. Telling young people to be responsible without providing them the means to exercise responsibility and the hope that playing by the rules will lead to a better life is outrageously hypocritical.

Hash

Our approach has five components, each of which raises some serious issues for decision:

- o child support enforcement. The major issues to be resolved here have to do with demonstrations of child support assurance and of programs for custodial parents.
- o responsibilities of minor mothers. The major issues here have to do with sanctioning options.
- o responsible family planning. The major issues here have to do with the scale and scope of the effort, and with the desirability of a family cap.
- o demonstrations of prevention approaches. The major issue here has to do with the scope of an approach to teen pregnancy prevention.
- o supporting two-parent families. The major issue here is balancing cost and equity.

CHILD SUPPORT ENFORCEMENT

The responsibilities of both parents are emphasized in an approach to child support enforcement that holds both parents responsible for supporting children. It makes clear to fathers, as well as to mothers, that parenthood brings with it clear obligations, and that these obligations will be enforced, with serious and predictable consequences for those who become parents. The child support enforcement reform proposal has three major elements:

- ESTABLISH AWARDS IN EVERY CASE
- ENSURE FAIR AWARD LEVELS
- COLLECT AWARDS THAT ARE OWED

Establish Awards in Every Case

Our goal is to establish paternity for all out-of-wedlock births. This will be accomplished by offering states performance based incentives for all paternities established, whether or not the

mother is currently on welfare; expanding the in-hospital paternity establishment provisions enacted as part of OBRA 1993; and expanding education and outreach efforts to stress that having a child is a two parent responsibility.

Under the proposal, paternity establishment requirements are strengthened significantly. First, the responsibility for paternity establishment will be clearly delineated. Mothers will be required to cooperate in paternity establishment as a condition of receipt of welfare under a very strict cooperation requirement. This requires the mother to provide both the name of the father and information sufficient to verify the identity of the person named. (Good cause exceptions would be granted only under narrow circumstances.) In turn, the states will have a clear responsibility to establish paternity when the mother has fully cooperated. We propose that the states are be held fully responsible for the cost of benefits paid to mothers who have cooperated fully but for whom paternity has not been established within a stricly defined time frame.

The proposal also streamlines the legal process for establishing paternity, enabling states to establish paternity much more quickly. This will be accomplished through an "up front" cooperation requirement (prior to receipt of welfare benefits), clear responsibility for making the cooperation and sanctioning determination (IV-D, not IV-A), and streamlining the legal process.

While the proposal is very tough and strict in its approach to paternity establishment, it is balanced and sensible. Applicants must meet the new stricter cooperation requirement prior to the receipt of benefits, but when the mother has fully cooperated and provided complete information, the burden shifts to the state to establish paternity. In contrast, the present Republican proposal requires that the mother must have paternity established prior to receipt of benefits. Thus the mother who has done everything that can be expected of her is unfairly penalized for the state's inaction or inefficiency in getting paternity established. She could be denied benefits for a long time through no fault of her own - in some states it is presently not uncommon for the state agency to take two or more years to establish paternity.

Ensure Fair Award Levels

The proposal will establish a National Guidelines Commission to study and report to Congress on the adequacy of award levels, the variability of award levels and the desirability of national guidelines.

The proposal will also require the universal, periodic updating of awards so that all awards will closely reflect the current ability of the noncustodial parent to pay support. States must establish simplified administrative procedures to update the awards.

In addition, present child support distribution rules will be changed to strengthen families and assist families making the transition from welfare to work.

Collect Awards that are Owed

The proposal seeks to develop a child support system for the 21st century. All states must maintain a central registry and centralized collection and disbursement capability. States must be able to monitor support payments and take appropriate enforcement actions immediately when support payments are missed. Certain routine enforcement remedies will be imposed administratively at the state level, thus taking advantage of computers and automation to handle these routine enforcement measures using mass case processing techniques. A higher federal match rate will be provided to implement new technologies.

To improve collections in interstate cases, a Federal Child Support Enforcement Clearinghouse will be created to track parents across state lines. This will include a National Directory of New Hires so that wage withholding could be instituted in appropriate cases from the first paycheck. The adoption of the Uniform Interstate Family Support Act (UIFSA) and other measures will make procedures in interstate cases more routine. In addition, the IRS role in full collections, tax refund offsets, and access to IRS income and asset information will be expanded.

States will also be provided with the tools they need, such as license revocations and access to other data bases, so that the child support enforcement system could crack down on those noncustodial parents who otherwise find ways to avoid payment of their support obligations. For instance, frequent and routine matches will be made against appropriate data bases to find location, asset, and income information on those who try to hide in order to escape payment.

The funding and incentive structure will be changed in order to provide the necessary resources for states to run good programs and it will employ performance based incentives to reward states for good performance.

Issue: Child Support Insurance

Even with the provisions above, enforcement of child support is likely to be uneven for some time to come. Moreover, there will be many cases where the noncustodial parent cannot be expected to contribute much because of low pay or unemployment. An important question is whether children in single parent families should be provided some minimum level of support even when the state fails to collect it. The problem is especially acute for noncustodial parents who are not on AFDC and are trying to make ends meet with a combination of work and child support.

Several states think it's out.

(A number of states have expressed a strong interest in implementing a Child Support Assurance program.) Under such a program, an improved child support enforcement system would be coupled with the payment of a minimum insured child support payment and would also include additional work requirements for non-custodial parents. Under the proposal, up to six state demonstration projects of Child Support Assurance are authorized.

CAVEAT

Issue: Enhancing Responsibility and Opportunity for Noncustodial Parents

and respons-

Under the present system, the needs and concerns of noncustodial parents are often ignored. The system needs to focus more attention on this population and send the message that "fathers matter". We ought to encourage noncustodial parents to remain involved in their children's lives, not drive them further away. The well-being of children, who only live with one parent, would be enhanced if both emotional and financial support were provided by both of their parents.

Ultimately, the system's expectations of mothers and fathers should be parallel. Whatever is expected of the mother should be expected of the father. And whatever education and training opportunities are provided to custodial parents, similar opportunities should be available to noncustodial parents who pay their child support and remain involved. If they can improve their earnings capacity and maintain relationships with their children, they will be a source of both financial and emotional support.

Much needs to be learned, partly because we have focused less attention on this population in the past and we know less about what types of programs would work. New programs should be modest and flexible, growing only as evaluation findings begin to identify the most effective strategies. We propose the following:

- Grants to states for programs which reinforce the need for children to have continued access to and visitation by both parents. These programs include mediation (both voluntary and mandatory), counseling, education, development of parenting plans, visitation enforcement including monitoring, supervision and neutral drop off and pick up and development of guidelines for visitation and alternative custody arrangements.
- Expanded authority and additional funding for the Commission on Child and Family Welfare to study access and visitation issues.
- A portion of JOBS and WORK program funding will be reserved for training, work readiness, educational remediation and mandatory work programs for noncustodial parents of AFDC recipient children who can't pay child support due to

unemployment, underemployment or other employability problems.

- State option for mandatory work programs for non-custodial parents. States would have considerable flexibility to design their own programs, but the focus would be on CWEP, not on work for wages.
- Demonstration grants to states and/or community based organization to develop and implement non-custodial parent (fathers) components for existing programs for high risk families (e.g. Head Start, Healthy Start, Family Preservation, Teen Pregnancy and Prevention) to promote responsible parenting, including the importance of paternity establishment and economic security for children and the development of parenting skills.

NEED COSTS HERE. DO WE RAISE AN ISSUE OF HOW MUCH TO SPEND?

RESPONSIBILITIES OF MINOR MOTHERS

The program of transitional assistance followed by work that is outlined later in this document focuses on the responsibilities of custodial parents, especially young parents, to work and prepare for work as a condition of receiving benefits. All young single parents seeking government assistance will be expected to prepare for and go to work. Like the child support provisions, the obligations inherent in the program send a clear message about the consequences of parenthood, ensuring that welfare receipt does not release either parent from their responsibilities to work and support their children.

Minor mothers, those under 18, have special needs and deserve special consideration. This is a relatively small part of the caseload at any point in time, but is a disproportionate contributor to long-term dependency. We have four proposals that affect this group.

Minor Mothers Live at Home. We propose requiring that minor parents live in a household with a responsible adult, preferably a parent (with certain exceptions such as when the minor parent is married or if there is a danger of abuse to the minor parent). Parental support could then be included in determining cash assistance eligibility. Current AFDC rules permit minor mothers to be "adult caretakers" of their own children. Under current law, States do have the option of requiring minor mothers to reside in their parents' household (with certain exceptions), but only five have included this in their State plan. This proposal would make that option a requirement for all States. We believe that having a child does not change the fact that minor mothers need nurturing and supervision themselves. The Senate Republicans have a similar proposal, however, they also give States the option of providing no AFDC to minors. The House

Republicans make minor parents ineligible for AFDC.

Mentoring by Older Welfare Mothers. We propose to allow States to utilize older welfare mothers to mentor at-risk teenagers as part of their community service assignment. This model could be especially effective in reaching younger recipients because of the credibility, relevance and personal experience of older-welfare recipients who were once teen mothers themselves. Training and experience might be offered to the most promising candidates for mentoring who are currently receiving welfare benefits.

Targeting Teen Parents. We will ensure that every teenage parent or pregnant teenager who is on or applies for welfare enrolls in the JOBS program, finishes their education, and is put on a track to self-sufficiency. Every teenage parent (male or female, case head or not, any age) will be mandated to participate in JOBS from the moment the pregnancy or paternity is established. All JOBS rules pertaining to social contracts, employability plans, and participation will apply to teen parents. We propose to require case management for these teens.

State options for behavioral incentives. We propose to give States the option to use monetary incentives combined with sanctions as inducements to remain in school or GED class. They may also use incentives and sanctions to encourage appropriate parenting. Regarding school attendance, both Republican plans include sanctions for failure to attend school; the Senate Republicans also allow States to reward those with good school attendance. DO WE WANT TO PUT IN THESE COMPARISONS AS A ROUTINE PART OF OUR PRESENTATION? IF SO, DO WE ALSO WANT TO MENTION THE GROUPS THAT HATE THEM?

NO

ENCOURAGEMENTS FOR RESPONSIBLE FAMILY PLANNING

Responsible parenting requires access to information and services designed to discourage early sexual behavior and to prevent pregnancy. We propose:

- o A national campaign against teen pregnancy. The campaign would set national prevention goals and challenge the states to come up with school or community based plans to meet those goals.
- o Increased funding for family planning services through Title X. A request for increased funding was included in the FY1995 budget submission.

Issue: Family Caps

The issue is whether states should be allowed or required to limit benefit increases when additional children are conceived by parents already on AFDC if the State ensures that parents have

access to family planning services. Non-welfare working families do not receive a pay raise when they have an additional child, even though the tax deduction and the EITC may increase (The tax deduction and EITC increase for the second child is worth \$1241 at the \$20,000 income level; the tax deduction is worth \$686 at \$60,000.) However, families on welfare receive additional support (\$684 in AFDC per year for the second child in the median state; \$1584 with food stamps) because their AFDC benefits increase automatically to include the needs of an additional child. This option would reinforce parental responsibility by keeping AFDC (but not food stamps) benefits constant when a child is conceived while the parent is on welfare. The message of responsibility would be further strengthened by permitting the family to earn more or receive more in child support without penalty as a substitute for the automatic AFDC benefit increase under current law. Both Republican plans have a provision to not pay additional AFDC for more children. Under the House Republican plan, States must pass legislation in order to pay additional benefits to children.

WE NEED A COST ESTIMATE FOR THE SERVICES PART AND A SAVINGS ESTIMATE FOR THE FAMILY CAP.

DEMONSTRATIONS OF PREVENTION APPROACHES THAT ENGAGE EVERY SECTOR OF THE SOCIETY IN PROMOTING RESPONSIBILITY

Solely changing the welfare system is insufficient as a prevention strategy. For the most part, the disturbing social trends that lead to welfare dependency are not caused by the welfare system but reflect a larger shift in societal mores and values. In very poor neighborhoods, teen pregnancy appears to part of a more general pattern of high risk behavior among youth.

The basic issue in designing a broader prevention approach is to balance the magnitude of the problem with the paucity of proven approaches for dealing with it. Because the problem is so compelling, it is tempting to propose substantial increases in spending on services and approaches to deal with it. Unfortunately, although there are numerous anecdotal reports on effective programs, none of the rigorous evaluations of service-based attempts to prevent teen pregnancy has shown demonstrated success. (I MEAN TO EXCLUDE FAMILY PLANNING. DOES THIS MAKE THE STATEMENT TRUE?)

We believe that large scale spending on unproven approaches would be irresponsible. There are two alternative approaches to a more modest approach:

- o A capped entitlement or block grant allocated to the states for demonstrations that the states design and evaluated

- o A strategic demonstration approach shaped at the

national level.

We believe that, because of the paucity of knowledge, an approach directed at the national level will be more productive. ~~Such an approach would include the following.~~

National Campaigns. We propose that the President lead a national campaign against teen pregnancy, which involves the media, community organizations, churches and others in a concerted effort to instill responsibility and shape behavior. We also recommend working with the Corporation on National and Community Service to extend a wide variety of prevention-oriented programs employing volunteers--rather than paid employees--at the neighborhood and community level.

Demonstrations. Early childbearing and other problem behaviors are interrelated and strongly influenced by the general life-experience associated with poverty. Changing the circumstances in which people live and consequently how they view themselves is needed to affect the decisions young people make in regard to their lives. To maximize effectiveness, any effort must address a wide spectrum of areas including, among others, economic opportunity, safety, health and education. Particular emphasis must be paid to the prevention of adolescent pregnancy, through measures which include sex education, abstinence education, life skills education and contraceptive services. These interventions show great promise, but those efforts that combine education and services show the most promise.

Comprehensive demonstration grants are proposed that would seek to change the environment in which youth live. These grants must be of sufficient size or "critical mass" to significantly improve the day to day experiences, decisions and behaviors of youth. They would seek to change neighborhoods as well as directly support youth and families, particularly adolescent pregnancy prevention. While models exist for this type of comprehensive effort, few have been rigorously evaluated. All demonstrations will include a strong evaluation component.

SUPPORTING TWO-PARENT FAMILIES

The Reinventing Government section includes provisions to end the current bias in the welfare system against two-parent families by: 1) eliminating the more stringent rules for two-parent families that exist in current law; and 2) allowing States to provide benefits to two-parent families continuously, instead of limiting provision of such benefits to 6 months.

INTRO

A. Process

WRWG - June, 5 hearings, 100s of recs.

2 formal mtgs - Nov 20 - Feb 26

Cabinet mtg - last Thurs., another tomorrow

Decisions to BC later this month

B. Legislation - no deadline

- working hard as we can; send up when we're ready

C. Peg

Everyone does something - from Day One
Prevent people from going on
i.e. 1st place
Spending formula from

Virginia - two years + work
150,000 jobs/month

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WELFARE REFORM ISSUE PAPER

Prepared for February 26, 1994
Meeting of the Working Group on
Welfare Reform, Family Support and Independence

WELFARE REFORM ISSUE PAPER

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GLOSSARY

AFDC -- Aid to Families with Dependent Children program: The primary welfare program, which provides cash assistance to needy families with dependent children that have been deprived of parental support.

CSE -- Child Support Enforcement program: This program provides Federal matching funds to enforce the support obligations of absent parents to their children and spouse or former spouse, to locate absent parents, and to establish paternity and support orders. States must provide child support enforcement services to persons receiving AFDC, Medicaid, and Title IV-E foster care benefits.

CSEA -- Child Support Enforcement and Assurance: A system designed to guarantee that custodial parents get some assured level of child support, even when the absent parent fails to pay.

CWEP -- Community Work Experience Program: This is a JOBS program activity which States can, but are not required to, make available to JOBS participants. CWEP provides experience and training for individuals not otherwise able to obtain employment. The required number of CWEP hours can be no greater than the AFDC benefit divided by the higher of Federal or State minimum wage.

EITC -- Earned Income Tax Credit program: A tax credit that targets tax relief to working low-income taxpayers with children, to provide relief from the Social Security payroll tax (FICA) and to improve incentives to work.

FSP -- Food Stamp Program: A national program designed primarily to increase the food purchasing power of eligible low-income households to a point where they can buy a nutritionally adequate, low-cost diet. Eligible households receive food stamp benefits on a monthly basis in the form of coupons that are accepted at most retail grocery stores.

JOBS -- Job Opportunities and Basic Skills Training Program: The work, education, and training program for AFDC recipients. In a greatly expanded form, this program would be the central focus of the Administration's reformed system.

JOBS-Prep: The program proposed for persons not yet able to work or enter JOBS. Persons in this program, including mothers with very young children, will be expected to do something to contribute to themselves and their community. While in JOBS-Prep, they would not be subject to the time limit.

JTPA -- Job Training Partnership Act program: The goal of this Department of Labor block grant program is to train or retrain and place eligible individuals in permanent, unsubsidized employment, preferably in the private sector. Eligible individuals are primarily economically disadvantaged individuals.

Healthy Start: Healthy Start is a demonstration project designed to reduce infant mortality by 50% over 5 years in 15 U.S. communities with extremely high infant mortality rates. Medical and social service providers within the targeted communities work collaboratively to develop new and innovative service delivery systems to meet the needs of pregnant women and infants.

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PIC – Private Industry Councils: These Councils are composed of business leaders from the private sector and representatives of the public sector and unions. Their role is to guide and oversee the direction of JTPA employment and training programs. PICs are responsible for providing policy guidance in partnership with local governments.

School-to-Work Initiative: The pending School-to-Work Opportunities Act of 1993 would provide States and local communities with seed money to develop and implement systems to help youth make an effective transition from school to career-oriented work. The program would be designed and administered jointly by the Departments of Education and Labor, and would fund work-based learning, school-based learning, and connecting activities.

Title X – Family Planning Services: These grants are provided to State agencies for family planning services including contraceptive services, infertility services and special services to adolescents.

Transitional Assistance Program: The Administration's proposed two-year limit cash assistance program for needy families with dependent children.

UIFSA – Uniform Interstate Family Support Act: A model law which, if adopted, would make State laws uniform and simplify the processing of child support actions which involve parents who live in different States.

WIB – Workforce Investment Board: A body to be created at the Federal level which would be responsible for serving as a "Board of Directors" for workforce development programs in a labor market. The Workforce Investment Board would provide policy oversight and strategic planning for Department of Labor-funded and other training programs in an area. The majority of the Workforce Investment Board would be composed of employers, but the boards would also be required to have labor, public sector and community representation. The WIB is intended to subsume the Private Industry Council at the local level (although a PIC that met the criteria could become the Workforce Investment Board).

WORK: The Administration's proposed publicly-subsidized work program for persons who have exhausted their two-year time limit without obtaining an unsubsidized private sector job.

INTRODUCTION

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 system pays cash when people lack adequate means to provide for their families. 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 requires changing 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, to those who are past the time limit, 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 employment services.
- Training, education and employment 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 JTPA, School-to-Work and vocational 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 will be granted in a limited number of cases.
- 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,

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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 persons 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.

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 a systemic change in the culture of welfare offices with an emphasis on work and performance.

ISSUES TO BE RESOLVED

This paper lays out the major unresolved 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.)

There are four particularly significant issues that need to be resolved:

- **The scale and phase-in of the reformed welfare system--Should we seek to bring in all persons quickly, or should we initially target our resources to sub-groups, such as new applicants or the youngest third of the caseload?**
- **The structure and requirements of the WORK program for people who have exceeded the time limit--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? How many hours of work should be required? What methods should we use to minimize long-term participation in this work program?**
- **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?**
- **Financing--What measures should be used to finance the welfare reform package? How should the burden be shared between States and the Federal government?**

Financing is not discussed in this paper.

To provide a sense of the scale of a program and the cost of particular elements, we have created a hypothetical proposal. The actual cost of the program will differ depending on what decisions are made about the issues identified above. In the remainder of the document, we will refer to this hypothetical baseline 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
PARENTAL RESPONSIBILITY						
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)
Child Support Enforcement						
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
SUBTOTAL, CSE	30	85	130	255	80	580
TRANSITIONAL ASSISTANCE FOLLOWED BY WORK						
JOBS-Prep	0	15	50	60	70	195
Additional 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)	(80)	(170)
SUBTOTAL, JOBS/WORK	0	515	1,820	2,280	3,150	7,765
MAKING WORK PAY						
Working Poor Child Care	0	500	1,000	1,500	2,000	5,000
Advance EITC	0	0	0	0	0	0
GRAND TOTAL	(5)	1,005	3,280	4,575	6,025	14,880

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

BACKGROUND INFORMATION ON THE AFDC PROGRAM

Before turning to the key policy issues, we provide brief background information regarding the current AFDC program.

AFDC Program under Current Law

The Aid to Families with Dependent Children (AFDC) program was enacted as Title IV of the Social Security Act of 1935. Its primary goal is to provide cash assistance to children in need of economic support due to the death, continued absence or incapacity of the primary wage earner (typically the child's father). AFDC provided benefits to a monthly average of 4.8 million families (13.6 million persons) in fiscal year 1992. This includes 322,000 families in the AFDC-Unemployed Parents (AFDC-UP) program. The total AFDC caseload represents 5.0 percent of the total resident U.S. population. Two-thirds (9.2 million) of AFDC recipients each month are children.

AFDC benefits totaled \$22.2 billion in 1992. Total AFDC monthly benefits averaged \$388 per month, per family, but benefits vary widely across States. In January 1993, the maximum monthly AFDC benefit for a family of three with no countable income ranged from \$120 in Mississippi to \$923 in Alaska. In real dollars, the average monthly benefit per AFDC family has declined from \$644 in 1970 to \$388 in 1992, a 40 percent reduction, attributable mostly to inflation rather than reductions in nominal benefit levels. The Federal government's share of total benefit expenditures was \$12.2 billion in 1992, and \$10.0 billion was paid by the States. Total administrative costs, shared equally between the Federal government and the States, were \$2.7 billion in 1992. Overall, the Federal government pays roughly 55 percent of total AFDC benefit costs and 50 percent of administrative costs.

The Family Support Act of 1988 created the Job Opportunities and Basic Skills (JOBS) program to provide education, training, and employment-related services to AFDC recipients to promote self-sufficiency. To the extent resources are available, all non-exempt recipients are required to participate in JOBS activities. Exemption categories include most children, those who are employed 30 or more hours per week, those who are ill, incapacitated, or of advanced age, women in their second trimester of pregnancy, and those who are caring for a young child, or caring for an ill or incapacitated family member. Federal matching to States for JOBS program costs is available as a capped entitlement limited to \$1.1 billion in fiscal year 1994. The matching rates vary between 50 percent and 90 percent, depending on the type of costs being reimbursed.

Most AFDC families are eligible for and participate in the food stamp program, which provides an important in-kind supplement to cash assistance. While participation rates varied among States, 86.2 percent of AFDC households also received food stamp benefits in fiscal year 1992. AFDC benefits are counted when determining food stamp benefit amounts; one dollar of AFDC reduces food stamps by 30 cents. Additionally, all AFDC families are eligible for Medicaid coverage, and under the provisions of the Family Support Act, all families who leave AFDC due to increased earnings or hours of work are eligible for one year of transitional Medicaid coverage.

Welfare Dynamics and Characteristics

It is extremely common for women to leave the welfare rolls very soon after they begin a spell of welfare receipt. More than half of all welfare recipients leave the welfare rolls within their first year of welfare receipt; by the end of two years the percentage who have left increases to 70 percent. By the end of five years, about 90 percent have left the welfare rolls. However, many of those who have left welfare cycle back on. Within the first year after leaving the welfare rolls, 45 percent return; almost two-thirds return by the end of three years. By the end of seven years, more than three-quarters of those who have left the welfare system have returned at some point. Almost half of all spells of welfare end when a recipient becomes employed; other reasons for leaving AFDC include marriage and children growing up. About 40 percent of women who ever use welfare are short-term users, about one-third are episodic users and one-quarter are long-term users. Using data from 1968 through 1989, the average time spent on welfare was 6.2 years.

While the number of AFDC recipients remained relatively constant between 1975 and 1988, AFDC caseloads rose sharply during the early 1990s. The monthly average of 13.6 million recipients in 1992 represented a 2.1 million increase since 1990. According to a recent Congressional Budget Office study, the primary reasons for the sharp increase in the AFDC caseload between late 1989 and 1992 are the growth in the number of female-headed families, especially those headed by women who never married, the recession and the weak economy.

The vast majority of AFDC families are headed by a single female. Among single female-headed AFDC households, the proportion of AFDC mothers who have never been married has significantly increased, although the proportion of divorced AFDC mothers still remains sizable. The AFDC caseload is racially and ethnically diverse. Thirty-nine percent of AFDC family caseheads are African-American, 38.1 percent are white, 17.4 percent are Hispanic, 2.8 percent are Asian, 1.3 percent are Native American, and 1.6 percent are of another race or ethnicity.

The average AFDC family is small. In 1991, 72.3 percent of AFDC families had 2 or fewer children, and 42.2 percent had only one child. Only a small proportion of AFDC families -- 10.1 percent -- have four or more children. The average family size of an AFDC family has also become smaller over time, from 4.0 in 1960 to 2.9 in 1992. Over two-thirds of AFDC recipients are children. In 1991, almost one-half of AFDC children were under six years of age; 24.8 percent were under age 3, and 21.4 percent were between ages 3 and 5. One-third (32.6) of AFDC children were aged 6 to 11, and 21.4 percent were age 12 or over.

Over half of AFDC mothers began their receipt of AFDC as teenagers; however, AFDC cases with teenage mothers (i.e., under age 20) make up only a small fraction of the AFDC caseload at any one time. In 1992, 8.1 percent of the AFDC caseload was headed by a teenage mother. Almost half of AFDC mothers (47.2 percent) were in their twenties, a third (32.6 percent) were in their thirties, and 12.1 percent were in their forties.

TRANSITIONAL ASSISTANCE FOLLOWED BY WORK

Perhaps the most critical and difficult goal of welfare reform is to reshape the very mission of the current support system from one focused on writing checks to one focused on work, opportunity, and responsibility. The proposal calls for replacing the AFDC program with a transitional assistance program, to be followed by work. The new program includes four key elements: full participation, education and training, time limits, and work.

KEY ELEMENTS

- **Full Participation.** Everyone who wishes to receive cash support would be expected to do something to help themselves and their community. Recipients would sign a personal responsibility contract indicating exactly what was expected of them and the government. Most would go immediately into the JOBS program. A limited number of persons who are not yet in a position to work or train (because of disability or the need to care for an infant or disabled child) would be assigned to a JOBS-Prep program until they are ready for the time-limited JOBS program. Everyone has something to contribute. Everyone has a responsibility to move toward work and independence.
- **Training, Education, and Placement (the JOBS program).** The core of the transitional support program would be an expanded and improved JOBS program, which was established by the Family Support Act of 1988 and provides training, education, and job placement services to AFDC recipients. The JOBS program would be revamped. Every aspect of the new program would emphasize paid work. Recipients and agency workers will, as under current law, design an employability plan. One option would be to require all persons applying for assistance to engage in supervised job search from the date of application. For those who need it, the JOBS program will help recipients gain access to the education and training services they need to find an appropriate job. Recipients who willfully fail to comply with their JOBS program employability plan will be sanctioned. The new effort will seek close coordination with the JTPA program and other mainstream training programs and educational resources. Central to this welfare reform effort is recognition of the need to support workers who have recently left welfare to help them keep their jobs.
- **Time Limits.** Persons able to work would generally be limited to two years of cash assistance. While two years would be the maximum period for the receipt of cash aid by people able to work, the goal would be to place people in private sector jobs long before the end of the two-year period. In a very limited number of cases, extensions of the time limit would be granted for completion of an educational or training program or in unusual circumstances. The time limit would be a lifetime limit, but persons who leave welfare could potentially earn back time on assistance for time spent off welfare.
- **Work (the WORK program).** The new effort would be designed to help as many people as possible find employment before reaching the two-year time limit. Those persons who are not able to find employment within two years would be required to take a job in the WORK program. WORK program jobs would include subsidized private sector jobs, as well as positions with local not-for-profit organizations and public sector positions. The positions are intended to be short-term, last-resort jobs, designed neither to displace existing workers, nor to serve

as substitutes for unsubsidized private sector employment. The primary emphasis of the WORK program will be on securing private sector employment.

Key elements of the new program are described in greater detail in addenda on JOBS and WORK at the end of this section.

Changing what happens in welfare offices will require significant changes in what is measured and rewarded. The Federal government will create strong financial incentives linked to long-term job placement and will seek to minimize the number of people who reach the two-year limit. Ultimately the best time-limited welfare system is one in which nobody hits the limit because everyone is working before that point.

KEY QUESTIONS

Six key questions need to be addressed in designing the program of transitional assistance followed by work.

- Focus and phase-in. How quickly should the reforms be phased in and who should be targeted initially?
- JOBS-Prep rules. Who should be assigned to the JOBS-Prep program because they are not able to work or are needed at home? How many persons should States be allowed to place in the JOBS-Prep program?
- JOBS extensions. Who should be granted extensions of the two-year time limit? What limits, if any, should be put on the number of extensions allowed?
- Work-for-Wages versus Work-for-Welfare. Should States be required to provide jobs, paying wages, to those in the WORK program? Would States be allowed to use CWEP placements for all or part of the WORK slots?
- Part-time versus full-time work expectations. Should persons working part-time while on welfare be subject to time limits? How many hours should WORK participants be required to work? Should States be allowed or required to supplement WORK earnings in a work-for-wages program?
- Discouraging extended WORK participation. What can be done to keep the duration of WORK participation short and to move people into unsubsidized work? Should the EITC be denied to WORK program participants? Should any particular WORK placement be limited to 12 months? Should the total time people are allowed to spend in the WORK program be limited?

Focus and Phase-In

The ultimate distribution of persons among the various elements of the program (JOBS-Prep, JOBS and WORK) depends on policy decisions. As a starting point, consider what would happen if we chose to undertake the extremely ambitious task of beginning the program full-scale in 1997. Most

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States will need at least 2 years to pass implementing legislation and get the program up and running. This would entail requiring everyone on welfare in 1997 and all those who apply subsequently to meet the new requirements. The JOBS program, which now serves an average of 600,000 persons monthly, would have to expand to almost 2.7 million participants in 1997. By the year 2000, about 1.0 million WORK slots might be needed for persons who had reached the two-year time limit.

It is very unlikely that States could implement the new program so rapidly. Even if resources were plentiful, proceeding so swiftly to full-scale implementation would almost guarantee enormous administrative difficulties at the State level. Facing the need to serve millions of new JOBS clients and to create hundreds of thousands of WORK slots, many States might be unable to deliver meaningful services to JOBS participants. An effective JOBS program is essential to moving people from welfare to work and to transforming the culture of welfare offices. Accordingly, it is critical that States, as part of the welfare reform effort, be able to focus on building such a JOBS program.

Phasing in the program gradually, starting with a subset of recipients, clearly seems a preferable approach. There are a number of different strategies for a more gradual phase-in. One strategy, as in the House Republican bill, applies new rules, including time limits, to applicants (both new and returning). This strategy has the obvious appeal of changing the rules initially for people who enter the welfare system in the future, rather than for those who entered earlier, under a different set of expectations. Such a method, however, raises serious equity concerns. A 25-year old mother who had children before age 20 and had been on welfare continuously since that point would face no time limit for several years, as long as she remained on assistance. Meanwhile, another mother of the same age, with the same number of children, who had been married or had worked to stay off welfare but suddenly found herself in need of support would be subject to time limits. Applying the time limits to re-applicants also creates very perverse incentives to *stay on welfare*. Most of the persons who leave welfare do return at some stage, and consequently many recipients who would otherwise leave might be inclined to stay on welfare to avoid the time limit.

An alternate strategy would be to phase-in by State. The costs to the Federal Government during the phase-in period would be lower, since not all States would be implementing the program at the same time. However, States implementing the program would still have to grapple with the difficulties accompanying the massive expansion of services described earlier in this paper.

An attractive alternative to these strategies is to focus on young parents, for example, those under 25. It is the younger generation of actual and potential welfare recipients that are the source of greatest concern. They are also the group for which there is probably the greatest hope of making a profound difference. Younger recipients are likely to have the longest stays on welfare, in part because they are at the beginning of their spells. Under this approach, we would devote energy and new resources to end welfare for the next generation, rather than spreading efforts so thin that little real help is provided to anyone.

One method of focusing on younger recipients would be to place all persons born in 1973 or later (under 25 in 1997) into the transitional support system. All persons of the same age and circumstances would then face the same rules, regardless of when they entered the system. This plan implies a gradual phase-in of more and more of the welfare caseload, since the fraction of those on assistance who were born in 1973 or later would rise with each year. As of 1997, the new rules would apply to everyone under age 25. Ten years later, everyone under age 35 would be in this new

transitional support structure. For this age cohort and all younger cohorts following, the welfare system would be transformed. Note that such a plan would not contemplate any reduction in existing education and training services for older recipients. They would still be eligible for JOBS services. But the new resources would be focused on young people. This plan would call for a reassessment five years after enactment, to determine whether we are successfully implementing the program for the younger generation and can accelerate it to phase in older recipients.

The number of persons served under such a strategy is shown on the table on the next page. In 1997, the first year of implementation, everyone in the program would be either working, in JOBS-Prep, or in the JOBS program. There would be no one in the WORK program until 1998, when persons would begin to reach the two-year limit. Note that most people who entered the welfare system would not reach the limit two years later. Many persons would, as is the case now, leave welfare within a short period of time and consequently would not be affected by the time limit. Others would cycle on and off welfare and so would accumulate 24 months of receipt over four or five years or more. Estimates indicate that as a result of the implementation of the new program and other reforms (health reform, child care for the working poor) more people will choose to work while on welfare and others who would not have left without these changes will leave altogether.

The projected costs of focusing on this target group are shown on in the introduction. Clearly, phasing in a larger group would increase these costs, while targeting a smaller group would decrease them. A decision to focus on young people initially in no way precludes adding all or part of the older cohorts to the program at a later time. For example, States could have the option to phase in the program more quickly.

The JOBS-Prep Program

Any policy where work is required and time-limits imposed must take account of differences in people's ability to work. People who are permanently disabled and thus unable to work for at least one year should in theory be covered under the Supplemental Security Income (SSI) Program. But some disabilities and most illnesses, even severe ones, last less than a year. Many other people suffer from partial disabilities that limit their ability to work. Sometimes a parent is needed in the home to care for a severely disabled child. There also are persons who have great difficulty coping with the day-to-day challenges of parenting and survival in what are often highly stressful environments.

One solution would be simply to exempt persons facing such obstacles to employment from participation requirements, as is the case under current law. Having large numbers of exemptions, however, may serve as an obstacle to changing the culture of welfare offices. Moreover, deferrals are not necessarily beneficial to those who receive them. Advocates for persons with disabilities often complain that current programs send both explicit and subtle messages that persons with disabilities cannot and should not work, and thus cannot really contribute to themselves or their communities. Still, for many persons, immediate work or training may not be appropriate.

PROJECTED CASELOADS UNDER A HYPOTHETICAL PROPOSAL, ASSUMING IMPLEMENTATION FOR PERSONS BORN AFTER 1972			
	FY 1997	FY 1999	FY 2004
Projected Adult Cases With Parent Born After 1972 Without Reform	1.20 million	1.67 million	2.90 million
Off welfare with Reform (Health reform after 1999, EITC, Child Care, JOBS, WORK, etc.)	.03 million	.07 million	.50 million
Program Participants	1.17 million	1.60 million	2.4 million
Working While on Welfare	.14 million	.20 million	.30 million
JOBS Participants	.74 million	.89 million	.87 million
WORK Participants	.00 million	.13 million	.63 million
Pre-JOBS-- disability/age limits work	.13 million	.20 million	.30 million
Pre-JOBS--severely disabled child	.03 million	.04 million	.06 million
Pre-JOBS--caring for child under one	.13 million	.16 million	.24 million

Notes:

Numbers assume modest behavioral effects that increase over time. These behavioral effects include a 50 percent increase in the percent of recipients working part-time, employment and training impacts similar to San Diego's SWIM program and a modest increase in the percent of recipients who leave welfare for work when they hit the time limit. Figures for 2004 are subject to considerable error, since it is difficult to make caseload projections or to determine the impact of WORK requirements on behavior. Figures for FY 2004 also assume behavioral effects from the full implementation of health reform.

The hypothetical proposal assumes the policy will be implemented in all States by Federal law by October 1996. In addition, the estimates assume that for 40 percent of the caseload, States will implement the policy by October 1995. This follows the pattern of State implementation under the Family Support Act.

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One very intriguing formulation has been proposed by the American Public Welfare Association. They suggest a "JOBS preparation phase" for persons not yet able to work or enter an education or training program. All persons in this phase would be expected to do something to contribute to themselves and their community, but they would not be subject to the time limit until they were ready to enter the JOBS program. We have drawn heavily on this formulation in designing the new JOBS-Prep program, which would provide services intended to prepare persons for entry into the JOBS program.

Naming the program JOBS-Prep establishes the expectation that eventually many, if not most, people in this category will be able to join the regular JOBS program. But who should be placed in JOBS-Prep status? Virtually everyone seems to agree that persons of advanced age (over 60), those with severe disabilities or those who are caring for a severely disabled child should be assigned to the JOBS-Prep program. But the question of how far along the continuum of disability the line should be drawn is a difficult one.

A somewhat different set of problems is posed by the mothers of very young children. Should all mothers with children be expected to work, provided neither the mother nor the child is disabled? The Family Support Act exempts mothers with children under the age of 3 from participation in the JOBS program. States have the option of requiring participation of mothers with children over the age of 1 if they choose to do so. Eight States currently choose this stricter option. Five other States require mothers of children over 2 to participate.

Obviously, the more people who are placed in the JOBS-Prep program and consequently not yet subject to a time limit, the fewer people will be in the JOBS and WORK programs. It is estimated that the following percentages of the current caseload would be in JOBS-Prep under different policies:

Option A: Case head is 60 years or over, case head has a severe disability or is caring for a child with a severe disability.

8 percent in JOBS-Prep

Option B: Case head is 60 years or over, case head has a disability which limits work, or is caring for a child with a severe disability.

15 percent in JOBS-Prep

Option C: Option B, plus cases with a child under 1 in the household or with a woman in the final trimester of pregnancy. Mothers of children conceived while the mother is on welfare would be assigned to JOBS-Prep for a period of time consistent with the Family Leave Act.

25 percent in JOBS-Prep

Option D: Option B, plus cases with child under 3 years in the household or woman in the final trimester of pregnancy. Mothers of children conceived while the mother is on welfare would be assigned to JOBS-Prep for a period of time consistent with the Family Leave Act.

58 percent in JOBS-Prep

Except for the shorter time limits for children conceived while the mother was receiving assistance, Option D is essentially the strategy used in the Family Support Act, though States are currently permitted to elect Option C (as noted above, only eight have done so). Option C, which would

reduce the number of exemptions by nearly half from current law, is the strategy used for the cost estimates in the hypothetical proposal.

It is easy to determine the age of youngest child, but difficult to define disability, illness or the need to care for a relative for purposes of assignment to JOBS-Prep as opposed to JOBS. Rather than set up elaborate Federal rules for defining ability to work and then auditing performance, the Working Group may want to recommend that the Federal government set a maximum percentage of the caseload which can be placed in JOBS-Prep for reasons other than the age of the youngest child, and provide guidance as to the other criteria for assignment to the JOBS-Prep program. The hypothetical plan estimates assume that States can place all mothers of children under age 1 and, in addition, up to 15 percent of the total adult caseload in JOBS-Prep.

JOBS Extensions

A related, but conceptually distinct question is that of extensions. Not all persons will be able to complete the needed education or training programs within two years. For example, some individuals with learning disabilities may not be able to obtain a high school degree or a GED within a two-year period. Other persons may be enrolled in post-secondary education, such as a four-year college degree program, which requires more than two years to complete. Some programs, including school-to-work programs, involve both a period to finish high school and an additional year or more of postgraduate training.

There seems to be little disagreement that persons who are making satisfactory progress toward attaining a high school degree or completing a GED, school-to-work or similar program should be granted extensions to attain their degrees or complete their programs. Extension policy should also be sensitive to the particular circumstances of recipients. Persons with language difficulties may need, for example, to complete an English as a Second Language (ESL) course before they can obtain a GED or job training.

The controversial question is whether a person should be able to receive full welfare benefits while he or she goes on to complete a four-year college degree. Those who favor such a proposal emphasize that assisting people to obtain a bachelor's degree is the best way to ensure that they do not return to welfare. Pushing people into low-wage positions which do not bring the family up to the poverty line or offer upward mobility may be counter-productive.

Those who oppose extensions to allow individuals to complete a four-year college degree note that only one-quarter of all high school graduates obtain a bachelor's degree, and that among welfare recipients the fraction is much lower. They question whether it is fair to use welfare benefits to help support persons who are getting four-year degrees when the vast majority of persons paying for that support will never get such a degree. There is also a concern that single parents who receive cash assistance would actually have greater access to economic support for higher education than persons who did not become single parents. A partial resolution to this dilemma may emerge if part-time work fulfills the work obligation. In those circumstances, persons working part time and attending school part time would continue to be eligible for some supplemental cash support in most States. Another option would be to let States apply for waivers to allow extensions for college.

As with the issue of assignments to JOBS-Prep, the Working Group may want to recommend that the number of extensions be capped at a fixed percentage of the caseload. The current proposal allows States to grant extensions to persons for attaining a high school diploma or GED or for completing a school-to-work or other appropriate education or training program, as well as to persons facing a language barrier or other serious obstacle to employment. States could also opt to use extensions for persons in post-secondary education, especially persons in work-study programs.

We believe that setting the cap at 10 percent of the JOBS program caseload will provide States a sufficient number of extensions, barring unusual circumstances. A State could apply to the Secretary of HHS for additional extensions as an amendment to the State plan if it could demonstrate that its caseload is very different from that in the nation as a whole or if it had developed an alternative program which is structured in such a way that additional extensions are required.

Work-for-Wages Versus Work-for-Welfare

Unquestionably the hardest part of designing a time-limited welfare system is structuring the work program for persons who have reached the time limit. The welfare reform effort will focus on making work pay, collecting child support, and creating a first-rate education, training and placement program in order to keep the number of persons reaching the time limit to a minimum. In addition, all persons approaching the two-year limit will be required to engage in a period of intensive job search. Despite these efforts, some persons will hit the time limit without finding a job on their own, and work opportunities must be provided for them.

The first and most visible choice in the WORK program involves work-for-wages versus work-for-welfare. Under a *work-for-wages* plan, the State or locality is required to offer a work opportunity to persons who have reached the time limit. Hours and wages are set by the State or locality. Persons receive a paycheck for hours worked. If the person does not work, he or she does not get paid. In principle, persons are wage earners rather than recipients. In a *work-for-welfare* plan, the person continues to receive a welfare check but is required to work at a designated community service job as a condition of eligibility for cash benefits. Persons who fail to report for work or who perform poorly can have their welfare benefits reduced, so long as the State can establish that there was no good cause for their absence or poor performance. In effect, under a work-for-welfare plan, WORK program participants remain recipients, but they have additional obligations.

There seems to be considerable agreement on the strong appeal of a work-for-wages model. The structure is seen as providing a traditional work opportunity with the dignity and the responsibilities of a standard work place. Persons would receive wages rather than a welfare check.

The major question to be resolved is whether States should be permitted to opt for a work-for-welfare model if they choose to do so. If the decision is made to allow States to elect a work-for-welfare model, the Administration's plan could have provisions to encourage States, through financial incentives and technical assistance, to adopt a work-for-wages model.

Those who argue for allowing States the choice cite two major concerns: *implementation* and *recipient protection*. A work-for-wages program of this magnitude for this population has not been implemented previously.

Under a work-for-wages structure, communities would have to establish a system for linking WORK participants with the private sector, as well as with the not-for-profit and public sectors. They would need to determine how and by what method to pay organizations who employ WORK participants. In addition, they would need to set up procedures for monitoring WORK program participation and resolving disputes. There are also difficult questions involving worker protection. What happens if a WORK participant, or his or her child, is sick? What happens if the adult simply fails to show up for work repeatedly? What if the worker feels the work place is dangerous or abusive? We have limited real experience to draw on in addressing these concerns.

While a work-for-wages model has not been tested on this scale, work-for-welfare has been tried in various forms by many States. The payment structure is easy--participants get a welfare check. Dispute resolution is handled within the same sanctioning and appeal structure used for other disputes concerning cash benefits. States still have to find work sites, but protection for workers is less of a problem, since the benefit continues to be paid unless the State decides to begin a sanctioning process.

Before the State can reduce the benefit it must establish that the person failed to meet his or her work obligations without good cause. Such a test would never be met if a child were sick or transportation broke down. Though few people like the existing work-for-welfare programs (usually called Community Work Experience Program, CWEP), and evidence regarding their impact on employment and earnings is not encouraging, work-for-welfare is a known entity. A number of other welfare reform plans call for CWEP after two years of transitional assistance.

Those who argue against allowing States the option of selecting CWEP fear that many would choose the approach that they know, without giving the work-for-wages model serious consideration. This would undermine the goals and philosophy of the reform plan. They view the implementation problems in work-for-wages as difficult, but surmountable, especially if the program initially focuses on younger recipients. As discussed below, States would be given enormous flexibility in deciding how to implement a work-for-wages model. Moreover, under the phase-in strategy recommended above, the number of work slots would grow gradually, due to the targeting of young parents, giving States the time they need to design and implement new systems. The scale, rather than the structure, of the WORK program may be the primary concern for States.

Work-for-welfare sends adverse messages to recipients, prospective employers, and the public. CWEP slots are not generally perceived as "real jobs." CWEP participants in arguably one of the best run programs (in San Diego) reported that they thought the work requirement was fair, but they felt like they were working for free. There is little evidence that persons who go through CWEP subsequently fare better in the work place than people who were just on welfare. Employers will probably never see CWEP experience as serious work experience. No regular job pays its employees regardless of when and whether they show up unless the employer can prove the person did not stay out for good cause. Placements are virtually never in the private sector, nor are they likely to be. Work-for-wages programs by contrast can target private sector employers. Perhaps most importantly, without the responsibilities of regular work and the paycheck tied to performance, there will be far less dignity in WORK.

Advocates for a work-for-wages policy note that such a model would distinguish the Administration's plan from other proposals and serve to define and delineate our vision. A work-for-wages plan whereby persons are given transitional aid and training and then offered a job if they can't find one

on their own contrasts sharply with a plan which calls for people to work off their welfare check after two years.

The Working Group may want to recommend a very flexible work-for-wages program, with considerable State and local discretion in the operation of the program. Many of the details would be quite consciously left to States and local communities, who know their own needs and circumstances, including labor market conditions, best.

Part-time versus Full-time Work Expectations

The transitional support program will focus heavily on work. Persons would not be able to collect welfare benefits indefinitely without working. But the question remains: should someone who has reached the time limit and is working in a low-wage job, either a WORK position or an unsubsidized job, be able to receive cash benefits in addition to wages, if the family's income is below the eligibility standard in the State?

One option is to allow families in which one member is working part-time (20 hours per week in an unsubsidized job) to continue to collect cash assistance. Under this strategy, months in which an individual was working part-time would not count against the time limit, and persons who had reached the time limit and were in WORK positions or in unsubsidized jobs could collect cash benefits if otherwise eligible. Also, part-time work would meet the JOBS participation requirement.

This approach has several advantages. Part-time work may be the most reasonable standard for single parents, especially those with young children. All working parents face significant burdens in dealing with school schedules, child care, sick children, doctor visits and the like. Though the vast majority of married mothers work, only about 1/3 work full-time all year, and they have help from their spouse. Given that at present only 8 percent of adult AFDC recipients presently work at all in a given month, getting people to work part-time may be seen as a major accomplishment. Moreover, part-time work may serve as a stepping stone to both full-time work and to better-paying jobs. Employers typically have a strong preference for work experience in unsubsidized jobs.

In addition, if wages from WORK assignments could not be supplemented with cash benefits, the higher-benefit States would have to either make their WORK assignments full-time or leave people in WORK assignments worse off than those who were not working and on assistance (i.e., those who had not reached the time limit). It could be both expensive and counterproductive to take people who have reached the time limit and are working part-time out of their unsubsidized work to place them in full-time subsidized WORK slots.

The current cost estimates assume that part-time work stops the time-limit clock, and consequently more people choose to work part-time in unsubsidized employment than are doing so now. If part-time work does not stop the clock, the number of WORK positions needed might well be higher, because persons who would work part-time while on assistance might give up their unsubsidized work to obtain education and training within the two-year window.

Finally, some argue that since full-time work would always be much more financially rewarding than part-time work, persons would already have every incentive to work full-time rather than part-time. Part-time workers would generally be poor, even with their supplemental benefits.

A second option is to end cash assistance entirely at the end of two years and require participation in the WORK program, even for the working poor who might still qualify in some States. People in WORK slots or unsubsidized part-time work would not be eligible for supplementary benefits. It would encourage people to become self-sufficient, with the help of the EITC, child care and health care—rather than continuing to rely on welfare indefinitely. It would seem more equitable to single parents who are working full-time to support their children without the benefit of welfare. It might also be less costly in the long run than the first option.

A third alternative would be to stop the time-limit clock during part-time work only if the parent had a young child, on the grounds that these are the parents most likely to encounter difficulties working full-time as well as those for whom child care is likely to be the most expensive.

Finally, a fourth alternative could be to leave the decision to the States, whether to stop the clock for persons working part time.

Work Expectations in the WORK Program

Related to the treatment of part-time work is the key question of how to set the number of hours expected of participants in the WORK program. An obvious strategy is to calculate the required hours of work in the program by dividing the cash welfare benefit by the minimum wage. But this simple formula raises issues which vary depending on each state's level of benefits.

In low-benefit states, dividing cash benefits by the minimum wage yields a very low level of required work. In Mississippi, for example, a mother with two children would be required to work just 10 hours per week — hardly a substantial work experience. One solution (consistent only with the work-for-wages model) is simply to set a minimum number of hours. In some states, this would mean that WORK participants would have more income than people receiving cash assistance only. Another solution (consistent only with the work-for-welfare model) is to include in the formula the value of food stamps in addition to cash benefits. Some would argue that it is unfair to require people to work off non-cash benefits, and this concern is intensified by the fact that this would occur in some states but not in others.

By contrast, in high-benefit states a different set of issues arises. In these states dividing cash benefits by the minimum wage yields a very high level of required work — more than 35 hours per week. The greater the number of hours of work, the greater the associated child care costs, and the greater the difficulty of developing WORK assignments. Moreover, in some states if no supplemental cash benefits were provided, people earning minimum wage in WORK positions would actually be worse off than people receiving cash assistance only.

Because the issues in setting the number of hours vary depending on each state's level of benefits, the Working Group may want to recommend giving States flexibility to determine work hours within a reasonable range — say, 15 to 35 hours per week. States would also have flexibility to decide whether to provide supplemental cash benefits to WORK participants. They could use whatever formulas or criteria they choose, provided that they ensure that (1) WORK participants receive at least minimum wage, and (2) WORK participants are better off than people receiving cash assistance only.

Discouraging Extended WORK Participation

WORK program jobs are not intended to serve as a substitute for or displace private sector placements. Rather, they are designed to provide temporary, last-resort work for persons who have reached the time limit without finding a private sector job. Unless long-term participation is deterred, the size of the WORK program could become prohibitively large. Indeed, the ultimate goal of the WORK program is to place people into unsubsidized work.

There are various ways in which a WORK program can be designed in order to discourage or prevent extended participation. These include the following provisions: limiting the duration of each individual WORK assignment, requiring frequent job search, denying the EITC to WORK program participants and placing limits on the total length of time people are allowed to spend in WORK assignments.

Limiting the duration of individual WORK assignments and following them with intensive job search.

There is little disagreement that individual WORK placements ought to be limited in duration to perhaps 12 months. This limit is designed to prevent participants from becoming attached to particular subsidized jobs. Of course, there would be strong encouragement to and incentives for employers to hire WORK participants as unsubsidized employees before or at the end of the 12 months. Before and after each WORK assignment, job search would be required.

Denying the EITC to WORK program participants. Perhaps the best way to ensure that people do not eschew private sector jobs for WORK positions is to make certain that any private sector position pays better than a WORK job. Though there are various mechanisms for accomplishing this, one of the easiest is to deny the EITC for money earned in the subsidized WORK assignments. Since WORK slots are already subsidized, it could be argued that it would not be appropriate to offer the additional subsidy of the EITC. There would be some administrative complexity to treating earnings received while a WORK participant differently from other earnings.

Some argue that if persons are being expected to work in real jobs they ought to receive the same benefits as other workers. They believe that limits on the duration of WORK assignments, frequent job search and the possibility of promotion will lead people to move toward private work without the need for special "penalties" for WORK workers.

Others argue that without such a requirement, the WORK program will not truly be a last resort for those unable to find unsubsidized jobs.

Requiring acceptance of any private sector job offer. Both JOBS and WORK program participants would be required to accept any offer of an unsubsidized job, provided the job met certain health and safety standards, or be denied assistance or a WORK job for several months. After two refusals, the person might be permanently denied access to a WORK assignment. Some argue that such provisions are unnecessary, hard to administer and potentially unfair, especially if the EITC is denied to WORK workers.

Limiting the total time people can be in the WORK program. Another way to limit WORK participation would be to time limit WORK, just as welfare is time-limited. Those who favor limiting the total length of time in WORK assignments to two or three years argue that other persons are not

guaranteed paid work if they cannot find it on their own. Theoretically, persons could stay in the WORK program for many years, and such extended WORK participation is seen by some as creating a work entitlement that may become as unpopular as welfare is now.

A second argument involves the best use of resources. WORK slots require resources for job creation and child care. If people have been in the WORK program for two years and in the JOBS program for two years prior to that, resources, including WORK positions, might be better focused on other recipients.

The biggest problem with limiting the duration of WORK participation is deciding what to do when individuals hit such a WORK time limit. One strategy would be to have individual evaluations for those who reach the WORK time limit to decide whether they should be returned to JOBS-Prep, have their welfare benefits reduced if they are job ready, or be classified as permanently deferred. Such a strategy would ensure that WORK slots were preserved for those first reaching the time limit. One need not require States to limit WORK assignments; one might only provide the flexibility to do so. Other welfare reform proposals allow States to terminate or reduce public assistance after 3 years in CWEP.

Opponents argue that there is no justification for limiting participation in the WORK program, especially if WORK participants are denied the EITC. If all the provisions listed above for limiting the length of WORK limiting provisions were adopted, anyone still eligible for a WORK assignment after, say, 2 or 3 years would have successfully met all WORK requirements in several different placements, been through 3 or 4 intensive searches for unsubsidized employment, not refused any private sector job offer and would be seeking a WORK assignment even though any private sector job opportunity would pay 40 percent more and probably offer a better future.

Opponents of WORK time limits argue that such people would most likely be individuals who genuinely could not find any private sector employment either because they lived in a weak labor market, or because they could not, despite their best efforts, successfully compete for available jobs. Denying them the opportunity to participate in the WORK program would very likely cause their incomes to fall sharply, potentially putting the family at serious risk of homelessness or other crises. Virtually none of these families would have had incomes above the poverty line while they were in the WORK program. Unless we are willing to provide cash benefits without a work expectation for people who are no longer eligible for the WORK program, we would be placed in the position of denying support to persons who had demonstrated a willingness to work. Finally, there is the question of what would happen to people who had exhausted both their JOBS support and WORK support, succeeded in finding work, but lost that work when the economy changed or for other reasons. What would be the temporary safety net for such families?

Time-limiting participation in the WORK program would not have any effect on cost estimates in the five-year cost estimation window used for the budget. Since it will likely take States two years to begin implementing the program, even a strict two-year limit on JOBS followed by a strict two-year limit on WORK would not affect anyone for six years. Since most people do not stay on welfare continuously for four years, in most cases it would not have any effect for seven or eight years. Eventually, however, such limits on WORK could have a significant impact. Unfortunately, we have no information on the extent to which extended stays in the WORK program will be a problem, nor any understanding of what would be the reasons for such extended stays. The issue could be revisited in later years if extended spells in WORK became a problem.

Individual Economic Development

As part of the welfare reform effort, we will be exploring a range of strategies, above and beyond education and job training, to help recipients achieve self-sufficiency. Microenterprise development and incentives for saving will be among the complementary approaches to be examined. The hypothetical welfare reform plan includes two individual economic development demonstration programs, one testing the effect of Individual Development Accounts on savings and another attempting to encourage persons on assistance to start microenterprises (small businesses). Raising the asset limit for eligibility for cash benefits to \$10,000 for savings accounts designated for specific purposes such as purchase of a first home is also under consideration.

An Individual Development Account (IDA) would be a special type of savings account, in which savings by recipients would be matched by Federal government dollars. Savings from an IDA, including both the individual's share and the matching dollars, could only be withdrawn for a limited number of purposes, including paying for education or training, starting a business or purchasing a home. The IDA demonstration will attempt, through a randomized evaluation, to determine the effect of such savings incentives on both asset accumulation and movement toward self-sufficiency.

The hypothetical reform plan also includes a demonstration program to promote self-employment among welfare recipients by providing access to both microloan funds and to technical assistance in the areas of obtaining loans and starting businesses. The demonstration, which will, as above, be a random assignment study, will explore the extent to which self-employment can serve as a route to self-sufficiency for recipients of cash assistance.

ADDENDUM: EXPANDED JOBS AND TIME-LIMITED CASH ASSISTANCE PROGRAM DESIGN

A greatly expanded JOBS program will be the centerpiece of the new transitional assistance program. JOBS will be a two-year job search, education, training and job placement program designed to help welfare recipients secure employment and achieve self-sufficiency. While individuals are in JOBS, they will be eligible for cash assistance. Following is the recommended expanded program design.

Administration. As under current law, State welfare agencies will administer the cash assistance and expanded JOBS program under broad Federal guidelines. States will have to submit a JOBS plan, which has been developed and coordinated with relevant employment, training, and educational programs in the State, to the Secretary of HHS for approval.

Funding. As under current law, Federal matching funds for JOBS will be available as a capped entitlement.

Activities. New entrants will be assessed and then enter into an agreement with the agency administering the JOBS program that stresses the mutual responsibilities of recipient and agency under a time-limited assistance program. The focus will be on the activities and services that the individual needs in order to achieve self-sufficiency. States will have the option to require persons applying for assistance to engage in job search from the date of application.

State JOBS services and activities will be largely those provided under current law, including education, training, CWEP and other work activities, job development and job placement. A key aspect of the plan is to increase coordination and integration of JOBS with mainstream education and training programs and initiatives. Current limitations on the duration of job search within the JOBS program will be relaxed to promote employment.

Recipients who are within 45-90 days of reaching their two-year time limit will be required to engage in job search at that point.

Participation standards. The new transitional assistance program will be phased-in gradually over several years. At full implementation, minimum State JOBS participation rates will be significantly higher than the current rate. The definition of participation will be expanded to include a broader range of activities that promote self-sufficiency.

Sanctions. We are considering strengthening the sanctions for failure to participate in the JOBS program. One option would be to adopt the APWA recommendation that the sanction be set at 25% of the total of cash benefits *plus* Food Stamps.

Earn-back provisions. Recipients who leave JOBS and transitional assistance for regular unsubsidized employment before reaching the two-year limit but subsequently lose their jobs will be able to return to the transitional assistance program. Persons who have left welfare can earn back potential months of assistance for time in which they were out of the welfare system.

JOBS-Prep. Recipients who are not able to work or to participate in a JOBS education or training program will be assigned to JOBS-Prep and expected to do something to contribute to themselves and

their community. Individuals in the JOBS-Prep program would include persons of advanced age, those who have severe disabilities and mothers of very young, very ill or severely disabled children. Persons assigned to the JOBS-Prep program would not be subject to a time limit unless and until they entered the JOBS program. The percentage of the caseload that States could place in the JOBS-Prep program will be limited.

Extensions. States will be permitted to grant a limited number of extensions of the time limit for completion of education or training programs and in other appropriate circumstances. It is proposed that States be allowed to extend a maximum of 10 percent of their caseload at any one time. Under special circumstances, States could be permitted to exceed the cap on extensions.

ADDENDUM: WORK-FOR-WAGES PROGRAM DESIGN

The following are key policy elements and the initial recommended design. Elements with an * contain controversial policy questions:

Administration. States would be required to develop a WORK plan for joint approval by the Secretaries of HHS and Labor. States would be required to have a WORK advisory panel with membership from labor, business and community organizations. To be resolved: membership and links to Private Industry Councils (PICs) and Workforce Investment Boards (WIBs). The advisory panel would have to approve the WORK plan.

Funding. For each WORK placement, States would receive a flat amount for administrative costs and would be reimbursed for wages paid (hours times wage) according to a specified set of matching rules. Federal matching rates would significantly decline the longer the person stayed in the WORK program as a further incentive for States to move people into unsubsidized work. Additional monies or a higher match might be available to States in times of recession.

Placements. Placements in private sector establishments would be strongly preferred. States would be free to negotiate contracts with private companies, placement services, community organizations, State and local government agencies, and other organizations to accept or place WORK participants in exchange for payments from the government. Private sector placements would require that at least some portion of the wage be paid by the employer.

In addition, a major effort would be undertaken with State and Federal government agencies to find job placements through existing initiatives and program expansions such as child care, Head Start centers, housing rehabilitation projects, Empowerment Zones, and many others.

National Service placements would also be acceptable WORK assignments. States would be given the option of contracting with the National Service Board to provide a certain number of National Service Placements. In addition, National Service workers could be used to help work with and supervise WORK participants in community service activities.

* Displacement. Language to be developed, with National Service non-displacement language serving as the base.

* Hours. Hours would be set by the State—a minimum of 15 hours and a maximum of 35 hours. States would be free to use whatever criteria they choose in deciding upon hours so long as each hour of work was paid.

States could choose to offer anything from part-time to full-time work. If the WORK job paid less than the family would have received in cash benefits (before reaching the time limit) the State would be required to pay a supplement (see below). Requiring full-time work would be considerably more expensive, more than doubling the cost of the WORK program and complicating the job creation problem considerably. Particularly for mothers with young children, full-time work may not be deemed appropriate or practical by the local community.

* Wages, working conditions, and benefits. WORK assignments would have to pay at least the higher of the Federal and any State or local minimum wage, but States and localities could choose to set a higher wage rate in specific cases. An argument can be made that on the grounds of equity, total compensation (including any subsidized child care and other benefits) paid to individuals in WORK assignments would have to be similar to the compensation paid to other workers in the same job (taking experience and skills into account). Sick rules and absentee policy would be the same as that of similar workers in the establishment. States would set or negotiate such rules in cases in which a new organization or establishment was being formed to employ WORK participants. Workers compensation coverage would be provided, either through the employer or by another method. FICA taxes would be paid, with, again, the exact mechanism to be developed. Unemployment insurance payments, however, would not be required.

Supplemental support. If expected WORK program earnings net of work expenses were less than would have been received by a non-working family on cash assistance, the State would be required to pay the difference as a supplemental benefit. Note that such a supplemental benefit would never be higher than the supplement that would be paid under transitional assistance for someone with the same earnings in a private sector job.

* Treatment of earnings from WORK program for other government benefits. For purposes of determining eligibility and benefits for other government programs, the following rules would apply:

- For purposes of calculating food stamp, housing and other benefits, wages paid under the WORK program would be treated as earnings. Benefits would be calculated on a 3-month prospective basis under the assumption that the person were going to work the full number of hours assigned. No increases in food stamps or supplemental benefits would occur if the person did not work the required hours, provided he or she did not have good cause (e.g., a serious illness) for the missed work.
- Earnings received under the WORK program would not be eligible for the EITC and would not be included in adjusted gross income for tax purposes. This provision is designed to ensure that private unsubsidized work would always be significantly more attractive than WORK.

Limits on the duration of each placement with frequent requirements for supervised job search.

WORK slots are designed to be temporary, available only when people really cannot find private sector work. Each individual placement would be limited to no more than 12 months as a subsidized placement and would have to be preceded and followed by a period of intensive job search. If the employer agreed to take the person on as an unsubsidized worker, the individual would be considered out of the WORK program.

* Required acceptance of any private sector job offer. WORK program participants would be required to accept any unsubsidized job offer or be denied a WORK job for several months. After two refusals, the person might be permanently denied access to a WORK assignment.

Tracking of placement and retention records. States would be required to maintain records on the rate at which WORK workers are retained by their WORK employers or placed in unsubsidized jobs by placement services. States would be expected to give preference for contracting with the WORK

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program to the employers and placement services with the best performance. At a future date, the Secretary of HHS may impose retention or placement standards.

Returns to JOBS-Prep. Persons who became temporarily ill or faced a major new impediment to work could seek to be re-evaluated and placed in the JOBS-Prep program until such time as the State deemed them ready to work. Persons in this status would count against the limit on JOBS-Prep placements.

* Insufficient WORK slots. In cases where there are insufficient WORK slots, first preference would go to people just reaching the time limit. States would be required to pay ongoing cash benefits to persons who were not placed in WORK assignments, and States would be reimbursed for such benefits at a significantly reduced match. The reduced match might be waived in periods of high local unemployment.

MAKING WORK PAY/CHILD CARE

BUILDING BLOCKS: EITC AND HEALTH CARE REFORM

A crucial component of welfare reform based on work and responsibility is making work pay. Although they are not discussed in this paper, working family tax credits and health reform are two of the three major components of making work pay. Last summer's \$21 billion expansion of the Earned Income Tax Credit (EITC) was a major step toward making it possible for low-wage workers to support themselves and their families above poverty. When fully implemented, it will have the effect of making a \$4.25 per hour job pay nearly \$6.00 per hour for a parent with two or more children. The welfare reform proposal will include provisions to make sure the EITC can be delivered on a regular, advance-payment basis throughout the year.

The next critical step is ensuring that all Americans have health insurance coverage. Many recipients are trapped on welfare by their inability to find or keep jobs with health benefits that provide the security they need. And too often, poor, non-working families on welfare have better health coverage than poor, working families. The President's health care reform plan will provide universal access to health care, ensuring that no one will have to fear losing health coverage and choose welfare instead of work to ensure that their children have health insurance. Both the EITC expansion and health care reform will help support workers as they leave welfare to maintain their independence and self-sufficiency.

The key missing component for making work pay is subsidized child care. In order for families, especially single-parent families, to be able to work and prepare themselves for work, they need care for their children. 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.

There are two major issues as we think about child care in the context of welfare reform:

- How much subsidized child care should be made available, and for whom?
- What investments and/or requirements should be put in place to improve the quality of child care and the coordination of child care programs funded under different mechanisms?

ISSUE: HOW MUCH CHILD CARE AND FOR WHOM?

There are three categories of low-income families with child care needs that we ought to consider:

- Families in JOBS, working part-time, or in WORK
- Families in a transition period, having just worked their way off assistance or the WORK program

- Families working without having ever been on welfare or working beyond a transition period.

All three categories have legitimate claims on child care subsidies. Families who are required to participate in JOBS are currently guaranteed child care, and rightly so. People who are working but still on welfare have their child care subsidized through disregards in their AFDC and food stamp benefits, and sometimes through subsidies. We propose to continue current guarantees of child care subsidies for these categories of recipients. People in the WORK program are like welfare recipients in that they are working as a condition of receiving continued support, they are working at the minimum wage, and they are not receiving the EITC. The proposal would guarantee their child care, just as it is guaranteed for JOBS and AFDC participants.

Under current law, people who move off welfare and are working are guaranteed subsidized child care for a year in order to ease the transition. We propose to continue that guarantee for participants in the transitional assistance program who move into private sector work.

It is hard to argue, however, that low-income working families who are not on welfare or are transitioning off welfare are less needing or deserving of child care subsidies than people who are on welfare. It seems quite inequitable to provide child care subsidies to one family and to deny them to another whose circumstances are identical except for the fact that the first family is or has been on welfare.

The crucial issue to be decided is the size and shape of a child care subsidy program for the working poor. This program should almost certainly be designed as a capped entitlement. There are three basic options, which reflect different overall levels of resources and different targeting strategies.

Capped Entitlement: Full-Service Level

If we genuinely want to make work pay, to make work more attractive than welfare, and to maintain equity between those who have and have not been on welfare, it is important that child care subsidies be available for the working poor, independent of their prior welfare status. The ideal approach, if resources were no constraint, would be to guarantee a child care subsidy to all working poor families who need it, with a reasonable ceiling on cost per child. The cost of such a full-service entitlement is estimated to be between \$2 and \$3 billion per year of net new Federal and State spending.

This estimate is very uncertain. Because it is based on current usage, it does not reflect potential changes in work behavior and child care choices that might result if new subsidies were available. The estimate may, therefore, underestimate actual costs. On the other hand, experience to date suggests that actual child care usage is often much lower than planners predict; based on this experience, the estimate could be too high. Because of the great uncertainty of the estimates of providing subsidized child care for the working poor, however, it seems unwise at this point to establish an uncapped entitlement which could potentially become quite expensive.

The logical alternative is a capped entitlement set at a level that reflects available resources. Capping the entitlement guarantees that spending will not exceed the specified limit.

We suggest a funding level at less than full service in order to reflect available resources. The proposal is for \$2.0 billion in 1999, with a five-year cost of \$5.0 billion. This is less than our estimates for full service, and therefore, requires some method of allocation.

Allocating a Capped Entitlement: State Discretion

The most obvious way of structuring a capped entitlement to child care for the working poor, whether at the full-service level or at a lower level, is to allot available funds to the States and allow them to use the funds for services to families as they see fit. This approach should work very well if the funds are set at the full-service level. At a lower funding level, however, a problem arises because the funds may not meet actual demand, and criteria for determining which families to serve are difficult to set. Child care subsidies tend, therefore, to be distributed inequitably, often on the basis of a first-come, first-served strategy that cannot address relative need.

Allocating a Capped Entitlement: Targeted

An alternative would be a targeted capped entitlement. Because it would be capped, spending levels would be controlled. But if it were targeted to a population sub-group, and set at a level that was estimated to be sufficient to serve that sub-group, the allocation problem of the full-service, capped entitlement could be alleviated. The question, therefore, is whether there is a sub-group that could be targeted that makes sense programmatically and that could be served with a reasonable resource allocation.

One possibility is to target young families, along the same lines and for the same reasons that we are targeting young AFDC applicants and recipients for phasing in the transitional assistance program. This strategy has many attractive features. It can be justified on the same grounds that we justify the focus in the transitional program--investing in young families. It also addresses the problem of equity between welfare and non-welfare recipients. Everyone born after 1972 would receive services in the JOBS and WORK programs and child care subsidies if they are working, whether or not they are or have been on welfare. The disadvantage of this kind of targeting, obviously, is that it denies services to older mothers simply on the basis of their birth date. Focusing child care subsidies on young mothers may send a wrong message about the desirability of deferring parenthood.

The estimated additional costs of child care subsidies for young families are about \$750 million per year. Our suggested funding level would, therefore, be sufficient to serve all young families and a portion of older families.

QUALITY AND COORDINATION ISSUES

The issue of quality versus quantity in child care has a long and contentious history. At one extreme are those who argue that child care subsidies should only be available for care that meets Federally-defined quality standards, that professional group care should be preferred over informal care, and that rates should be set in such a way that expensive care is not only eligible for subsidy but is encouraged. At the other extreme are those who argue that child care subsidies should be available for any kind of care that the parent can find, with a strong preference for inexpensive and informal care.

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Head Start

Fortunately, some agreements and accommodations in the Head Start program have been emerging that can guide an approach to child care. Nearly everyone agrees that Head Start, with its high quality comprehensive approach to child development, should be the preferred service for as many three- and four-year-olds as possible, with supplemental child care as needed. This Administration's commitment to expanding Head Start, and to developing more full-day and full-year Head Start slots, will ensure that as many as 1,000,000 low-income children in 1999 will be served by Head Start.

Parental Choice and State Oversight

Recent child care legislation has been based on the consensus that for other child care arrangements, parents should have nearly unlimited choice, constrained only by State regulations and by minimum health and safety standards. The general principle is that providers who receive subsidies should meet State licensing or registration standards and that parents should be informed about their child care choices. Providers that are exempt from State regulatory standards (most States exempt baby-sitting and small in-home care arrangements for two or three children, and some States exempt sectarian and other providers of more formal care) would be required to register with the State and to meet State-defined requirements for the prevention and control of infectious diseases, building and physical premise safety and minimum health and safety training of providers.

Investments in Quality and Supply

A third point of general agreement is that some funds ought to be available for investments in child care quality and supply. We propose setting aside a portion of child care funds for the following: resource and referral programs; grants or loans to assist in meeting State and local standards; monitoring of compliance with licensing and regulatory requirements; training and technical assistance to providers; and enhancements to compensation for providers. We also propose to ensure that training and technical assistance are available to enable welfare recipients, including JOBS and WORK participants, to become Head Start and child care providers. These programs should be an important source of private sector jobs and of WORK program slots for people moving off welfare.

Rates

In general, States pay subsidies for child care equal to actual cost, up to some maximum. This maximum should be set in a way that reflects reasonable costs of care. It should also be the same across child care programs and payment mechanisms to reflect current market conditions and be defined in such a way that it can vary automatically over time and possibly reflect geographical differences in prices.

Program Coordination

Finally, there is agreement that child care programs and funding streams should be designed in ways that are easy to administer and appear "seamless" to parents. This can be achieved both through program consolidation, when possible, and through coordination of rules, procedures and automated systems. Because of fiscal and political difficulties full consolidation is very difficult to achieve; nonetheless, full coordination ought to be an important goal.

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**PROMOTING PARENTAL RESPONSIBILITY
AND PREVENTING TEEN PREGNANCY**

The best way to end welfare dependency is to eliminate the need for welfare in the first place. High rates of female-headed family formation and the startlingly high poverty rates of those families lie behind our large and growing welfare rolls. We are approaching the point when one out of every three babies in America will be born to an unwed mother, and the majority of these will receive welfare at some point. Births to school-age unwed mothers are an especially enduring tragedy. Too many children are not receiving financial support from both their parents. This too contributes to rates of welfare receipt that are much higher than we would like.

Concern over the dramatic increases in out-of-wedlock births has led some commentators to advocate largely punitive solutions. The most extreme of these would cut off welfare for unwed mothers, a "cure" that might well have disastrous effects on the children of these mothers, increase the need for spending on foster care and orphanages, and potentially increase the number of abortions.

We believe that the best prevention strategy is one that focuses on parental responsibility and provides opportunities for exercising it, supplemented by increased family planning efforts and demonstrations of service programs aimed at preventing teen pregnancy. We believe that very clear and consistent messages about parenthood, and the ensuing responsibilities which will be enforced, hold the best chance of encouraging young people to think about the consequences of their actions and defer parenthood. A boy who sees his brother required to pay 17 percent of his income in child support for 18 years may think twice about becoming a father. A girl who knows that young motherhood will not relieve her of obligations to live at home and go to school may prefer other choices.

The current welfare system sends very different messages, often letting fathers off the hook and expecting little from mothers. We hope and expect that a reformed system that strongly reinforces the responsibilities of both parents will help prevent too-early parenthood.

Along with responsibility, though, we must support opportunity. Telling young people to be responsible will not be effective unless we also provide them the means to exercise responsibility and the hope that playing by the rules will lead to a better life. Both our child support proposals and our transitional assistance proposals are designed to offer opportunity to work and prepare for work, and are built on the experience of effective programs. However, the knowledge base for developing effective programs that prevent too-early parenthood is much less solid. Our strategy, therefore, emphasizes trying many approaches and learning about which are most effective.

Our approach has five components:

- Child support enforcement
- Responsibilities of school-age parents
- Responsible family planning

- Learning from comprehensive prevention approaches
- Supporting two-parent families.

CHILD SUPPORT ENFORCEMENT

A strengthened approach to child support enforcement holds both parents responsible for supporting children. It makes clear to fathers, as well as to mothers, that parenthood brings with it clear obligations, and that these obligations will be enforced, with serious and predictable consequences. The child support enforcement reform proposal has three major elements:

- Establish awards in every case
- Ensure fair award levels
- Collect awards that are owed.

Establish Awards in Every Case

Our goal is to establish paternity for all out-of-wedlock births. This would be accomplished by offering States performance-based incentives for all paternities established, whether or not the mother is currently on welfare, expanding the in-hospital paternity establishment provisions enacted as part of OBRA 1993, and expanding education and outreach efforts to stress that having a child is a two-parent responsibility.

The proposal streamlines the legal process for establishing paternity, enabling States to establish paternity much more quickly. This would be accomplished by requiring "up front" cooperation (prior to receipt of welfare benefits), by establishing clear responsibility for the IV-D agency to make the cooperation and sanction determination, and by simplifying the process by which paternity is established.

The responsibility for paternity establishment would be clearly delineated. Mothers would be required to cooperate in establishing paternity as a condition of receipt of welfare. This strict cooperation requirement would require the mother to provide both the name of the father and information sufficient to verify the identity of the person named. (Good cause exceptions would be granted only under narrow circumstances.) In turn, the States would have a clear responsibility to establish paternity when the mother has fully cooperated. We propose that the States be held fully responsible for the cost of benefits paid to mothers who have cooperated fully but for whom paternity has not been established within a strictly defined time frame.

While the proposal is very tough and strict in its approach to paternity establishment, it does not punish mothers who cooperate fully. Applicants must *meet the new stricter cooperation requirement prior to the receipt of benefits*, but when the mother has fully cooperated and provided complete information, the burden shifts to the State to establish paternity. In contrast, some have proposed that the mother must *have paternity established prior to receipt of benefits*. The mother who has done everything that can be expected of her is unfairly penalized under this approach for the State's

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inaction or inefficiency in getting paternity established. She could be denied benefits for a long time through no fault of her own.

Ensure Fair Award Levels

The proposal would establish a National Guidelines Commission to study and report to Congress on the adequacy of award levels, the variability of award levels and the desirability of national guidelines.

The proposal would also require universal, periodic updating of awards so that all awards would closely reflect the current ability of the noncustodial parent to pay support. States must establish simplified administrative procedures to update the awards.

In addition, present child support distribution rules would be changed to strengthen families and assist families making the transition from welfare to work.

Collect Awards that are Owed

The proposal seeks to develop a child support system for the 21st century. All States must maintain a central registry and centralized collection and disbursement capability. States must be able to monitor support payments and take appropriate enforcement actions immediately when support payments are missed. Certain routine enforcement remedies would be imposed administratively at the State level, thus taking advantage of computers and automation to handle these measures using mass case-processing techniques. A higher Federal match rate would be provided to implement new technologies.

To improve collections in interstate cases, a Federal Child Support Enforcement Clearinghouse would be created to track parents across State lines. This would include a National Directory of New Hires so that wage withholding could be instituted in appropriate cases from the first paycheck. The adoption of the Uniform Interstate Family Support Act (UIFSA) and other measures would make procedures in interstate cases more routine. In addition, the IRS role in full collections and tax refund offsets would be strengthened, and access to IRS income and asset information would be expanded.

States also would be provided with the tools they need, such as the authority to revoke licenses and access other data bases, so that the child support enforcement system is able to crack down on those noncustodial parents who otherwise find ways to avoid payment of their support obligations. For instance, frequent and routine matches would be made against appropriate data bases to find location, asset, and income information on those who try to hide in order to escape payment.

The Federal funding and incentive structure would be changed in order to provide the necessary resources for States to run good programs, and performance-based incentives would be utilized to reward States for good performance.

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Issue: Child Support Enforcement and Assurance (CSEA)

For children to achieve real economic security and to avoid the need for welfare, they ultimately need support from both parents. The proposals described above are designed to collect as much money from absent parents as possible. But what happens when little or no money is collected from the noncustodial parent either because the child support enforcement system is ineffective, or because the absent parent is unable to contribute much due to low earnings? In those circumstances, a child support enforcement and assurance system would guarantee that the custodial parent gets some assured level of child support, even when collections from the noncustodial parent fall below that level. Thus, single parents with a child support award in place could count on some level of child support which, since the benefit is not income-tested, they could then use to supplement their earnings. Numerous State and national reform commissions (including the National Commission on Children) have called for demonstrations of this concept.

Proponents argue that child support enforcement and assurance would significantly ease the difficult task of moving people from welfare to work. If single parents can count on some child support, usually from the noncustodial parent, but from the assured child support payment if the noncustodial parent fails to pay, then they can build a reliable combination of their own earnings plus child support. This approach would offer single parents real economic security. CSEA is not unlike unemployment insurance for intact families. When an absent parent becomes unemployed or cannot pay child support, the child still has some protection. And since CSEA is not income-tested, there are no reporting requirements, no welfare offices, no benefit offsets and no welfare stigma. Proponents also suggest that CSEA benefits be subtracted dollar for dollar from welfare payments, especially in high-benefit States. Thus, a woman on welfare is no better off with CSEA. But if she goes to work, she can count on her child support payments; thus, the rewards from working rise considerably. Essentially, all of the net new costs of a CSEA protection program would go for supporting custodial parents who are off welfare and working. Proponents also argue that if CSEA protection is provided only to people who have a child support award in place, women will have much more incentive to cooperate in the identification and location of the noncustodial father, since they can count on receiving benefits. Finally, proponents argue that the program would focus more attention on the importance of noncustodial parents providing economic support to their children. States might also experiment with tying the assured payment to work or to participation in a training program by the noncustodial parent, and with other incentives to encourage noncustodial parents to pay child support.

Opponents worry that CSEA would dilute the pressure to actually collect child support and would increase incentives to form single-parent families. If mothers can count on the money regardless of whether the State actually collects the amount owed, less effort may be put into collections. States may choose not to try to increase collections, especially if the Federal government is paying for CSEA. There is also a danger that CSEA would be seen as welfare by another name, since it is a source of support for single parents. Some opponents also argue that there would be fewer incentives for absent parents to pay child support since their children are assured of some level of support even if they fail to pay.

Issue: Enhancing Responsibility and Opportunity for Noncustodial Parents

Under the present system, the needs, concerns and responsibilities of noncustodial parents are often ignored. The system needs to focus more attention on this population and send the message that "fathers matter". We ought to encourage noncustodial parents to remain involved in their children's lives--not drive them further away. The well-being of children who live only with one parent would be enhanced if emotional and financial support were provided by both of their parents.

Ultimately, the system's expectations of mothers and fathers should be parallel. Whatever is expected of the mother should be expected of the father, and whatever education and training opportunities are provided to custodial parents, similar opportunities should be available to noncustodial parents who pay their child support and remain involved in the lives of their children. If they can improve their earnings capacity and maintain relationships with their children, they could be a source of both financial and emotional support.

Much needs to be learned about noncustodial parents, partly because we have focused relatively little attention on this population in the past, and we know less about what types of programs would work. We propose the following approaches:

Work opportunities and obligations for noncustodial parents. A portion of JOBS and WORK program funding would be reserved for training, work readiness, educational remediation and mandatory work programs for noncustodial parents of AFDC recipient children who cannot pay child support due to unemployment, underemployment or other employability problems. In addition, States may have an option for mandatory work programs for noncustodial parents. States would have considerable flexibility to design their own programs.

Grants for access and parenting programs. We propose grants to States for programs which reinforce the desirability for children to have continued access to and visitation by both parents. These programs include mediation (both voluntary and mandatory), counseling, education, development of parenting plans, visitation enforcement including monitoring, supervision and neutral drop-off and pick-up, and development of guidelines for visitation and alternative custody arrangements.

We also propose demonstration grants to States and/or community-based organizations to develop and implement noncustodial-parent (fathers) components in conjunction with existing programs for high-risk families (e.g. Head Start, Healthy Start, family preservation, teen pregnancy and prevention). These would promote responsible parenting, including the importance of paternity establishment and economic security for children and the development of parenting skills.

RESPONSIBILITIES OF SCHOOL-AGE PARENTS

The program of transitional assistance followed by work that was outlined earlier in this document focuses on the responsibilities of custodial parents, especially young parents, to work and prepare for work as a condition of receiving benefits. All young parents seeking government assistance would be expected to prepare for and go to work. Like the child support provisions, the obligations inherent in the program send a clear message about the consequences of parenthood, ensuring that welfare receipt does not release either parent from their responsibilities to work and support their children.

Minor mothers, those under age 18, have special needs and deserve special consideration. They are a relatively small part of the caseload at any point in time, but a disproportionate contributor to long-term dependency. We have four proposals that affect minor and school-age parents:

- Minor mothers live at home. We propose requiring that minor parents live in a household with a responsible adult, preferably a parent (with certain exceptions, such as when the minor parent is married or if there is a danger of abuse to the minor parent). Current AFDC rules permit minor mothers to be "adult caretakers" of their own children. We believe that having a child does not change the fact that minor mothers need nurturing and supervision themselves, and they would be considered children--not as heads of household. Under current law, States do have the option of requiring minor mothers to reside in their parents' household (with certain exceptions), but only five have included this in their State plans. This proposal would make that option a requirement for all States.
- Mentoring by older welfare mothers. We propose to allow States to utilize older welfare mothers to mentor at-risk school-age parents as part of their community service assignment. This model could be especially effective in reaching younger recipients because of the credibility, relevance and personal experience of older welfare recipients who were once teen mothers themselves. Training and support would be offered to the most promising candidates for mentoring.
- Targeting school-age parents. We would ensure that every school-age parent or pregnant teenager who is on or applies for welfare enrolls in the JOBS program, continues their education, and is put on a track to self-sufficiency. Every school-age parent (male or female, case head or not) would be required to participate in JOBS from the moment the pregnancy or paternity is established. All JOBS rules pertaining to personal responsibility contracts, employability plans, and participation would apply to teen parents. We propose to require case management and special services, including family planning counseling, for these teens.
- State options for behavioral incentives. We propose to give States the option to use monetary incentives combined with sanctions as inducements to remain in school or GED class. They may also use incentives and sanctions to encourage participation in appropriate parenting activities.

ENCOURAGEMENTS FOR RESPONSIBLE FAMILY PLANNING

Responsible parenting requires access to information and services designed to discourage early sexual behavior and prevent pregnancy. We propose the following:

- A national campaign against teen pregnancy. We propose that the Administration lead a national campaign against teen pregnancy, involving the media, community organizations, churches and others in a concerted effort to change perceptions. The campaign would set national prevention goals and challenge the States to come up with school or community based plans to meet those goals.

- Increased funding for family planning services through Title X. Responsible family planning requires that family planning services be available for those who need them. A request for increased funding for Title X was included in the FY 1995 budget submission.

Issue: Family Caps

The issue is whether States should be allowed or required to limit benefit increases when additional children are conceived by parents already on AFDC, if the State ensures that parents have access to family planning services. Non-welfare working families do not receive a pay raise when they have an additional child, even though the tax deduction and the EITC may increase. However, families on welfare receive additional support because their AFDC benefits increase automatically to include the needs of an additional child.

Proponents of family caps argue that they would reinforce parental responsibility by keeping AFDC (but not food stamps) benefits constant when a child is conceived while the parent is on welfare. The message of responsibility would be further strengthened by permitting the family to earn more or receive more in child support without penalty as a substitute for the automatic AFDC benefit increase under current law.

Opponents of family caps argue that there is no evidence that they deter births, and that they deny benefits to needy children. Opponents also argue that the value of the benefit increase is similar to the value of the tax deductions and EITC increase for a working family that has an additional child. (The tax deduction and EITC increase for the second child is worth \$1,241 at the \$20,000 income level; the tax deduction is worth \$686 at \$60,000. AFDC benefits increase \$684 per year for the second child in the median State; including food stamps increases benefits by \$1,584.)

LEARNING FROM PREVENTION APPROACHES THAT PROMOTE RESPONSIBILITY

Solely changing the welfare system is insufficient as a prevention strategy. For the most part, the disturbing social trends that lead to welfare dependency are not caused by the welfare system but reflect a larger shift in societal mores and values. Teen pregnancy appears to be part of a more general pattern of high-risk behavior among youth.

The Administration is developing several initiatives that aim to improve the opportunities available to young people and to provide alternatives to high-risk behavior. The School-to-Work initiative, for example, would provide opportunities for young people to combine school with work experience and on-the-job training, as a way of easing the transition into the workplace. The Administration's crime bill focuses additional resources on crime prevention, especially on youth in disadvantaged neighborhoods. Initiatives like these are aimed at raising aspirations among young people who might otherwise become parents too early.

In addition, we ought to direct some attention specifically to preventing teen pregnancy. The basic issue in designing a prevention approach is to balance the magnitude of the problem with the paucity of proven approaches for dealing with it. We need a strategic approach that develops and funds some substantial demonstration programs, and evaluates them for their potential to be more broadly effective.

Demonstrations. Early childbearing and other problem behaviors are interrelated and strongly influenced by the general life-experience associated with poverty. Changing the circumstances in which people live, and consequently how they view themselves, is needed to affect the decisions young people make in regard to their lives. To maximize effectiveness, interventions should address a wide spectrum of areas including, among others, economic opportunity, safety, health and education. Particular emphasis must be placed on the prevention of adolescent pregnancy, through measures which include sex education, abstinence education, life skills education and contraceptive services. Comprehensive community based interventions show great promise, especially those efforts that include education.

We propose comprehensive demonstration grants that would try different approaches to changing the environment in which youth live and carefully evaluate their effects. These grants would be of sufficient size or "critical mass" to significantly improve the day-to-day experiences, decisions and behaviors of youth. They would seek to change neighborhoods as well as directly support youth and families and would particularly focus on adolescent pregnancy prevention. While models exist for this type of comprehensive effort, few have been rigorously evaluated. We propose a systematic strategy to learn from variations in different types of approaches. All demonstrations would include a strong evaluation component.

SUPPORTING TWO-PARENT FAMILIES

Ideas under consideration for Reinventing Government Assistance include provisions to end or reduce the current bias in the welfare system against two-parent families by: 1) eliminating the more stringent rules for two-parent families that exist in current law; and 2) requiring States to provide benefits to two-parent families continuously, instead of limiting provision of such benefits to 6 months. Allowing two-parent families to receive the same benefits that single parents receive should encourage families to stay together, remove disincentives for parents to marry and send a strong message about the value of both parents.

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.

5-5036

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500
March 9, 1994

MEMORANDUM FOR BRUCE REED
DEPUTY ASSISTANT TO THE PRESIDENT
FOR DOMESTIC POLICY
MARY JO BANE
ASSISTANT SECRETARY ADMINISTRATION FOR
CHILDREN AND FAMILIES HEALTH AND HUMAN SERVICES
DAVID ELLWOOD ASSISTANT SECRETARY FOR PLANNING AND
EVALUATION HEALTH AND HUMAN SERVICES

FROM: JOE STIGLITZ *JS*

SUBJECT: Comments on Welfare Reform Proposal

The draft produced by the Welfare Reform Task Force exhibits a level of creativity seldom seen in a group project. It is certainly a valuable piece of work. The draft proposal, however, could be improved. Toward this end, I have a number of comments that the Working Group might want to address in discussions of the present draft and that might be incorporated in a future draft.

One over-riding concern is that any welfare reform legislation enacted is reversible. Therefore, it is important that the program ultimately put into place be likely to experience quick success. Otherwise, during the phase-in period, support for the reform effort may dwindle and the legislation be reversed (or worse). Accordingly, the proposal should concern itself with demonstrating success (e.g., increased labor force participation or reduced case load) in the initial implementation period.

My comments are presented in terms of six major themes for ease of exposition. However, these themes are clearly related to others, since it is seldom appropriate to view any one part of welfare reform in isolation.

Theme 1: What is the Entitlement?

Should current levels of payments be viewed as an entitlement, the reduction of which should only be undertaken with the strongest of reasons, or should we view the whole discussion of Welfare Reform one in which the entire nature and structure of the entitlement is under review?

- o The varied levels of support across different states--which we are allowing to persist--suggests that we are not committed to any particular level of a "safety net."

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- o Does any individual who has capability of working (at an unskilled job) have an obligation to do so, if there is an available job?

The Working Group generally steered clear of the issue of the nature of the "entitlement," taking the State level of benefits as a given. Given the current political constraints, I concur with that judgment, though I would like to see a movement towards establishing more national norms. Whether this should be done, and if so, how it could be done most effectively, requires more discussion.

At several points, an implicit argument for why certain policies should be pursued seems to have been that we cannot make recipients on welfare worse off than they are now. But that is precisely the question at hand: do recipients have an "entitlement" to current levels of benefits?

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To implement any phased incentives that would reduce benefits as a recipient's time on the welfare rolls increases (discussed below), we would have to address this issue.

Theme 2: The Role of Individual Incentives

I wish to emphasize the importance of incorporating strong incentives within the program:

- o Legal rights may limit the ability to "force" individuals off welfare on a discretionary basis.
- o Even with best of intentions, States may find it difficult to change the direction of agencies administering programs. We should be wary of having excessive confidence in existing and proposed administrative structures for accomplishing our objectives.

In general, the Working Group believed that individual recipients needed to have appropriate incentives to enter the paid labor force as soon as possible. This requires that the benefits an individual receives while not working always are less than the total amount of compensation plus benefits received while working, and the difference must be large enough to compensate for the effort of working.

Assessing these incentives requires integrating all assistance programs, including food stamps and housing. Under current programs, in some states, the net return to working at a full time job can be as low as a dollar or two an hour. The consequence is that the incentive for work is less than might otherwise seem to be the case.

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Though full integration would clearly be desirable, partial integration, with welfare payments adjusted to reflect other benefits could go a long way to addressing the basic incentive issues.

We may want to consider alternative ways to providing the requisite incentives:

- (a) Some argue that it would be administratively simpler to reduce some entitlement other than EITC for WORK participants, and to keep the entitlements provided through the income tax system intact (since the tax system has less direct contact with WORK participants than the welfare system);
- (b) Overall benefit levels could be reduced the longer a recipient is in the welfare program, encouraging individuals to enter the paid labor force; / good
- (c) Finally, for those with the longest stays on the welfare rolls, benefit levels to the parent could be effectively reduced through provision of more in-kind benefits targeted to children.

Even when recipients are required to accept any full time private sector job offered, there are instances where the incentive to enter the paid labor force would be dulled by the operation of the draft proposal. For example, under the draft proposal, part-time work may stop the running of the 2-year time clock on training and welfare benefits. In this case, a recipient with a part-time job may indefinitely receive benefits. Alternatively, if part-time work does not change the possible set of benefits available in a positive manner, it may be rejected as less satisfactory than simply making use of the training proposed to be available. A compromise solution that retains the appropriate incentives is to ratably slow down the 2-year clock on benefits for those who engage in part-time work. Under this scheme, a person who works 20 hours per week (half-time) would be able to receive benefits for 4 years before moving to the WORK program (note that such a long period of part-time work is likely to result in the recipient building up a sufficient work record to leave welfare for paid employment).

The draft proposal implies that the 2-year time limit is a lifetime limit. Accordingly, someone who received benefits at age 25 would be ineligible to receive training and other non-WORK benefits at age 35. A more appropriate policy might be to allow persons to "earn" additional welfare coverage by participating in the paid labor force for a sufficiently long period. The exact schedule would require some care to prevent recipients from repeatedly cycling between welfare and the paid labor force, but the potential problems are not insurmountable.

Theme 3: The Role of Institutional Incentives

Providing appropriate incentives to individual recipients is only part of the overall incentive issue. A similar concern exists with the incentives provided to case workers and to the States to ensure that they act to move welfare recipients into the paid labor force in a timely manner.

The draft proposal makes heavy demands on individual case workers to assess whether recipients are ready to enter the paid labor force and in what capacity. Research in the area of organizations suggests that large changes in the incentive structure for case workers may need to be a part of the changing culture in the welfare office. If the incentive structure is ignored, case workers will likely revert to current behavior rather than wholeheartedly implement welfare reform. Figuring out what those incentives might be and requiring States to incorporate them in their own welfare programs should be an integral part of our proposal.

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State incentives will also play a major role in the success of the welfare reform effort. If States are able to obtain Federal resources without fully implementing the welfare reform initiative, they may do so. Tying actual Federal payments to State success at placing welfare recipients in unsubsidized jobs should be seriously considered as part of the process of reinventing the welfare office. Though there are some incentives built in the current proposal, I am concerned whether they are sufficient.

Theme 4: The Effectiveness of Existing Programs

The draft proposal generally assumes that the training and placement programs will be approximately as effective as fairly successful local programs. I am concerned that these programs may not be effectively deployed on a nationwide basis, noting that the predicted success rate for training and placement in prior programs often outstripped actual performances. There do not appear to be programmatic "safety nets" in place in case these new programs are less successful than projected.

Theme 5: Equity between Recipients and the Working Poor

One of the basic tenets of the Welfare Reform draft proposal is that paid work is preferred to receipt of welfare benefits. This implies that the working poor should not be financially worse off than welfare recipients. Ensuring this is difficult, because the experiences of welfare recipients differ dramatically from each other and from those of the working poor. Guaranteeing this equity implies that: child care should be provided to the working poor on terms similar to those for welfare recipients; disability standards should be similar for welfare recipients and

workers; deferments from work requirements based on age should be granted only for those of approximately retirement age; and the guaranteed income for welfare recipients (especially those in the WORK program) should exceed incomes for the working poor only when there is a strong justification for the discrepancy.

Theme 6: Level of State Discretion

While there are many virtues to granting States wide latitude in redesigning their welfare programs, this latitude must be tempered with concern for overarching national interests. States should not be permitted to defer large portions of their case load from work requirements, if the national policy is to favor paid labor force participation. (There are both basic policy issues and budgetary issues involved here.) A strategy of granting States a fixed number of deferments (perhaps as a percentage of the case load) may prove to be effective in getting States to use deferments only in appropriate circumstances, and not as a tool to manage the burden on local welfare offices.

A major problem is that we do not know what the appropriate percentage of deferments should be. To many, deferment of 25 percent of the case load seems too high: will it really mean that we have ended welfare as we know it? Excessively high deferment rates not only presents a political problem, but also an economic problem. A key element in welfare reform is providing appropriate incentives to recipients. If the reform plan effectively provides for a "lottery"--the chance at continuing welfare as we used to know it--it may adversely affect those incentives. Also, if States are held to a deferment limit of 25 percent of caseload there may be a tendency for States to push against that limit, with the attendant negative consequences.

Current caseloads may provide us with poor guidance on what the appropriate deferment percentage should be, especially if the welfare reform plan succeeds in radically changing the current system. If the proposal is successful in getting a large percentage of recipients from welfare to the paid labor force quickly, then the percentage of the remaining caseload that is extremely difficult to place in private sector jobs may be high.

I tentatively suggest the following approach, combining appropriate incentives with flexible limits. First, the Federal match for welfare benefits would be tied to State performance in moving people to paying jobs. This would limit State discretion to provide benefits that exceed the national average by a wide amount (by making those States pay more of the benefit from State funds, if the higher benefits result in longer stays on welfare) and would help line up State incentives with the purpose of the national welfare reform program. Comprehensive measures of performance should be designed to take account of local labor

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market conditions and demographic factors. Second, separate limits would be provided for exemption from the general treatment of recipients in each of the major categories (e.g., recipients on WORK beyond 2 years, recipients with children under 1 year old). Third, the exemption limits would be related to local economic conditions, demographic factors, and historical performances. These limits would generally be set tightly, to represent substantial improvements over current practice. Waivers would be provided only under unusual circumstances, and only with significantly increased state percentage contributions for the costs of the "excess" exemptions. (The increased State financial burden is important, because as we have noted, it is possible that State deferment policies have adverse effects on the base caseload, a burden which is shared nationally.) This outlined approach may help align State behavior with the national goals of welfare reform.

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The AFDC Program: The Context for Reform

- ▶ **\$22 billion in benefit payments**
- ▶ **4.8 million families**
- ▶ **Average monthly check = \$388**

- ▶ **70% of entrants off within two years.**
- ▶ **But two thirds of those who leave come back on within three years.**

Recent Reforms

The 1988 Family Support Act

- ▶ **Established Job Opportunities and Basic Skills Program**
- ▶ **Over half of recipients deferred from participation**
- ▶ **States must serve 15% of those not deferred**

State Reform Efforts

- ▶ **Twelve states have substantial welfare reform demonstrations.**
- ▶ **Various approaches to time limits and work incentives:**

**California, Colorado, Florida, Iowa
Michigan, Vermont, Wisconsin**

Values Behind Welfare Reform

- ▶ **Work**
- ▶ **Responsibility**
- ▶ **Family**
- ▶ **Opportunity**

A New Vision

- ▶ **Transitional Assistance Followed by Work**
- ▶ **Making Work Pay**
- ▶ **Parental Responsibility and Prevention**
- ▶ **Reinventing Government Assistance**

**A New Vision:
Transitional Assistance Followed by Work**

- ▶ **Full participation**
- ▶ **Training, education and job placement services (the JOBS program)**
- ▶ **Time limits**
- ▶ **Work for those who exhaust their time limit (the WORK program)**

Improving the JOBS Program

Full Participation

Training, Education and Placement (the JOBS program)

- ▶ **Personal responsibility contract & employability plan**
- ▶ **Focus on work & private sector placement**
- ▶ **Closer coordination & integration with existing mainstream education & training program**
- ▶ **Emphasis on worker support once people are placed in a job**

The Post-Two-Year WORK Program

Temporary work opportunities after the time limit for those unable to find unsubsidized work

- ▶ **Community involvement and oversight**
- ▶ **Emphasis on private sector placements**
- ▶ **Flexible placement options**
 - ▶ employer subsidies
 - ▶ non-profit/community-based jobs
 - ▶ placements using new and existing initiatives
 - ▶ community service
- ▶ **Non-displacing placements**
- ▶ **Special provision for weak local economies**

The WORK Program: Work for Welfare Versus Work for Wages

Work for Wages

- ▶ **paycheck not welfare check**
- ▶ **dignity and responsibility of a "real job"**

Work for Welfare

- ▶ **uses existing administrative structure**
- ▶ **previous experience**
- ▶ **state flexibility**

Discouraging Long-Term WORK Participation

- ▶ **Sanctions for private sector job refusal**
- ▶ **Limited duration in any one placement**
- ▶ **Frequent job search**
- ▶ **No EITC benefits?**
- ▶ **Declining state reimbursement**
- ▶ **Limits or reassessment after several placements?**

Focus and Phase-In

- ▶ **How dramatic a change, how fast?**
- ▶ **Capacity constraints require phase-in.**
- ▶ **Phase-in alternatives:**
 - ▶ **Focus on new applicants and reapplicants?**
 - ▶ **Focus on young families?**

**A New Vision:
Making Work Pay**

- ▶ **Health care reform**
- ▶ **Advance payment of the Earned Income Tax Credit (EITC)**
- ▶ **Child care for the working poor**

**A New Vision:
Parental Responsibility and Prevention**

- ▶ **Child support enforcement**
- ▶ **Efforts aimed at minor mothers,
responsible family planning and
prevention**
- ▶ **Efforts to promote two-parent families**

**A New Vision:
Reinventing Government Assistance**

- ▶ **Coordination, simplification and improved incentives in income support programs**
- ▶ **A performance-based system**

Possible Pathways Following Assessment After WORK Slot

WORK Slot/Job Search



Assessment



- 1) **Unable to work** → **SSI?**

- 2) **Able to work,
unwilling to work** → **off welfare**

- 3) **Marginally able to work,
unable to command minimum
wage**
 - **off welfare?**
 - **appropriate activities
(including community
service)**
 - **welfare benefits?**
 - **WORK slot?**

- 4) **Able to work,
willing to work,
unable to find job**
 - **off welfare?**
 - **appropriate activities
(including community
service)**
 - **welfare benefits?**
 - **WORK slot?**

**Labor Force Status of Married Women
with Children Under Six**

<u>Labor Force Status</u>	<u>All Families</u>	<u>Poor Families</u>
Worked full-year, full-time	31.2%	5.6%
Worked part-time or part-year	36.0%	27.6%
Did not work	<u>32.8%</u>	<u>66.6%</u>
Total	100.0%	100.0%

Source: Current Population Reports, Series P60-185, Table 14

Survey Results About Work

Do you think a single mother working at a part-time, minimum-wage job should be permitted to receive welfare benefits, for as long as she earns less than the poverty level, or do you think she should not be permitted to do so?

Should be permitted	86%
Should not be permitted	9%
Not sure	5%

Should mothers who have preschool children and who are on welfare be required to work?

(If Yes): Should they be required to work full time or part time?

Yes, should work:	
Full time	17%
Part time	38%
Not sure how many hours	5%
No, should not work	
Not sure	6%

Based on Peter Hart Associates, Inc.
American Viewpoint

Facts About Women Mixing Work and Welfare

- ▶ **8% of women on welfare work in any given month**
- ▶ **50% of women on welfare work at some point over a three-year period**
- ▶ **Women who work while on welfare are much more likely to leave welfare in the following month than women who do not work**

**Net Income for a Mother and Two Children in Pennsylvania
with No Child Care Expenses, 1993**

	<u>Not Working</u>	<u>Working 20 Hours</u>	<u>Working 40 Hours</u>
Net Earnings (earnings less taxes & work expenses)	0	3,385	6,770
EITC	0	1,700	3,272
AFDC	5,052	1,872	0
Food Stamps	2,868	2,796	2,340
Net Income	\$7,920	\$9,753	\$12,382