

June 9, 1994

MEMORANDUM

To: David Ellwood
Mary Jo Bane
(Bruce Reed)
Kathi Way
Belle Sawhill

From: Wendell Primus *WEP*

Re: Revised Rollout Document

Attached is the revised version of the descriptive rollout document. I and my staff have tried to incorporate as many of the comments that we received on the first draft as possible.

Your comments on this revised version would be greatly appreciated. Please give your comments to Marcy Carlson (690-7409) or Ann McCormick (690-5880) by **Friday noon** (fax 690-6562).

Thanks.

cc: Rich Tarplin Patricia Sosa
Mary Bourdette Michael Wald
Melissa Skolfield Ann Rosewater
John Monahan Ann Segal
Emily Bromberg HSP Staff

THE PRESIDENT'S WELFARE REFORM PLAN

THE VALUES OF REFORM: WORK AND RESPONSIBILITY

[The following (pp. 1-7) is Bruce's rewrite of the introduction (with minor revisions). Melissa will be editing it from a Public Affairs' perspective, but other edits are welcome.]

The current welfare system is at odds with the core values Americans share: work, family, opportunity, responsibility. Instead of rewarding and encouraging work, it does little to help people find work, and punishes those who go to work. Instead of strengthening families and instilling personal responsibility, the system penalizes two-parent families, and lets too many absent parents who owe child support off the hook. Instead of promoting self-sufficiency, the culture of welfare offices seems to create an expectation of dependence rather than independence. And the ones who hate the welfare system most are the people who are trapped by it.

It is time to end welfare as we know it, and replace it with a system that is based on work and responsibility. We need to move beyond the old debates over "something for nothing" on the one hand and "every one for him/herself" on the other, and offer a new social contract [do we want to use word 'contract' repeatedly?] that gives people more opportunity in return for more responsibility. Work is the best social program this country has ever devised; it gives hope and structure and meaning to our daily lives. Responsibility is the value that will enable individuals and parents to do what programs cannot--because governments don't raise children, people do.

The President's welfare reform plan is designed to reinforce these fundamental values. It rewards work over welfare. It signals that people should not have children until they are ready to support them, and that parents--both parents--who bring children into the world must take responsibility for raising them. It gives people access to the skills they need, but expects work in return. Most important, it will give people back the dignity that comes from work and independence.

WORK

We don't need a welfare system based on writing welfare checks. We need a work program built around helping people earn paychecks. The President's plan will transform the culture of the welfare bureaucracy to get out of the business of writing people checks for life and into the business of helping people find jobs and keep them. We want people not to need us anymore.

Two-Year Time Limit. The President's reform plan will end welfare as a way of life. Everyone who can work will be expected to go to work within two years. To the poor and those outside the economic mainstream, the Administration's plan will say two things: No one who works full-time with a child at home should be poor, and no one who can work should stay on welfare forever.

- **A new social contract:** Everyone will be required to sign a Personal Responsibility Agreement that spells out what they can expect and what is expected of them in return.
- **No more something for nothing:** Under the current system, only a small portion of welfare recipients are required to do anything in return for assistance. Our plan will significantly reduce the number of exemptions, and ensure that from day one, those who are able to work will be required to meet certain expectations.
- **Job search first:** Job search will be required immediately of anyone who can work. Anyone offered a private sector job will be required to take it or be removed from the welfare rolls.
- **A clear focus on work:** We need to change the culture of the welfare office to focus on moving people toward work and independence. Most people will be expected to enter employment well before the two years are up. States can also design shorter time limits for people who are job-ready, and require them to work sooner.
- **A second chance, not a way of life:** People should have an incentive to leave welfare quickly and not use up their months of welfare eligibility. The time limit is a lifetime limit: people who have been off welfare for long periods of time will be able to get a few months of assistance to tide them before moving into the work program, but they will not be able to start over with a new two-year clock. This will make welfare what it was meant to be—a second chance, not a way of life.

Requiring and Providing Work. Anyone who can work will have to go to work within two years, in the private sector if possible, in community service if necessary.

- **Work for wages:** People will work for a paycheck—not a welfare check. If people don't show up for work, they won't get paid. There will also be strong, escalating sanctions for people who quit or get fired.
- **Flexible, community-based jobs:** States will be able to use the money they would otherwise spend on welfare to create subsidized, non-displacing jobs in the private sector, with community organizations, or in public service positions. The plan is designed to promote strong ties to the private sector, without red tape, and to create real, meaningful jobs in fields ranging from home health care to child care to public safety.

- No one who can work should stay on welfare forever: This is a transitional program, designed to constantly push people toward unsubsidized work in the private sector. People will be required to go through intensive job search before entering the work program, and after each work assignment. No work assignment will last more than 12 months. No one will receive the EITC unless they leave the program and take an unsubsidized job. Anyone who turns down a private-sector job will be removed from the welfare rolls, as will people who refuse to make a good-faith effort to find a job when jobs appropriate to their skill level are available.
- A dramatic increase in work: Today, fewer than 15,000 welfare recipients are required to work. Under our plan, approximately 400,000 people will have hit the time limit and be working in the WORK program by the year 2000.
- Ending welfare as a way of life: The combined impact of welfare reform, health reform, and the expansion of the Earned Income Tax Credit will be dramatic. Reform means that by the year 2001, three quarters of the projected welfare caseload under the age of 30 will either be off welfare, working, or in a program leading to work. Without reform, only a small fraction would be working, and 20 percent would be in education or training.

Other Provisions to Reward Work. To further reinforce work and responsibility, our proposal will:

- Let States reward work and saving: Currently, welfare recipients who work lose a dollar in benefits for every dollar in wages, and are penalized for saving money. Our proposal lets States reinforce work by setting higher earned-income disregards. We will also allow families to set up Individual Development Accounts to save money for specific purposes, such as starting a business, owning a first home, or promoting a child's education. To move people from welfare to work, we will change outdated asset rules so that they can own a reliable car that can get them to work.
- Expand child care for the working poor: To further encourage young mothers to work, our plan will guarantee child care during the JOBS and WORK programs and for one year after participants leave welfare for work. The plan will also double funding for other Federal child care programs that help working families stay off welfare in the first place.

RESPONSIBILITY

We could have all the programs in the world, and they won't do any good if people behave irresponsibly and take advantage of government largess. The President's welfare reform plan includes measures to inspire personal and parental responsibility and prevent people from coming onto welfare in the first place. These include the broadest and most serious work requirements imposed on welfare recipients after a time period of becoming job ready; a nationwide crackdown on child support enforcement, which will give States an arsenal of ways to keep absent parents from getting off the hook; extensive efforts to detect and prevent welfare fraud, and strong sanctions to prevent gaming of the welfare system; a national campaign against teen pregnancy, targeted to the most troubled schools; and a broad array of incentives that States can use to encourage responsible behavior, from limiting additional benefits for additional children to rewarding teenagers for staying in school. In the long run, the only way to end welfare is to reduce the number of people who need to come onto it.

Accountability for Taxpayers. The Administration's reform plan includes several measures to reduce welfare fraud, crack down on child support collection, and improve efficiency:

- **State tracking systems:** States will verify the income, identity, alien status and Social Security numbers of welfare applicants. The plan will make it easier for States to coordinate programs, automate files, and monitor recipients. We will encourage States to run demonstrations that offer job placement bonuses as an incentive to caseworkers and welfare offices for helping recipients get and keep jobs.
- **A national public assistance clearinghouse:** The clearinghouse will keep track of people whenever and wherever they use welfare, and monitor compliance with time limits and work. A national "new hire" database will monitor earnings to check AFDC and EITC eligibility, and identify noncustodial parents who switch jobs or cross State lines to avoid paying child support.
- **Electronic Benefits Transfer (EBT):** Under a plan developed by Vice President Gore, States will be encouraged to move away from welfare checks and food stamp coupons toward electronic benefits transfer, which provides benefits through a tamper-proof ATM card. EBT systems will reduce welfare and food stamp fraud, and lead to substantial savings in administrative costs.
- **Rewarding performance, not process:** This plan will change the culture of the welfare office by providing clear incentives to States and caseworkers to move people from welfare to work, improve child support collection, and provide effective services. The plan includes dozens of measures to simplify, coordinate, and conform the rules and regulations of the AFDC and Food Stamp programs to reduce paperwork and focus on results.

The Toughest Child Support Enforcement Ever Proposed. Both parents must support their children. In 1990, absent parents paid only \$14 billion in child support. But if child support orders reflecting current ability to pay were established and enforced, single mothers and their children would have received \$48 billion. Closing this \$34-billion child support gap will help move thousands of families off welfare and keep them off. It's time to say to those parents: If you're not paying your child support, we'll garnish your wages, suspend your license, track you across State lines, and even make you work off what you owe. If this country did a better job of enforcing child support, the need for a welfare system would diminish significantly. The Administration's proposal includes important measures to strengthen the child support enforcement system:

- **Establishing paternity for all out-of-wedlock births:** Hospitals will be required to establish paternity at birth--when the father is most likely to be present, and mothers who apply for welfare will be required to name and help find the child's father before receiving benefits.
- **Tracking down those who don't pay:** Three registries -- containing child support awards, new hires, and locating information -- will catch parents who try to evade their responsibilities by fleeing across State lines. Central State registries will monitor and enforce support payments automatically.

- **New penalties for those who refuse to pay:** States will be able to use wage-withholding, credit reporting, and suspension of professional, occupational, and drivers' licenses to make delinquents pay.
- **State initiatives and demonstration programs:** States will be able to make parents who fail to meet their obligations work off the child support they owe. States will also run demonstration programs to help noncustodial parents with no skills get training, access and parenting programs to help absent parents get involved in their children's lives, and child support assurance demonstrations to give families a measure of economic security even if child support is not collected immediately.

Ending Welfare for the Next Generation. The current welfare system sends young people exactly the wrong message. Today, minor parents get a check for leaving home, and are free to drop out of high school even though the long-term consequences for themselves and their children will be devastating: Unwed teen mothers who drop out of school are 10 times more likely to raise a child in poverty than young people who finish school, get married, and wait until their twenties to have children. Our plan changes the incentives of welfare to show teenagers that having children is an immense responsibility rather than an easy route to independence. At the same time, we offer ways to help teen parents take charge of their lives, finish school, find jobs, and become self-sufficient:

- **New requirements for teen parents:** Teen parents will be required to finish school and enter the JOBS program. Unwed minor mothers will be required to identify their father's child and live at home or with a responsible adult--not set up an independent household to receive their own check.
- **A national campaign against teen pregnancy:** We will bring the media, the private sector, churches, schools, and other groups together in a broad-based campaign to send a strong message that it is wrong to have children outside marriage, and that no one should have a child until they are able to provide for and nurture that child. We will launch school-based prevention programs in 1,000 schools with the worst teen pregnancy problems, set up a national clearinghouse on teen pregnancy to identify successful programs and help replicate them elsewhere, and target a handful of at-risk neighborhoods for intensive prevention efforts.
- **A phase-in focusing on young recipients first:** The welfare reform plan initially targets recipients under 25--those with the most to gain and the most at risk. Under our plan, anyone born after 1971 will know that the world has changed, and that welfare can no longer be a way of life.

Other Provisions to Promote Responsibility and Innovation. Overcoming generations of dependency will not be easy, and one thing we've learned in the last 30 years is that Washington doesn't have all the answers. This plan gives States unprecedented flexibility to innovate and learn from new approaches. Much of what once required waivers will become available to States as State options.

- **A plan that works for States:** To give States a chance to do this right, our plan is phased in beginning with those born after 1971—anyone age 25 and under by late 1996, when States begin to implement the program. That represents a third of the adult caseload initially, and will grow steadily to include nearly two-thirds by 2004. States can phase in faster if they want.
- **Extending assistance to two-parent families:** Current welfare rules discriminate against two-parent families, instead of encouraging them to stay together. States will be able to waive rules that penalize two-parent families for working.
- **Rewards and sanctions to keep teen parents in school:** States will be able to design their own monetary-incentive programs like the Learning, Earning and Parenting (LEAP) program in Ohio.
- **No additional benefits for additional children conceived on welfare:** Welfare recipients don't have more children on average than other women, but those who do make it harder for themselves and their families to escape poverty. States will have the option to limit benefit increases for additional children conceived by parents on welfare.
- **Advance payment of the EITC:** States will be able to work with the Treasury Department to develop plans to get the EITC out on a periodic basis, instead of as a lump sum at the end of the year.
- **Continued waiver authority:** We will help States with existing waivers to adapt them once the new law passes. The broad waiver authority in current law will continue.

THE ADMINISTRATION'S RECORD ON WELFARE REFORM

Tax Credits for Working Families. Last year's economic package went a long way toward ending welfare by giving 15 million working families a tax cut through a \$21 billion expansion of the Earned Income Tax Credit (EITC). The EITC turns a minimum wage, \$4.25-an-hour job into a \$6-an-hour job, and makes good on the President's campaign promise that no one who works full-time with a family at home will be poor. With the expanded EITC and health reform, every job can be a good job.

Health Reform. Health reform will move an estimated one million women and children off welfare. A recent survey of welfare recipients in Charleston and Nashville found that 83 percent would take a minimum wage job if it offered health coverage for them and their families. Another study found that only 8 percent of people who leave welfare for work get jobs that provide health insurance. [do we have cites for these two facts?]

Waivers. Since January 1993, the Administration has granted waivers to 14 States to experiment with time limits, extending assistance to two-parent families, limiting additional benefits for additional children, and other new initiatives.

Other Empowerment Initiatives. In addition to welfare and health reform and the EITC, the Administration has sought to reward work and empower people through a number of initiatives, including National Service, Empowerment Zones, community development banks, enforcement of the Community Reinvestment Act, community policing and public safety.

PAYING FOR REFORM

The following two tables illustrate the cost and financing of the Work and Responsibility Act of 1994. These tables clearly demonstrate that:

- The proposal is fully financed. About two-thirds of the financing provisions are further reforms to means-tested programs which would remove from the welfare rolls immigrants with well-off sponsors and drug addicts and alcoholics who are not complying with treatment requirements. In addition, savings will accrue by collecting child support from parents who have failed to accept financial responsibility for their children.
- Approximately ____ percent of the entire cost of the plan is additional funding for child care to enable individuals to work or to obtain the training or other services they need to enter the labor force.
- The plan will not impose new costs upon states. As can be seen in Table 1, only ____ million more dollars will come from States. This amount will primarily result from State decisions to expand eligibility for two-parent families, offer higher earnings disregards or cover a higher proportion of their caseload.

While the limit on Emergency Assistance will reduce State reimbursement, some \$1.3 billion of savings will accrue to the States in lower SSI spending for State supplements. On balance, States will be asked to finance very little of this plan. There are no unfunded mandates.

Table 1 provides a detailed summary of the major cost elements within the proposal. A detailed cost table is found at the end of the document. Table 2 provides a summary of the financing used to pay for reform. A longer description of the financing provisions and a detailed table are provided at the end of the document.

TABLE 1

SUMMARY OF COST ESTIMATES			
Proposal	Five-year Federal	Five-year State	Five-year Total
Parental Responsibility			
Teenage Pregnancy Prevention Grants			
Comprehensive Demonstration Grants			
Child Support Enforcement			
Noncustodial Parent Provisions			
Child Support Assurance Demonstrations			
State Option to Limit Additional Benefits to Additional Children			
Other			
Subtotal, Parental Responsibility			
Making Work Pay			
At-Risk Child Care Expenditures			
State Flexibility on Earned Income and Child Support Disregards			
Subtotal, Making Work Pay			
Transitional Assistance Followed by Work			
Additional JOBS Spending			
WORK Spending			
Additional Child Care Spending			
Computer Costs			
Other			
Subtotal, Transitional Assistance			
Improving Government Assistance (IGA)			
Remove Two-Parent (UP) Restrictions			
IDA/Microenterprise Demonstrations			
Conform Resource Limit and Exclusion Rules			
Other			
Subtotal, IGA			
TOTAL			

TABLE 2

SUMMARY OF FINANCING PROVISIONS	
Proposal	Five-Year Total (in billions)
Entitlement Reforms	
Limit Emergency Assistance	1.60
Tighten Sponsorship and Eligibility Rules for Non-Citizens	
Five-Year Deeming and Limit Eligibility to Sponsors below Median Income	3.06
Establish Similar Eligibility Criteria for Four Federal Programs	0.89
Time Limit Benefits for Drug Addicts and Alcoholics (H.R. 4277)	0.60
Income Test Meal Reimbursements to Family Day Care Homes	0.52
Extend Expiring Provisions	
Hold Constant a Portion of Food Stamp Overpayment Recoveries for States	0.05
Extend Fees for Passenger Processing and Other Customs Services	0.00
Extend Railroad Safety User Fees	0.16
Extend Corporate Environmental Income (Superfund) Tax	1.60
Tax Compliance Measures	
Deny EITC to Non-Resident Aliens	0.13
Require Income Reporting for Department of Defense Personnel	0.16
Other (Not yet described)	0.53
TOTAL	9.30

THE IMPACT OF REFORMS

Making all these changes overnight would severely strain the ability of Federal and State governments to implement the new system. To avoid this problem the plan is phased in by starting with young people, to send a clear message that we are ending welfare for the next generation. The attached tables are based on starting with the youngest third of the projected caseload--persons born after 1971, who will be age 24 and under in fiscal year 1996 when the new system is implemented.

Anyone born after 1971 who is on welfare today, and anyone born after 1971 who enters it subsequently, will face new opportunities and responsibilities. By the year 2004, this group will represent about two-thirds of the projected caseload, as older cohorts leave and new persons born after 1971 enter. States wanting to move faster would have the option of doing so.

Table 3 indicates the number of persons in various parts of the program by year, assuming this phase-in and the implementation of health reform after fiscal year 1999. Note that because the States will need up to two years to pass legislation and implement their systems, the program would not be fully implemented until late 1996. Thus, fiscal year 1997 is the first full year of implementation. The initial JOBS program starts up rapidly and grows somewhat over time as more and more people are phased in. The WORK program grows over time starting with roughly 250,000 jobs in the first year when people in all States begin to hit the limit (fiscal year 1999), rising to roughly 570,000 by fiscal year 2004.

TABLE 3

PROJECTED CASELOADS UNDER THE ADMINISTRATION'S WELFARE AND HEALTH REFORM PROPOSAL ASSUMING IMPLEMENTATION FOR PERSONS BORN AFTER 1971						
	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2004
Projected Adult Cases With Parent Born After 1971 Without Reform	1.03 million	1.63 million	1.87 million	2.12 million	2.37 million	3.43 million
Off welfare with Reform (Health reform after 1999, EITC, Child Care, JOBS, WORK, etc.)	.00 million	.03 million	.09 million	.12 million	.33 million	.85 million
Program Participants	1.03 million	1.60 million	1.78 million	2.00 million	2.04 million	2.58 million
Working While on Welfare	.10 million	.17 million	.20 million	.21 million	.22 million	.27 million
JOBS Participants	.58 million	.90 million	1.00 million	.99 million	.87 million	.97 million
WORK Participants	.00 million	.00 million	.07 million	.26 million	.39 million	.57 million
Pre-JOBS--disability/age limits work	.11 million	.18 million	.23 million	.24 million	.26 million	.44 million
Pre-JOBS--severely disabled child	.02 million	.03 million	.03 million	.03 million	.04 million	.07 million
Pre-JOBS--caring for child under one	.22 million	.32 million	.25 million	.27 million	.26 million	.26 million

Notes on Table 3:

Numbers assume modest behavioral effects that increase over time. These behavioral effects include employment and training impacts similar to San Diego's SWIM program, a modest increase in the percentage of recipients who combine welfare and work and a modest increase in the percentage of recipients who leave welfare when they hit the time limit. Estimates also assume behavioral effects from the implementation of health reform after fiscal year 1999. Figures for fiscal year 2004 are subject to considerable error since it is difficult to make caseload projections or to determine the impact of WORK requirements on behavior this far into the future.

These estimates assume the policy will be implemented in all States by Federal law by October 1996. In addition, the estimates assume that for 75 percent of the caseload, States will implement the policy by October 1995.

Table 4 shows the impact of these changes for the phased-in caseload, compared with what we project would be the caseload without welfare and health reform.

Under the plan, we will go from a situation where almost three-quarters of the persons are collecting welfare and doing nothing in return--neither working nor in training--to a situation where three-quarters are either off welfare, working with a subsidy, or in time-limited training. Only those unable to work are outside the time limits, and even these persons will have greater expectations and opportunities under the proposed system. In addition, we expect the reform proposal to significantly increase paternity establishment rates, to increase child support payments and to lower child poverty.

TABLE 4

Projected Welfare, Work and Training Status of Phased-in Group With and Without Reforms in Fiscal Year 2000		
	Without Reforms	With Reforms
Working and/or Off of Welfare		
Off of welfare	0%	14%
Combining work and welfare	5%	9%
In WORK program	<u>0%</u>	<u>17%</u>
Total	5%	40%
In Time-limited, Mandatory Training, Education and Placement Program with High Participation Standards	0%	37%
Required to Participate in Training, Education, and Placement Program but No Time Limits and Low Participation Standards	22%	0%
Not Required to Participate in Training, Education and Placement Programs Due to Illness, Caring for Disabled Child, Young Child, or other Exemptions	73%	23%
TOTAL	100%	100%

Transforming the social welfare system to one focussed on work and responsibility will not be an easy task. A welfare system that has evolved over fifty years will not be redesigned overnight. The social and economic forces that have contributed to our current situation go well beyond the welfare system and impact the poor and non-poor alike. While the obstacles are formidable, undertaking reform of the current welfare system is essential in order to engender work and responsibility and to improve the well-being of our children now and into the future.

A description of the major elements of the plan follows.

PREVENTING TEEN PREGNANCY AND PROMOTING PARENTAL RESPONSIBILITY

Poverty, especially long-term poverty, and welfare dependency are often associated with growing up in a one-parent family. Although most single parents do a heroic job of raising their children, the fact remains that welfare dependency could be significantly reduced if more young people delayed childbearing until both parents were ready to assume the responsibility of raising children.

Teenage pregnancy is a particularly troubling aspect of this problem. The number of births to teen unwed mothers (under age 20) has quadrupled in the last 30 years, from 92,000 in 1960 to 368,000 in 1991. Teenage birth rates have been rising since 1986 because the trend toward earlier sexual activity has resulted in more pregnancies. According to the Annie E. Casey Foundation, almost 80 percent of the children born to unmarried teenage high school dropouts live in poverty. In contrast, the poverty rate is only 8 percent for children of young people who deferred childbearing until they graduated from high school, were twenty years old, and married. Teenage childbearing often leads to school drop-out, which results in the failure to acquire the education and skills that are needed for success in the labor market. The majority of these teenagers end up on welfare, and according to Advocates for Youth (formerly the Center for Population Options) the annual cost to taxpayers is about \$34 billion to assist such families begun by a teenager.

Both parents bear responsibility for providing emotional and moral guidance, as well as economic support to their children. Teenagers who bring children into the world are not yet equipped to discharge this fundamental obligation. If we wish to reform welfare and put children first, we must find effective ways of discouraging pregnancy by young people who cannot provide this essential support. We must send a clear and unambiguous signal--you should not have a child until you are able to provide for and nurture that child.

For those who do become parents, we must send an equally clear message that they will have to take responsibility, even if they do not live with the child. In spite of the concerted efforts of Federal, State and local governments to establish and enforce child support orders, the current system fails to ensure that children receive adequate support from both parents. Recent analysis by the Urban Institute suggest that the potential for child support collections exceeds \$48 billion per year. Yet only \$20 billion in awards are currently in place, and only \$14 billion is actually paid. Thus, we have a potential collection gap of over \$34 billion.

The current system sends the wrong signals: all too often noncustodial parents are not held responsible for the children they bring into the world. Less than half of all custodial parents receive any child support, and only about one third of single mothers (both never-married and formerly-married) receive any child support. The average amount paid is just over \$2,000 for those due support. Among never-married mothers, only 15 percent receive any support. Further, paternity is currently being established in only one-third of cases where a child is born out of wedlock.

The child support problem has three main elements. First, for many children born out of wedlock, a child support order is never established. Roughly 57 percent of the potential collection gap of \$34 billion can be traced to cases where no award is in place. This is largely due to the failure to establish paternity for children born out of wedlock. Second, when awards are established, they are often too low, are not adjusted for inflation, and are not sufficiently related to the earnings of the noncustodial parent. Fully 22 percent of the potential gap can be traced to awards that were either set very low initially or never adjusted as incomes changed. Third, of awards that are established, the full amount of child support is not paid in half the cases. Thus the remaining 21 percent of the potential collection gap is due to failure to collect full awards in place.

For children to achieve real economic security and to avoid the need for welfare, they ultimately need support from both parents. When parents fail to provide support, the children pay--and so do we. Still, 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. Parents who pay child support restore a connection that both they and their children need.

SUMMARY OF PROPOSAL

The ethic of parental responsibility is fundamental. No one should bring a child into the world until he or she is prepared to support and nurture that child. We need to implement approaches that both require parental responsibility and help individuals to exercise it. First, we propose a national effort to prevent teen pregnancy. Second, we need special efforts to encourage responsible parenting among those on assistance, especially very young mothers. Third, we must collect more child support on behalf of all children living in single-parent families.

Reducing Teen Pregnancy and Out-of-Wedlock Births

- Lead a national campaign against teen pregnancy
- Establish a national clearinghouse on teen pregnancy prevention
- Provide teen pregnancy prevention grants
- Conduct comprehensive service demonstrations of various prevention approaches

Incentives for Responsible Behavior

- Require minor mothers to live at home
- Require school-age parents to stay in school
- Allow States to limit additional benefits for additional children conceived while on AFDC
- Allow States to provide a variety of incentives to reward responsible behavior

Child Support Enforcement

- Establish awards in every case
- Ensure fair award levels
- Collect awards that are owed
- Child support enforcement and assurance demonstrations
- Enhance responsibility and opportunity for noncustodial parents

REDUCING TEEN PREGNANCY AND OUT-OF-WEDLOCK BIRTHS

We need to send a strong signal that it is essential for young people to delay sexual activity, as well as childbirth, until they are ready to accept the responsibilities and consequences. It is critical that we help all youth understand the rewards of staying in school, playing by the rules, and deferring childbearing until they are married, able to support themselves and nurture their offspring. We have four proposals in this area:

National Campaign Against Teen Pregnancy. The President will lead a national campaign against teen pregnancy that challenges all aspects of society—business, national and community voluntary organizations, religious institutions and schools—to join in the effort to reduce teen pregnancy. The campaign will emphasize the broader themes of economic opportunity, along with the personal responsibility of every family in every community. Government has a role to play in preventing teen pregnancy, but the massive changes in attitudes and behavior that have occurred in recent decades cannot be dealt with by Government alone.

National and individual goals will be established to define the mission and to guide the work of the national campaign. The goals will focus on measurable aspects of the broader opportunity and responsibility message for teen pregnancy prevention, such as graduating from high school; deferring childbearing until one is married or working; and accepting responsibility for the support of one's children.

A non-profit, non-partisan entity committed to these goals will be established to pull together national, State, and local efforts through the media, schools, churches, communities and individuals. Its membership will be broad-based, including youth, elected officials at all levels of government, and members of religious, sports and entertainment communities. In addition, a Federal interagency group will provide information and coordinate the range of Federal programs in this area across program and department lines.

A National Clearinghouse on Teen Pregnancy Prevention. A National Clearinghouse on Teen Pregnancy Prevention will be established to serve as a national center for the collection and dissemination of information related to teen pregnancy prevention programs. Such information will include curricula, models, materials, training and technical assistance. The Clearinghouse could also develop and sponsor training institutes for teen pregnancy prevention program staff and could conduct evaluations of prevention programs.

Teen Pregnancy Prevention Grants. To be most effective, a prevention strategy must begin with pre-teens, focus initially on the young people who are most at-risk, and emphasize school-based, school-linked activities and complementary community action.

Under the Teen Pregnancy Prevention Grant Program, about 1,000 schools and community-based programs will be provided flexible grants, ranging between \$50,000 and \$400,000 each. Communities will be expected to use these funds to leverage other resources to implement teen pregnancy prevention programs that have both local community support and rewards. Funding will be targeted to schools with the highest concentration of youth at-risk and will be available to serve both middle- and high-school-age youth. The goal will be to work with youth as early as age 10 and to establish continuous contact and involvement through graduation from high school. To ensure quality and establish a visible and effective presence, these programs will be supervised by professional staff and, where feasible, be supported by a team of national service participants provided by the Corporation for National and Community Service. These grants will be coordinated with other Administration activities and will include an evaluation component.

Comprehensive Services Demonstration Grants to Prevent Teen Pregnancy in High Risk Communities. An effective approach to reducing teen pregnancy must jointly emphasize increased personal responsibility and enhanced opportunity. Particular emphasis must be paid to the prevention of adolescent pregnancy before marriage, including sex education, abstinence education, life skills education and contraceptive services. Programs that combine these elements have shown the most promise, especially for adolescents who are motivated to avoid pregnancy until they are married. However, for those populations where adolescent pregnancy is a symptom of deeper problems, a wider spectrum of services and more intensive efforts may be necessary.

For this reason, we propose comprehensive demonstration grants for youth in high-risk communities of sufficient size or "critical mass" to significantly improve the day-to-day experiences, decisions and behaviors of youth. Local governments and local public and private non-profit organizations in high-poverty areas will be eligible to apply. Sites will be asked to cover four broad areas, with significant flexibility: health services, educational and employability development services, social support services and community activities. The grants will follow a "youth development" model and will address a wide spectrum of areas associated with youth living in a healthy community: economic opportunity, safety, health and education. These demonstrations will include a strong evaluation component and will be coordinated with other Administration activities.

INCENTIVES FOR RESPONSIBLE BEHAVIOR

Personal responsibility belongs at the heart of every government program. We believe that very clear and consistent messages about parenthood, and the ensuing responsibilities, hold the best chance of encouraging young people to 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. We hope and expect that a reformed system that strongly reinforces the responsibilities of both parents will help prevent too-early parenthood and assist parents with becoming self-sufficient.

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. We want to give States a broad range of incentives and requirements to reward responsible behavior:

Minor mothers live at home. Teenagers who have children are still children themselves and need adult supervision and guidance. The welfare system shouldn't encourage young people who have babies to leave home and receive a separate check. Minor parents will be required to live in their parents' household, except when the minor parent is married or there is a danger of abuse to the minor parent. In the latter case, States will be encouraged to find a responsible adult with whom the minor mother can live. Current AFDC rules permit minor mothers to be "adult caretakers" of their own children. This proposal will require minor mothers to live in an environment where they can receive the support and guidance they need. At the same time, the circumstances of each individual minor will be taken into account.

Requiring school-age parents to stay in school. States will be required to provide case management services to all custodial parents receiving AFDC who are under age 20. We will 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) will 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 will apply to teen parents.

State option to limit additional benefits for additional children conceived on AFDC. Currently, welfare benefits automatically increase with the birth of an additional child. Under the proposal, States will have the option to limit benefit increases when additional children are conceived by parents already on AFDC. States will be required to allow families to "earn back" the lost benefit amount through disregarded income from earnings or child support, and to ensure that parents have access to family planning services.

State options for incentives to reward responsible behavior. States will be given the option to use monetary incentives combined with sanctions as inducements to encourage young parents to remain in school or GED class. They may also use incentives and sanctions to encourage participation in appropriate parenting activities.

CHILD SUPPORT ENFORCEMENT

A typical child born in the United States today will spend some time in a single-parent home. The evidence is clear that children benefit from the financial support and interaction of both parents -- single parents cannot be expected to do the entire job of two parents. In spite of the concerted efforts of Federal, State, and local governments to establish and enforce child support orders, the current system fails to ensure that children receive adequate support from both parents. Recent analyses by The Urban Institute suggest that the potential for child support collections exceeds \$47 billion per year. Yet only \$20 billion in awards are currently in place, and only \$13 billion is actually paid.

The problem is essentially threefold. First, for many children born out-of-wedlock, a child support order is never established. Second, when awards are established, they are often too low, are not adjusted for inflation, and are not sufficiently correlated to the earnings of the noncustodial parent. And third, of awards that are established, the full amount of child support is collected in only about half the cases. Our proposal addresses each of these shortcomings.

Establish Awards in Every Case

The first step in ensuring that a child receives financial support from the noncustodial parent is the establishment of a child support award. Roughly 57 percent of the potential collection gap of \$34 billion can be traced to cases where no award is in place. Paternity, a prerequisite to establishing a support award, has not been established in about half of these cases. States currently establish paternity for only about one-third of the out-of-wedlock births every year and typically try to establish paternity only after women apply for welfare.

Paternity establishment is the first crucial step toward securing an emotional and financial connection between the father and the child. Recognizing the critical importance of establishing paternity for every child, the Administration has already launched a major initiative in this direction by the creation of in-hospital paternity establishment programs passed as part of the Omnibus Budget Reconciliation Act of 1993 (OBRA 1993). Research suggests that the number of paternities established can be increased dramatically if the process begins at birth or shortly thereafter, when the father is most likely to be present.

Parenting a child must be seen as an important responsibility that has consequences. For young fathers, this means that parenting a child will have real financial consequences for the support of that child. The responsibility for paternity establishment should be made clearer for both the parents and the agencies. If the mother provides verifiable information about the father, State agencies must establish paternity within strict timelines.

This proposal expands the scope and improves the effectiveness of current State paternity establishment procedures.

Streamlining the Paternity Establishment Process. The legal process for establishing paternity will be streamlined so that States can establish paternity quickly and efficiently. Early voluntary acknowledgement of paternity will be encouraged by building on the present in-hospital paternity establishment programs. For those cases that remain, States will be given the tools they need to process routine cases without having to resort to the courts at each step.

Cooperation from Mothers as a Condition of AFDC Benefits. The responsibility for paternity establishment will be made clear both to parents and the agencies. Mothers who apply for AFDC must cooperate fully with paternity establishment procedures prior to receiving benefits, under a new, stricter definition of cooperation which requires that the mother provide the name and other verifiable information that can be used to locate the father. The process for determining cooperation will also be changed -- "cooperation" will be determined by the child support worker, rather than the welfare caseworker, through an expedited process that makes a determination of cooperation before an applicant is allowed to receive welfare benefits. Those who refuse to cooperate will be denied AFDC benefits. Good cause exceptions will continue to be provided in appropriate circumstances. In turn, once an AFDC mother has cooperated in providing information, States will have one year to establish paternity or risk losing a portion of their Federal match for benefits.

Paternity Outreach. Outreach and public education programs aimed at voluntary paternity establishment will be greatly expanded in order to begin changing the attitudes of young fathers and mothers. Outreach efforts at the State and Federal levels will promote the importance of paternity establishment, both as a parental responsibility and as a right of the child to know both parents.

Paternity Performance and Measurement Standards. States will be encouraged to improve their paternity establishment rates for all out-of-wedlock births, regardless of welfare status, through performance-based incentives. A new paternity measure will be implemented that is based on the number of paternitys established for all cases where children are born to an unmarried mother.

Administrative Authority to Establish Orders Based on Guidelines. Establishing support awards is critical to ensuring that children receive the support they deserve. Child Support (IV-D) agencies will be given the administrative authority to establish the child support award in appropriate cases, based on State guidelines.

Ensure Fair Award Levels

Fully 22 percent of the potential child support collection gap can be traced to awards that are either set very low initially or are not adjusted as incomes change. All States are currently required to use presumptive guidelines for setting and modifying all support awards but they have wide discretion in their development and the resulting award levels vary considerably across States. For example, the

minimum amount of support due from noncustodial parents required to pay support for one child is \$259 per month in Alabama, \$241 in California, \$50 in Massachusetts, and \$25 in New York. While the use of State-based guidelines has led to more uniform treatment of similarly-situated parties within a State, there is still much debate concerning the adequacy of support awards resulting from guidelines.

Another concern is the failure to update awards as the circumstances of the parties change. Although the circumstances of both parents (including their income) and the child typically change over time, awards often remain at their original level. Updating typically increases awards over time because the noncustodial parent's income typically increases after the award is set, while inflation reduces the value of awards. However, the noncustodial parent who loses his job or experiences a legitimate drop in earnings would also benefit from updating because adjusting their awards will reduce the accumulation of arrearages.

This proposal seeks to reduce the impact of inadequate child support awards and to provide distribution policies that enable families to more easily move from welfare to work.

Modifications of Child Support Orders. Universal, periodic, administrative updating of awards will be required for both AFDC and non-AFDC cases in order to ensure that awards accurately reflect the current ability of the noncustodial parent to pay support. The burden for asking for an increase, if it is warranted, will be lifted from the mother and it will be done automatically, unless both parents decline a modification.

Distribution of Child Support Payments. Child support distribution policies will be made more responsive to the needs of families by re-ordering child support distribution priorities. For families who leave welfare for work, child support arrearages will be paid to the family first. Arrearages owed to the State will be forgiven if the family unites or reunites in marriage. States will also have the option to pay current child support directly to families who are recipients. Families often remain economically vulnerable for a substantial period of time after leaving AFDC — about 40 percent of those who leave welfare return within one year, and another 60 percent return within two years. Ensuring that all support due to the family during this critical transition period is paid to the family can mean the difference between self-sufficiency or a return to welfare.

National Commission on Child Support Guidelines. Under the proposal, a National Guidelines Commission will be established to study the issue of child support guidelines and make recommendations to the Administration and Congress on the desirability of uniform national guidelines or national parameters for setting State guidelines.

Changing the present distribution rules will assist people in making a successful transition from welfare to work by making pre- and post-AFDC arrears available to the family first if the family has left AFDC. Family unification will be encouraged by allowing families who unite or reunite in marriage to have any child support arrearages owed to the State forgiven under certain circumstances.

Collect Awards That Are Owed

The full amount of child support is collected in only about half the cases. Currently, enforcement of support cases is too often handled on a complaint-driven basis, with the IV-D agency taking enforcement action only when the custodial parent pressures the agency to do so. Many enforcement steps require court intervention, even when the case is a routine one. And even routine enforcement measures often require individual case processing, as opposed to being able to rely on automation and mass case processing.

This proposal includes provisions for central registries and other tools to improve both intra- and interstate enforcement.

State Role. A State-based system will continue, but with bold changes which move the system toward a more uniform, centralized and service-oriented program. All States will maintain a central registry and centralized collection and disbursement capability. The registry will maintain current records of all support orders and work in conjunction with a centralized payment center for the collection and distribution of child support payments. This will be designed to vastly simplify withholding for employers, as well as ensure accurate accounting and monitoring of payments.

The State staff will monitor support payments to ensure that the support is being paid, and they will be able to impose certain enforcement remedies at the State level administratively. Thus, routine enforcement actions that can be handled on a mass or group basis will be imposed through the central State offices using computers and automation. For States that opt to use local offices, this will supplement, but not replace, local enforcement actions.

All cases included in the central registry will receive child support enforcement services automatically, without the need for an application. Certain parents, provided that they meet specified conditions, can choose to be excluded from payment through the registry.

States must move toward a child support system for the 21st century. With 15 million cases and a growing caseload, this will not occur by simply adding more caseworkers. Routine cases have to be handled in volume. The central registry, centralized collection and disbursement system, increased administrative remedies, and overall increase in automation and mass case processing are all necessary for the operation of a high performing and effective child support enforcement system.

The need has grown for one central State location to collect and distribute payments in a timely manner. The ability to maintain accurate records that can be centrally accessed is critical. The State-based central registry of support orders and centralized collection and disbursement will enable States to make use of economies of scale and use modern technology, such as that used by business – high speed check processing equipment, automated mail and postal procedures and automated billing and statement processing. Centralized collection will vastly simplify withholding for employers since they will only have to send payments to one source. Giving State agencies the ability to take enforcement action immediately and automatically removes the burden of enforcing the obligation from the custodial parent, usually the mother.

Federal Role. The Federal role will be expanded to ensure efficient location and enforcement, particularly in interstate cases. In order to coordinate activity at the Federal level, a National Clearinghouse (NC) will be established, consisting of three components: an expanded Federal Parent Locator Service (FPLS), the National Child Support Registry, and the National Directory of New Hires.

Interstate Enforcement. New provisions will be enacted to improve State efforts to work interstate child support cases and to make interstate procedures more uniform throughout the country. The fragmented system of State support enforcement has caused tremendous problems in collecting support across State lines. Given the fact that 30 percent of the current caseload involves interstate cases, and the fact that we live in an increasingly mobile society, the need for a stronger Federal role in interstate location and enforcement has grown. Many of the recommendations of the U.S. Commission on Interstate Child Support will be included to improve the handling of interstate cases, such as the mandatory adoption of the Uniform Interstate Family Support Act (UIFSA) and other measures to make the handling of interstate cases more uniform.

License Suspension. States will be able to use the threat of revoking professional, occupational, and drivers' licenses to make delinquent parents pay child support. This threat has been extremely effective in Maine, California, and other States.

Other Tough Enforcement Measures. To insure that people do not escape their legal and moral obligation to support their children, States will be given the enforcement tools they need, especially to reach the self-employed and other individuals who have often been able to beat the system in the past. States will be enabled to take more efficient and effective action when child support is not paid, through the adoption of proven enforcement tools and streamlined enforcement procedures. Some of these tools include universal wage withholding; access to current income and asset information; easier reversal of fraudulent transfers of assets; interest and late penalties on arrearages; expanded use of credit reporting; easing bankruptcy-related obstacles; authority to use the same wage garnishment procedures for Federal and non-Federal employees, including military and veterans; and restrictions on passports and visas for egregious arrearages.

Training and Employment Programs for Noncustodial Parents. States will have the option of developing JOBS and/or work programs for the noncustodial parents of children who are receiving AFDC or have child support arrearages owed to the State from prior periods of AFDC receipt. A State could allocate a portion of its JOBS and WORK funding for training, work readiness and work opportunities for noncustodial parents. Requiring noncustodial parents to train or work off the child support they owe appears to increase collections dramatically -- most noncustodial parents pay their support rather than perform court-ordered community service.

Performance-Based System. The entire financing and incentive scheme will be reconstructed, offering States a higher Federal match and new performance-based incentive payments geared toward desired outcomes. Federal technical assistance will be expanded to prevent deficiencies before they occur. While penalties will still be available to ensure that States meet program requirements, the audit process will emphasize a performance-based, "State-friendly" approach. There is almost universal agreement that the current funding and incentive structure fails to achieve the right objectives. These enforcement tools can only be used effectively if States have the necessary funding and incentives to run good programs. The funding proposal will institute a new funding and incentive structure that uses performance-based incentives to reward States that run good programs.

Child Support Enforcement and Assurance (CSEA) Demonstrations

Children need and deserve support from both parents. Yet collections are often sporadic. Often no money is received for several months, followed sometimes with a large arrearage payment. In other cases, the father is unemployed and cannot pay that month. In still other cases, the State simply fails in its duties to collect money owed. The proposal calls for demonstrations of Child Support Enforcement and Assurance which will attempt to link expanded efforts at child support collections to some level of guarantee that a child will receive a child support payment on a consistent basis. Under this experiment, persons with an award in place would be guaranteed a minimum level of support -- for example, \$2,000 annually for one child and \$3,000 for two. This does not relieve the noncustodial parent of any obligations. It simply ensures that the child will get some money even if the State fails to collect it immediately.

Child support enforcement and assurance is meant to test ways to ease the difficult task of moving people from welfare to work. It is designed to allow single parents to count on some child support, usually from the noncustodial parent, but from the assured child support payment if the noncustodial parent becomes unemployed or cannot pay child support. The States that try this demonstration will have the option to link it with programs that require the noncustodial parent to work off the amount owed.

Since CSEA protection will be provided only to custodial parents who have a child support award in place, mothers should have more incentive to cooperate in the identification and location of the noncustodial father, since they will be able to count on receiving benefits. CSEA benefits will normally be subtracted dollar for dollar from welfare payments. In most States, a woman on welfare will be no better off with CSEA, but if she leaves welfare for work, she can still count on her child support payments. Thus, work should be much more feasible and attractive.

Enhance Responsibility and Opportunity for Noncustodial Parents

There is considerable overlap between issues concerning child support enforcement and issues concerning noncustodial parents. The well-being of children who live with only one parent will be enhanced if emotional and financial support is provided by both of their parents. Yet, the current child support enforcement system is ill-equipped to handle cases in which noncustodial parents cite unemployment as the reason for their failure to make court-ordered support payments, and pays scant attention to the needs and concerns of noncustodial parents -- instead of encouraging noncustodial parents to remain involved in their children's lives, the system often drives them away.

We need to make sure that all parents live up to their responsibilities. If we are going to expect more of mothers in welfare reform, we must not let fathers just walk away. A number of programs show considerable promise in helping noncustodial parents reconnect with their children and fulfill their financial responsibilities to support them. Some programs help parents do more by seeing that they get the skills they need to hold down a job and support their children. Other programs require noncustodial parents to work off the support they owe. It is also important to show parents who get involved in their children's lives again that when they pay child support, they restore a connection they and their children need.

This proposal will focus more attention on noncustodial parents and send a message that "fathers matter." The child support system, while getting tougher on those who can pay support but refuse to do so, will also be fair to those noncustodial parents who show responsibility toward their children.

Mandatory Training and Work for Noncustodial Parents. States will have the option to use a portion of JOBS and WORK program funding 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. States will be able to choose to make participation by noncustodial parents mandatory or voluntary and will have considerable flexibility in designing their own programs.

Demonstration Grants for Paternity and Parenting Programs. Paternity and Parenting Demonstration grants will be made 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 grants will promote responsible parenting, including the importance of paternity establishment and economic security for children and the development of parenting skills.

Access and Visitation Grants to States. Paternity actions will stress the importance of getting fathers involved earlier in their children's lives. Grants will be made 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.

MAKING WORK PAY/CHILD CARE

THE IMPORTANCE OF THE EITC, HEALTH CARE REFORM, AND CHILD CARE

A crucial component of welfare reform that promotes work and independence is making work pay. The Census Bureau reports that in 1992, 16 percent of all year-round, full-time workers had earnings too low to support a family of four out of poverty, up from 12 percent in 1974. The problem is especially great for women: 22 percent--more than one in five--of year-round, full-time female workers had low earnings.

Simultaneously, the welfare system sets up a devastating array of barriers for people who receive assistance but want to work. It penalizes those who work by taking away benefits dollar for dollar; it imposes arduous reporting requirements for those with earnings but still on welfare, and it prevents saving for the future with a meager limit on assets. Moreover, working-poor families often lack adequate medical protection and face sizeable child-care costs. Too often, parents may choose welfare instead of work to ensure that their children have health insurance and receive child care. If our goals are to encourage work and independence, to help families who are playing by the rules, and to reduce both poverty and welfare use, then we must reward work rather than welfare.

Although they are not discussed in this paper, the Earned Income Tax Credit and health reform are clearly 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. Combined with food stamps, this tax credit helps ensure that people who work full-time with a family at home will no longer be poor.

The next critical step toward making work pay 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 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. In one recent study, 83 percent of welfare recipients said they would leave welfare to take a minimum-wage job immediately if it provided health coverage for their families. Another study found that only 8 percent of people who leave welfare for work get jobs that provide health insurance.

The plan includes two additional provisions that will increase the return from work for low-income families. Under current law, all income received by an AFDC recipient or applicant must be counted against the AFDC grant, except certain specified work-related and other disregards. The proposal contains several provisions to make work a more attractive option for recipients combining work and welfare and to simplify the treatment of income for recipients and caseworkers alike. States will be required to disregard a minimum of \$120 per month but will have flexibility to establish higher earnings disregard amounts to encourage work. In addition, States will have the option to increase the current \$50 per month child support pass-through. All disregards and the child support pass-

through will be indexed to inflation to ensure that recipients who work or receive child support will be treated consistently in the future.

At present, a small percentage of EITC claimants take advantage of the option to receive part of the EITC in advance payments throughout the year. While the reasons vary for the low utilization rate, it is partly due to a lack of information and because employers are responsible to determine eligibility and administer the payments. Public agencies that deal directly with welfare recipients are uniquely advantaged to ensure that the advance payment option is used frequently and appropriately. The proposal will allow States to conduct demonstration projects to make advance payments of the EITC available to eligible residents through a State agency. Many contend that welfare recipients could particularly benefit from receiving the EITC in advance payments throughout the year because they would experience the rewards from work on a more timely basis.

The final critical component for making work pay is affordable, accessible child care. In order for families, especially single-parent families, to be able to work or prepare themselves for work, they need dependable care for their children.

The Federal Government currently subsidizes child care for low-income families primarily through the open-ended entitlement programs (the Title IV-A JOBS Child Care and Transitional Child Care), a capped entitlement program (At-Risk Child Care), and a discretionary program (the Child Care and Development Block Grant). Working AFDC recipients are also eligible for the child care disregard, although in many places it is too low to cover the cost of care (a maximum of \$200 a month for infants and \$174 a month for all other children). The dependent care tax credit is seldom available for low-income families because it is not refundable.

The current child care programs do not provide sufficient support for working-poor families. The separate programs are also governed by inconsistent legislation and regulations, making it difficult for States and parents to create a coherent system of care. Finally, there are problems with quality and supply of care, especially for infants and toddlers.

SUMMARY OF PROPOSAL

Improve Child Care for Low-Income Families

- Maintain the existing child care guarantee
- Expand child care for low-income working families
- Maintain the Child Care and Development Block Grant
- Address quality and supply
- Coordinate rules across all child care programs
- Revise child care subsidy rates

Other Provisions to Make Work Pay

- Allow States to reward work and the payment of child support
- Permit agencies to provide advance payments of the EITC through State agencies

CHILD CARE

This welfare reform proposal will increase child care funding both for families on cash assistance and working families not eligible for cash assistance. In addition, the proposal focuses on creating a simplified child care system and on ensuring that children are cared for in safe and healthy environments. The proposal includes the following:

Maintain the Existing Child Care Guarantee

People on public assistance will continue to receive child care for taking part in work or training. Those who leave welfare will continue to receive a year of Transitional Child Care.

Expand Child Care for Low-Income Working Families

We also propose significant new funding for low-income, working families. The At-Risk Child Care Program, currently a capped entitlement available to serve the working poor, is capped at a very low level and States have difficulty using it because of the required State match. We propose to expand this program by \$2.2 billion over five years and to make the match rate consistent with the new enhanced match rate in other Title IV-A programs. This will more than double the amount of child care available for the working poor.

It is hard to argue, however, that low-income working families who have never been, or are no longer, on welfare are less needing or deserving of child care subsidies than people who are on welfare. While this proposal does not provide a child care guarantee for working poor families, it does provide a significant increase in support for them as well as for those on or moving off welfare.

Maintain the Child Care and Development Block Grant

The Administration's fiscal year 1995 budget calls for a 22-percent increase in funding for the Block Grant. These funds support both services and quality improvements.

Address Quality and Supply

We will provide a set-aside in the At-Risk program to address quality improvements and supply issues. Quality improvements will include a range of activities such as resource and referral programs, grants or loans to assist in meeting State and local standards, and monitoring for compliance with licensing and regulatory requirements. Supply issues will include a special focus on the development and expansion of infant and toddler care in low-income communities. The goal of our child care proposal is to attain a careful balance between the need to provide child care support to as many low-income families as possible and the need to ensure the safety and healthy development of children. Paying higher rates to increase quality can limit the ability to increase the number of child care slots, but rates that are too low can also limit supply and parental choice, and endanger children. We are also concerned that there are specific child care supply problems in some geographic areas and for some children—especially infants and toddlers.

We propose a number of lower-cost strategies to address quality and supply. These include: improvements in the linkages between programs, including the various child care programs and Head Start; minimal but consistent health and safety standards; some direct funding toward the quality and supply improvements; and some action to maintain a reasonable floor of payment.

Coordinate Rules Across All Child Care Programs

We will assist States to use Federal programs to create seamless coverage for persons who leave welfare for work. Health and safety requirements will be made consistent across these programs and will conform to standards in the Block Grant program. States will be required to establish sliding fee scales and report consistently across programs. Efforts will be made to link Head Start and child care funding streams to enhance quality and comprehensive services.

Children should be cared for in healthy and safe environments. The CCDBG standards, together with two new standards on immunization and prohibiting access to toxic substances and weapons, are truly the minimal requirements that can provide such an assurance. More than half the States are already using the same standards for IV-A child care and CCDBG child care. Many more cite their State standards which will meet the CCDBG requirements. In all cases except immunization, States will continue to establish their own standards; as a result this change should not have a significant effect on many States. We do not believe the immunization standard should vary from State to State. Finally, we continue to support strongly parental choice and propose to add to IV-A the CCDBG requirements for: assuring parental choice of providers, providing to parents information on options for care and payment of child care, and establishing a system for parental complaints.

Child Care Subsidy 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 and should also be the same across child care programs. Additionally, payment mechanisms should reflect current market conditions and be defined in such a way that they can vary automatically over time.

There is a particular problem with the AFDC income disregard for child care, since it is based on an unreasonably low maximum monthly payment of \$175 per child (\$200 for infant care), and because the disregard is effective only after families incur child care expenses, resulting in a cash-flow problem for families. Simply raising the disregard inadvertently makes a number of new families eligible for AFDC. Eliminating the disregard will make many families ineligible. Therefore, to achieve equity and to give families a realistic ability to afford care, we propose requiring States either to supplement payments or to provide at least two options for payment of child care costs (the disregard and one other payment mechanism).

OTHER PROVISIONS TO MAKE WORK PAY

Allow States to Reward Work and the Payment of Child Support

The existing set of AFDC earnings disregard rules makes work an irrational option for many recipients, particularly over time. Currently, all income received by an AFDC recipient or applicant is counted against the AFDC grant except income that is explicitly excluded by definition. States are required to disregard the following:

- For each of the first four months of earnings, recipients are allowed a \$90 work expense disregard, another \$30 disregard, and one-third of remaining earnings are also disregarded.
- The one-third disregard ends after four months.
- The \$30 disregard ends after 12 months.

In addition, a child care expense disregard of \$175 per child per month (\$200 if the child is under 2) is permitted to be calculated after other disregard provisions have been applied. Currently, \$50 in child-support is passed through to families with established awards. The EITC is also disregarded in determining AFDC eligibility and benefits.

This proposal will eliminate the current set of disregard rules and establish a much simpler minimum disregard policy at the Federal level. We will allow considerable State flexibility in establishing policies beyond the minimum. Our proposal includes the following four components:

- Require States to disregard at least \$120 in earnings. This is equivalent to the \$90 and \$30 income disregards that families now get after four months of earnings.

- Allow States complete flexibility in determining which types of income should be considered in developing a "fill-the-gap" policy (i.e., income from earnings, child support or all forms of income). Currently, if States fill the gap, they must apply all forms of income.
- Give States the flexibility to establish their own earned income disregard policies on income above these amounts.
- The AFDC \$50 pass-through of child support payments will be indexed for inflation; States will have the option to pass through additional payments above this amount.

This proposal will yield a simpler system for recipients and caseworkers, alike. It maximizes State flexibility and makes work a more attractive, rational option. By allowing workers in low-benefit States to keep more of their earnings, it will increase the economic well-being of those workers. The requirement for States to supplement AFDC payments in fill-the-gap States, if they have less disposable income because child support is paid to the child support agency (instead of directly to the family), will be eliminated.

Permit States to Provide Advance Payments of the EITC through State Agencies

Under current law, low-income workers with children can elect to obtain up to 60 percent of the credit in advance payments through their employers, and claim the balance of the credit upon filing their income tax returns. An employee choosing to receive a portion of the EITC in advance files a W-5 form with his or her employer, and the employer calculates the advanced EITC payment based on the employee's wages and filing status and adds the appropriate amount to the employee's paycheck.

- Despite the successes of the current program, the delivery of the EITC could be improved, particularly by enhancing the probability that the EITC will be claimed in advance throughout the year rather than as a year-end, lump-sum payment. Recent data indicates that fewer than one percent of EITC claimants have received the credit through advance payments through their employers. While the reasons for the current low utilization rate are not fully known, a recent GAO study found that many low-income taxpayers were unaware they could claim the credit in advance. It is believed that welfare recipients, in particular, could benefit from receiving the credit at more regular intervals throughout the year. By receiving the credit as they earn wages, workers would observe the direct link between work effort and EITC.

1. Each State establishes an AFDC need standard (the income the State decides is the amount essential for basic consumption items) and an AFDC payment standard (100 percent or less of the need standard). Benefits are generally computed by subtracting income from the payment standard. Under a "fill-the-gap" policy, benefits are computed by subtracting income from the higher need standard.

This proposal will allow up to four States to conduct demonstrations to promote the use of the advance payment option of the EITC by shifting the outreach and administrative burden from employers to selected public agencies. Such agencies may include public assistance offices (AFDC and/or Food Stamps), Employment Service Offices, and State finance and revenue agencies. Where appropriate, States may coordinate advance payments of the EITC with payments of other Federal benefits (such as food stamps) through electronic benefit technology. Technical assistance will be provided by the Federal government, and each demonstration will be rigorously evaluated.

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 Family Support Act of 1988 recognized, through creation of the JOBS program, the need for investment in education, training and employment services for welfare recipients. Most importantly, it introduced the expectation that welfare reciprocity is a transitional period of preparation for self-sufficiency. Most able-bodied recipients were mandated to participate in the JOBS program as a means towards self-sufficiency.

However, the welfare system has not changed as much as was intended by the Family Support Act. Only a small portion of the AFDC caseload is required to participate in the JOBS program, while a majority of AFDC recipients are not required to participate and do not volunteer. An even smaller fraction of recipients are working. This sends a mixed message to both recipients and caseworkers regarding the true terms and validity of the social compact that the Family Support Act represented. As a result, most long-term recipients are not on a track to obtain employment that will enable them to leave AFDC.

This proposal calls for replacing the AFDC program with a transitional assistance program, to be followed by work. The new program includes four key elements: a new social contract; training, education and placement assistance to move people from welfare to work; a two-year time limit; and work requirements. Phasing in the plan starting first with the youngest recipients will send a strong message of responsibility and opportunity to the next generation.

SUMMARY OF PROPOSAL

- **A New Social Contract.** Everyone who receives cash support will be expected to do something to help themselves and their community. Recipients will sign a personal responsibility agreement indicating what is expected of them and of the government and to prepare them for self-sustaining employment. 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 pre-JOBS until they are ready for the time-limited JOBS program. Everyone will have a responsibility to contribute something and move toward work and independence.
- **Training, Education, and Placement linked to work (the JOBS program).** The core of the transitional support program will be an expanded and improved JOBS program that focuses on moving people into work. JOBS is the program which was established by the Family Support Act of 1988 to provide training, education and job placement services to AFDC recipients. Every aspect of the augmented JOBS program will be designed to help recipients find and keep jobs. The enhanced program will include a personal responsibility agreement (described above) and an employability plan designed to move persons from welfare to work as rapidly as possible. For most applicants, supervised job search will be required from the date the application is approved. JOBS participants will be required to accept a job if offered. The new effort, rather than creating an employment training system for welfare recipients alone, will seek close coordination with Job Training Partnership Act (JTPA) programs and other mainstream training programs and educational resources.

- **A Two-Year Time Limit.** Young recipients will be limited to two years of cash assistance, after which they will be expected to work. While two years will be the maximum period for the receipt of cash aid by people able to work, the goal will be to help persons find jobs long before the end of the two-year period. Mothers with infants, persons with disabilities which limit work and those caring for a disabled child will be placed in a pre-JOBS status and will not be subject to the time limit while such conditions exist. In a very limited number of cases, extensions of the time limit will be granted for completion of an education or training program or in unusual circumstances.
- **Work (the WORK program).** The new effort will be designed to help as many people as possible to find employment before reaching the two-year time limit. Those persons who are not able to find employment within two years will be required to take a job in the WORK program. WORK program jobs will be paid employment, rather than "workfare," and will include subsidized private sector jobs, as well as positions with local not-for-profit organizations and in the public sector. The positions are intended to be short-term, last-resort jobs, designed neither to displace existing workers, nor to serve as substitutes for unsubsidized employment. Provisions will be put in place to discourage lengthy stays in the WORK program. Among these will be limits on the duration of any one WORK assignment, frequent periods of job search, denying the EITC to persons in WORK assignments and a comprehensive reassessment after a second WORK assignment. People will be required to make a good-faith effort to find unsubsidized work, and anyone who turns down a job offer will be removed from the rolls. The primary emphasis of the WORK program will be on securing unsubsidized employment. States will be given considerable flexibility in the operation of the WORK program in order to achieve this goal.

Each of these elements is discussed below.

PHASE-IN

It is very unlikely that States could proceed to full-scale implementation of the changes described above immediately after passage of the legislation. Even if resources were plentiful, attempting to instantly place the entire caseload in the new transitional assistance program would almost guarantee enormous administrative difficulties at the State level. Facing the need to serve hundreds of thousands more persons in the JOBS program and to create hundreds of thousands of WORK assignments, many States would be unable to succeed at either.

An attractive alternative to the chaos of immediate full-scale implementation is to begin by focusing on younger parents. The younger generation of actual and potential welfare recipients represents the source of greatest concern. Younger recipients are likely to have the longest stays on welfare, in part because they are at the beginning of their spells. They are also the group for which there is probably the greatest hope of making a profound difference. Under this approach, we will devote energy and new resources to ending welfare for the next generation, rather than spreading efforts so thin that little real help is provided to anyone.

The phase-in of the new requirements will begin with all recipients (including new applicants) born after December 31, 1971. All persons of the same age and circumstances will then face the same rules, regardless of when they entered the system. This is roughly one third of the caseload in 1996. Over time, as the percentage of the caseload born after 1971 rises, the new transitional assistance program will encompass a greater and greater proportion of welfare recipients. States will have the

option of phasing in faster. By 2000, half of all adult recipients are included. By 2004, two-thirds of the adult caseload will be included.

Targeting younger parents does not imply limiting access to education and training services for older recipients. They will still be eligible for JOBS services. The *new* resources, however, will be focused on younger recipients.

A NEW SOCIAL CONTRACT

The goal of these proposals is to make the welfare system a much different world. The intake process will be changed to clearly communicate to recipients the expectation of achieving self-sufficiency through work. Just as important, the agency will also face a different set of expectations. In addition to determining eligibility, its role will be to help recipients achieve self-sufficiency. The underlying philosophy is one of mutual responsibility. The welfare agency will help recipients achieve self-sufficiency and will provide transitional cash assistance; in return, recipients will take responsibility for their lives and the economic well-being of their children.

Personal Responsibility Agreement. Each adult applicant for assistance will be required to enter into a written agreement in which he or she agrees to take responsibility for moving quickly toward independence in return for that assistance. The applicant and the State will develop an employability plan leading to self-sufficiency, and the State will agree to provide the services called for in the employability plan.

Orientation. Each applicant will receive orientation services to explain how the new system will work. A full understanding of how a time-limited assistance program operates will ensure that participants maximize their opportunities to obtain services.

Employability Plan. Within a short time frame, each adult will undergo a thorough needs assessment. Based on this assessment, and in conjunction with his or her caseworker, each person will design an individualized employability plan which specifies the services to be provided by the State and the time frame for achieving self-sufficiency.

Pre-JOBS. Under the current system, only a small portion of the AFDC caseload is required to do anything, and the rest are exempt. Our plan will reduce the number of exemptions, and ensure that even those who are not able to participate in education, training or work still have to meet certain expectations. People with a disability or caring for a disabled child, mothers with infants under one, and people living in remote areas will be eligible for pre-JOBS. States will be allowed to place a capped number of people in pre-JOBS for other good-cause reasons. All recipients will be required to take steps, even if they are small ones, toward self-sufficiency. Just as in the JOBS program, participants in pre-JOBS, when possible, will be expected to complete employability plans and undertake activities intended to prepare them for employment and/or the JOBS program.

Increased Participation. With increased Federal resources available, it is reasonable to require increased participation in the JOBS program. Current law requires that States enroll 20 percent of the non-exempt AFDC caseload in the JOBS program during fiscal year 1995. States will be expected to meet much higher participation rates for persons who are enrolled in the new program. Through the phase-in strategy described above, a higher and higher percentage of the caseload will be subject to

these rules and requirements, and the transitional assistance program will move toward a full-participation model.

TRAINING, EDUCATION, JOB SEARCH AND JOB PLACEMENT -- THE JOBS PROGRAM

The JOBS program originated with the Family Support Act. It represented a new vision for welfare, but it remains mostly an afterthought to a system principally focused on eligibility determination and check writing. We propose to make the JOBS program the centerpiece of the public assistance system. Doing so will require a series of key improvements.

There have been many impediments to the success of the JOBS program, such as a lengthy recession, the surge in AFDC caseloads and State budget shortfalls that hampered States' ability to draw down available JOBS and other Federal matching funds. For these reasons, States have been unable to effectively implement the changes envisioned in the Family Support Act.

In order to fully transform the welfare system into a structure which helps families attain self-sufficiency, the entire culture of the welfare system must be changed. This must start by making the welfare system one which focuses on helping participants achieve self-sufficiency through the provision of education, training and employment services rather than one which concentrates on determining eligibility and writing checks. To accomplish this, a major restructuring effort which implements real changes for all participants is needed. Strong Federal leadership in steering the welfare system in this new direction will be critical. To this end, we propose:

- (1) A clear focus on work. From the moment they enter the system, applicants are focused on moving from welfare to work through participation in programs and services designed to enhance employability; and
- (2) Much greater integration with mainstream education and training programs.

A Clear Focus on Work

Under the provisions of the new transitional assistance program, JOBS participation will be greatly expanded, and increased participation rates will be phased in. We recognize that welfare recipients are a very diverse population. Participants in the JOBS program have very different levels of work experience, education and skills. Accordingly, their needs will be met through a variety of activities: job search, classroom learning, on-the-job training and work experience. States and localities will, therefore, have great flexibility in designing the exact mix of JOBS program services. Employability plans will be adjusted in response to changes in a family's situation. Finally, the Federal government will make much-needed additional resources available to the States to accomplish the objectives.

Up-Front Job Search. All new adult recipients in the phased-in group (and minor parents who have completed high school) who are judged job-ready will be required to perform job search, as soon as the application is approved. States will have the option to require all job-ready new recipients (including those in the not-phased-in group) to engage in up-front job search.

The job search activities will lead to immediate employment for some recipients. For those who subsequently enter the JOBS program, they will have a realistic grasp of the job market. This will

aid in completing the needs assessment and in developing the employability plan, and may also help participants focus their energies.

Teen Parents. In order to meet the special needs of teen parents, any custodial parent under age 20 will be provided case management services. Teen parents will be required to finish high school and participate in the JOBS program. (For further provisions regarding teen parents, see section on Promoting Parental Responsibility).

Semiannual Assessment. In addition to the expectation that client progress will be monitored on a regular basis, States will be required to conduct an assessment of all adult recipients and minor parents, including both those in the pre-JOBS phase and those in JOBS, on at least a semiannual basis to evaluate progress toward achieving the goals in the employability plan. Both the individual's and the State's efforts will be examined, and corrective action will be taken as needed.

Sanctions. In order for the system to work, participants must see that the requirements are real. There must be a direct connection between a participant's behavior and the rewards and sanctions as a consequence. The sanction for refusing a job offer without good cause will be strengthened. The current penalty removes the adult from the grant; in the new system, the family's entire AFDC benefit will be terminated for 6 months or until the adult accepts the job offer, whichever is shorter. The State cannot sanction an individual for refusing to accept an offer of employment if that employment would result in a net loss of income for the family. Sanctions for failure to follow the employability plan will be the same as under current law.

Increased Funding and Enhanced Federal Match. It is important to ensure that all welfare recipients who are required to participate in the JOBS program have access to the appropriate services. The increase in Federal resources available to the States and simplified and enhanced match rates will enable States to undertake the necessary expansion in the JOBS program.

Similar to current law, the capped entitlement for JOBS will be allocated according to the average monthly number of adult recipients (which will include WORK participants) in the State relative to the number in all States. The JOBS capped entitlement will be increased from \$1 billion under current law to ___ for 1996, ___ billion for 1997 and ___ billion for each of the next three years. The capped entitlement for JOBS (as well as for WORK) would be increased if the national unemployment rate equalled or exceeded 7 percent.

Fiscal constraints have proven particularly troublesome in effecting welfare system changes. States are required to share the cost of the JOBS program with the Federal Government. Many States have, however, been experiencing budgetary difficulties which were not anticipated at the time the Family Support Act was enacted. Consequently, most States have been unable to draw down their full allocation of Federal JOBS funds because they have not been able provide the required State match. In 1992, States drew down only two-thirds of the \$1 billion in available Federal funds, and only 10 States drew down their full allocation. Fiscal problems have limited the number of individuals served under JOBS and, in many cases, limited the services States offer their JOBS participants.

To address the scarcity of State JOBS dollars, the Federal match rate will be increased by five to ten percentage points over the current JOBS match rate, with a minimum Federal match between 65 and 70 percent. Spending for direct program costs, for administrative costs and for the costs of transportation and work-related supportive services would all be matched at the single rate. During

periods of high State unemployment, the State match rate for JOBS, WORK and At-Risk Child Care would be reduced by ten percent.

Federal Leadership. The Federal role in the JOBS program will be providing training and technical assistance to help States make the program changes called for in this plan. The Federal Government will encourage evaluations of State JOBS programs, help promote state-of-the-art practices, and assist States in redesigning their intake processes to emphasize employment rather than eligibility. These activities will be funded by setting aside a portion of Federal JOBS funds specifically for this purpose—two percent in fiscal years 1996-98, and one percent thereafter,

Integrating JOBS and Mainstream Education and Training Initiatives

The Federal government currently operates a myriad of education, training, and employment services programs. Many of these programs serve the AFDC population. JOBS programs must continue to link clients to the available services in the community. Coordination, integration and implementation of common strategies among the major programs which serve the AFDC population will help States accomplish the mission of the JOBS program by expanding access to other available services. This proposal prescribes greater coordination, but it grants broad flexibility to States to achieve this objective. To this end, the proposal implements several mechanisms that promote ongoing coordination and integration and which lessen the administrative burdens States face. This will allow for program simplification, innovation, and ongoing program improvement.

The role of the JOBS program should not be to create a separate education and training system for welfare recipients, but rather to ensure that recipients have access to and information about the broad array of existing training and education programs. Under the Family Support Act, the governor of each State is required to ensure that program activities under JOBS are coordinated with JTPA and other relevant employment, training, and educational programs available in the State. Appropriate components of the State's plan which relate to job training and work preparation must be consistent with the Governor's coordination plan. The State plan must be reviewed by a coordinating council. While these measures have served to move the welfare system in the direction of program coordination and integration, further steps can and should be taken. Federal and State efforts for promoting integration and coordination, and general program improvement, will be an ongoing process in the new system.

Program Coordination. This proposal includes provisions which will greatly enhance integration and coordination among the JOBS program and related programs of the Departments of Labor and Education, such as Job Training Partnership Act programs and programs falling under the Adult Education Act and the Carl D. Perkins Vocational Educational Act. For example, the State council on vocational education and the State advisory council on adult education will review the State JOBS plan and submit comments to the Governor to ensure the objectives of these programs are adequately addressed by the State's JOBS program.

Expanded State Flexibility. In order to enable States to take the steps necessary to achieve full integration among education, training, and employment service programs, Governors will have the option to operate the JOBS and WORK programs through an agency other than the agency designated to administer welfare programs. For example, a Governor may choose to operate a combined JOBS/JTPA program. This option will expand State flexibility and will promote innovation and program improvement.

Expanding Opportunities. Among the many Administration initiatives which will be coordinated with the JOBS program are:

- National Service. HHS will work with the Corporation for National and Community Service to ensure that JOBS participants are able to take full advantage of national service as a road to independence.
- School-to-Work. HHS will work with the Department of Education to make participation requirements for the School-to-Work and JOBS programs compatible, in order to give JOBS participants the opportunity to access this new initiative.
- One-Stop Shopping. States which move toward one-stop shopping under the Reemployment Assistance Act will be required to include the JOBS program.
- Pell Grants. The program will ensure that JOBS participants make full use of such existing programs as Pell grants, income-contingent student loans and Job Corps.

TWO-YEAR TIME LIMIT

Most people who enter the welfare system do not stay on AFDC continuously for many years. It is much more common for recipients to move in and out of the welfare system, staying for a relatively brief period each time. Two out of every three persons who enter the welfare system leave within two years, and fewer than one in five spends five consecutive years on AFDC. Half of all those who leave welfare, however, return within two years, and three of every four return at some point in the future. Most recipients use the AFDC program not as a permanent alternative to work, but as temporary assistance during times of economic difficulty.

While persons who remain on AFDC for long periods at a time represent only a modest percentage of all people who ever enter the system, they represent a high proportion of those on welfare at any given time. Although many face very serious barriers to employment, including physical disabilities, others are able to work but are not making progress toward self-sufficiency. Most long-term recipients are not on a track toward obtaining employment that will enable them to leave AFDC.

Placing a time limit on cash assistance is part of the overall effort to shift the focus of the welfare system from providing cash assistance to promoting work and self-sufficiency. The time limit will give both recipients and JOBS staff a structure that necessitates continuous movement toward fulfilling the objectives of the employability plan and, ultimately, finding a job.

Two-Year Limit on Cash Benefits. The proposal establishes, for adult recipients not placed in pre-JOBS status, a cumulative limit of 24 months of AFDC benefits, followed by a work requirement. Special provisions for teen parents are discussed below.

Time limits will, in general, be linked to JOBS participation. Recipients required to participate in JOBS will be subject to the time limit. Months in which an individual receives assistance while assigned to pre-JOBS status (rather than participating in JOBS) will not count against the 24-month time limit.

In a two-parent family, both parents will be subject to the time limit if the principal earner is in the phased-in group (see below). If one parent reaches the time limit when the other has not, the parent who reaches the time limit will be required to enter the WORK program. The family will continue to be eligible for benefits as long as at least one of the two parents has not reached the time limit for transitional assistance.

Recipients unable to find employment by the end of two years of cash benefits could receive further government support only through participation in the WORK program, as described below.

Most people will be expected to enter employment well before the two years are up; States that wish to set shorter time frames and require work sooner will be able to do so.

Minimum Work Standard. Months in which an individual meets the minimum work standard will not be counted against the time limit. In an AFDC-UP family, if one parent meets the minimum work standard, neither parent is subject to the time limit. The minimum work standard will be set at 20 hours per week, with a State option to require up to 30 hours per week.

Teen Parents. As mentioned elsewhere, virtually all parents under age 20 will be required to participate in JOBS. The 24-month time clock, however, will not begin to run until the parent turns age 18. In other words, any period of receiving benefits as a custodial parent prior to the age of 18 will not be counted against the two-year time limit.

Pre-WORK Job Search. Persons who are within 45 days of reaching the time limit (up to 90 days at State option) will be required to engage in supervised job search for those final 45-90 days, before taking a WORK assignment.

Extensions. States will be permitted to grant a limited number of extensions to the time limit in the following circumstances:

- For completion of a GED or other education or training program, including a school-to-work program or post-secondary education program, expected to lead directly to employment. These extensions will be contingent on satisfactory progress toward completing the program and will be limited to 12-24 months in duration, and must be combined with part-time employment.
- For those who are learning disabled, illiterate or face language barriers or other serious obstacles to employment.

States will, in addition, be required to grant extensions to persons who have reached the time limit but who have not had access to the services specified in the employability plan. The total number of extensions will be limited to 10 percent of recipients required to participate in JOBS. In other words, a State could have no more than 10 percent of its JOBS-mandatory recipients in extended status at any given time.

Limited Additional Assistance to Persons Who Stay off Welfare for Extended Periods. Persons who exhaust or nearly exhaust their 24 months of time-limited assistance and who leave welfare for an extended period of time will be able to qualify for a few additional months of assistance. This will serve as a cushion, should they lose their job and need temporary help again. Persons with less than 6 months left on their time limit when they leave welfare can qualify for up to 3 months of additional

support for each year they are off welfare. However, in no case will they be able to raise their remaining time of benefits available above 6 months.

WORK

The focus of the transitional assistance program will be helping people move from welfare to self-sufficiency through work. An integral part of this effort is making assistance truly transitional for those able to work by placing a two-year time limit on cash benefits. Some welfare recipients will, however, reach the two-year time limit without having found a job, despite having participated in the JOBS program and followed their employability plans in good faith. We are committed to providing these persons with the opportunity to support their families through paid work.

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

The overriding goal of the WORK program will be to help participants find lasting unsubsidized employment. States will have wide discretion in the operation of the WORK program in order to achieve this end. For example, a State could provide short-term subsidized private sector jobs (with the expectation that many of these positions will become permanent), or positions in not-for-profit organizations and/or public sector agencies.

The WORK program as structured is designed to provide an opportunity for individuals who have reached the time limit to support their families through paid work while developing the skills and receiving the job search assistance needed to obtain unsubsidized private sector jobs. The structure ensures that work "pays" by assuring that a family with an adult in a WORK assignment will be no worse off than a family of the same size in which no one is working.

"Workfare" programs are generally not consistent with placements in the private sector. By contrast, the WORK program requires a strong private-sector focus. This is work--not workfare. Persons will be paid for performance--not paid a welfare check and sent out to a work site. WORK provides far greater dignity and responsibility than workfare. Moreover, the purpose of the WORK program is to help persons move into, rather than serve as a substitute for, private sector employment.

Administrative Structure of the WORK Program

Eligibility. A recipient who has reached the time limit for transitional assistance will be permitted to enroll in the WORK program, provided he or she has not refused an offer of an unsubsidized job without good cause (see below).

WORK Funding. Federal funds for the cost of operating the WORK program will be capped and distributed to States according to the number of persons required to participate in JOBS (and subject to the time limit) and the number in the WORK program in a State, relative to the total number in all States. These Federal monies must be matched by State funds at the same rate as in JOBS--the current JOBS match rate plus five to ten percentage points. The WORK capped entitlement will be set at ___ billion for 1998, ___ billion for 1999, ___ for 2000, ___ billion for 2001 and ___ billion for 2002. As discussed under JOBS funding, the capped entitlements for JOBS and WORK would be increased if the national unemployment rate equalled or exceeded 7 percent. Also as discussed under

JOBS funding, during periods of high State unemployment, the State match rate for JOBS, WORK and At-Risk Child Care would be reduced by ten percent.

In addition, States will be reimbursed for wages paid to WORK program participants, including wage subsidies to private employers, at a specified match rate.

If States were unable to claim the total available Federal JOBS and WORK funding for a fiscal year, a State which had reached its cap could draw down Federal funds for operational costs in excess of its allotment from the capped entitlement. All States will be allowed to reallocate up to 10 percent of the combined total of their JOBS and WORK allotments from JOBS to WORK, or vice versa.

Flexibility. States will have considerable flexibility in operating the WORK program. A State can pursue any of a wide range of strategies to provide work to those who have reached the two-year limit, including:

- Subsidize private sector jobs;
- Create positions in the not-for-profit sector (which could entail payments to cover the cost of training and supervising WORK participants);
- Offer employers other financial incentives to hire JOBS graduates;
- Execute performance-based contracts with private firms or not-for-profit organizations to place WORK participants in unsubsidized jobs;
- Create positions in public sector agencies (which might include employing adult welfare recipients as mentors for teen parents on assistance);
- Employ WORK participants as child care workers, child support caseworkers, or home health aides; and
- Support microenterprise and self-employment efforts.

Participation Rates. Each State will be required to meet a participation standard for the WORK program, defined as the lower number of the following such that: 1) Eighty percent of those who reach the time limit and are in the WORK program are assigned to a WORK slot (or in another defined status); 2) The number of WORK assignments the State is required to create (based on the funding allocation) are filled by individuals assigned to the WORK program.

Allocation of WORK Assignments. If the number of people needing WORK positions exceeds the supply, persons new to the WORK program will be given priority, over persons who have previously held a WORK position, in the allocation of WORK assignments. With respect to the remaining WORK participants, States will be permitted to allocate WORK assignments so as to maximize the chance of successful placements.

Interim Activities. States will have the option of requiring persons awaiting WORK assignments (e.g., those who have just concluded a WORK assignment) to participate in other WORK program activities, such as individual or group job search. Child care and other supportive services will be

provided as needed for participation in interim WORK program activities. Persons in the WORK program but not in a WORK assignment will be eligible for cash benefits in the interim.

Required Acceptance of Any Job Offer. Both JOBS and WORK program participants will be required to accept any offer of an unsubsidized job, provided the job meets certain health and safety standards and does not result in a net loss of cash income. An individual who refuses such an offer will not be eligible for a WORK position, and the entire family will be ineligible for AFDC benefits for a period of six months. Such an individual will be eligible for services, such as job search assistance, during this period. States will also be able to remove individuals from the rolls for failing to make a good faith effort to find unsubsidized work where jobs are available to match their skills.

Oversight. There will be a WORK advisory panel for each locality with union and private, not-for-profit (including community-based organizations) and public (including local government) sector representation to provide oversight and guidance to the WORK program.

Length of Participation in the WORK Program. Individuals will be limited to a maximum stay of 12 months in any single WORK assignment, after which they will be required to perform job search. States will be required to conduct a comprehensive assessment of any person who has completed two WORK assignments or who has spent at least two years in the WORK program. Following the assessment, persons could be assigned to another WORK position, placed in pre-JOBS status, referred back to the JOBS program, or, at State option, be removed from the rolls for refusing a job offer or failing to take appropriate steps (such as intensive job search) to find unsubsidized work where jobs are available to match their skills.

Retention. States will be required to maintain records on the performance of employers (public, private and not-for-profit) in retaining WORK program participants (after the subsidies end). Similarly, States will be mandated to monitor the effectiveness of placement firms in placing WORK participants in unsubsidized employment.

Nondisplacement. The assignment of a participant to a subsidized job under the WORK program will not result in the displacement of or infringe upon the promotional opportunities of any currently employed worker. In addition, WORK participants could not be placed in vacancies created by a layoff, strike or lockout.

Supportive Services. States will be required to guarantee child care, if needed, for any person in a WORK assignment. States will also be mandated to provide other work-related supportive services as needed for participation in the WORK program.

Characteristics of the WORK Assignments

Wages. Participants will typically be paid the minimum wage. Persons in WORK assignments who are performing work equivalent to that done by others working for the same employer will be similarly compensated.

Hours. Each WORK assignment will be for a minimum of 15 hours per week and for no more than 35 hours per week. The number of hours for each position will be determined by the State.

Treatment of Wages with Respect to Benefits and Taxes. Wages from WORK positions will be treated as earned income with respect to Federal and Federal-State assistance programs other than AFDC. Participants in the WORK program and their families will be treated as AFDC recipients with respect to Medicaid eligibility.

Persons in WORK assignments will be subject to FICA taxes but will not be subject to the provisions of any Federal or State unemployment compensation law. Workers' Compensation coverage will be provided at levels consistent with the relevant State Workers' Compensation statute.

Earnings from WORK positions will not be treated as earned income for purposes of calculating the Earned Income Tax Credit (EITC), in order to encourage movement into jobs outside the WORK program.

Earnings Supplementation. A family with an adult in a WORK position, whose income, net of work expenses, is less than the AFDC benefit for a family of the same size (in which no one is working) will be eligible for supplemental cash benefits to make up the difference. In other words, an earnings supplement will be provided such that a family with an individual who is working in either a WORK assignment or an unsubsidized private sector job, will never be worse off than a family of the same size on assistance in which no one is working.

The work expense disregard used for the purpose of calculating the earnings supplement will be \$120 per month (the standard AFDC work expense disregard). States which opt for more generous AFDC earnings disregard policies will be permitted but not required to apply these policies to WORK wages.

Sanctions. Wages will be paid for hours worked, and those who do not show up for work will not get paid. Failure to work the set number of hours for the position will result in a corresponding reduction in wages.

Individuals in the WORK program who without good cause voluntarily quit an unsubsidized job that meets the minimum work standard would lose eligibility for the WORK program for a period of months.

Type of Work. States will be encouraged to place as many WORK participants as possible in subsidized private sector positions. Many of the WORK positions may also be in the not-for-profit sector, with, for example, voluntary agencies, Head Start centers and other community-based organizations.

Work Place Rules. Participants in the WORK program will enjoy the same working conditions and rights as comparable employees of the same employer.

IMPROVING GOVERNMENT ASSISTANCE

The current welfare system is enormously complex. There are multiple programs with differing and often inconsistent rules. The complexity obscures the mission, frustrates people seeking aid, confuses caseworkers, increases administrative costs, leads to program errors and inefficiencies, and abets the perception of widespread waste and abuse.

SUMMARY OF PROPOSAL

Clearer Federal goals which allow greater State and local flexibility are critical. A central Federal role in information systems and interstate coordination will prevent waste, fraud and abuse and will also improve service delivery at State and local levels. The proposal to reinvent government assistance contains three major components:

Coordination, Simplification and Improved Incentives in Income Support Programs

- Allow States to eliminate special requirements for two-parent families
- Allow families to own a reliable automobile
- Allow families to accumulate savings
- Other coordination and simplification proposals
- Essential persons

Accountability, Efficiency and Reducing Fraud

- A nationwide public assistance clearinghouse
- State tracking systems
- Expansion of EBT systems

A Performance-Based System

- New performance measures and service delivery standards
- Improved quality assurance system
- Technical assistance

COORDINATION, SIMPLIFICATION AND IMPROVED INCENTIVES IN INCOME SUPPORT PROGRAMS

Everyone from advocates to administrators is calling for simplification of the welfare system, for good reason. The rationalization and simplification of income assistance programs can be achieved by making disparate Food Stamp and AFDC policy rules uniform or complementary for related policy provisions. Standardization among programs will enable caseworkers to spend less time on determining eligibility for various programs and more time on developing and implementing strategies to move clients from welfare to work.

Many have criticized the welfare system because it imposes a "marriage penalty" to recipients who choose to wed by potentially making the married-couple family ineligible for assistance. Eliminating the current bias in the welfare system against two-parent families will encourage parents to remain together and prevent one parent from leaving the home in order that the other parent can receive welfare for the children.

Restrictive asset rules often frustrate the efforts of recipients to save money and subsequently hamper their ability to attain self-sufficiency. Economic security is a vital step towards leaving welfare permanently. Changing the asset rules to allow recipients attain savings, own a reliable car, or even start a business is an important step in the right direction.

Allow States to Eliminate Special Requirements for Two-parent Families

AFDC eligibility for two-parent families is currently limited to those in which the principal wage earner is unemployed, and has worked six of the last 13 quarters. "Unemployed" is defined as working less than 100 hours in a month. This proposal will allow States, at their option, to eliminate any of the special eligibility requirements for two-parent families, including the 100 hour rule, the 30 day unemployment requirement, and the employment test. For States that elect to maintain a 100 hour (or modified) rule, WORK program participation will not count toward the rule. In addition, this proposal removes the sunset provision that allows for the termination of the AFDC-UP program in 1998, and makes it a permanent program.

Allow Families to Own a Reliable Automobile

Reliable transportation will be essential to achieving self-sufficiency for many recipients in a time-limited program – if we are expecting them to work, we should allow them to have a reliable car that will get them to work. A dependable vehicle is important to individuals in finding and keeping a job, particularly for those in areas without adequate public transportation. Both the AFDC and Food Stamp programs need a consistent resource policy that supports acquiring reliable vehicles.

For AFDC, the permitted equity value for one car is set at \$1,500 or a lower value set by the State. In the Food Stamp Program, a car valued at up to \$4,500 fair market value is allowed, although a car of any value can be excluded in certain limited circumstances. In both programs the automobile limitations can be a substantial barrier to independence. Current AFDC policy would prevent total exclusion of most cars less than eight to ten years old. The Secretary of Health and Human Services will exercise existing regulatory authority to increase the AFDC automobile limit to an equity value of \$3,500, which is more compatible with the current Food Stamp fair market value limit.

Allow Families to Accumulate Savings

As part of the welfare reform effort, we will explore a range of strategies, above and beyond education and job training, to help recipients achieve self-sufficiency. Such strategies could include empowering welfare recipients to start their own businesses and encouraging them to save their earnings to build for the future. Recipients will be permitted to accumulate savings in Individual Development Accounts (IDAs) up to \$10,000 for specific purposes such as post-secondary education expenses, first-home purchases, or business capitalization. Subsidized IDAs, in which savings by recipients would be matched by Federal government dollars, will be established on a demonstration basis; unsubsidized IDAs will be permitted for individuals nationwide. Non-recurring lump sum income will not be counted as a resource with respect to continuing eligibility to receive benefits in either AFDC or Food Stamps if put into an IDA.

Other Coordination and Simplification Proposals

Additional changes will be made to the administrative and regulatory program structures of AFDC and Food Stamps to simplify and coordinate rules to encourage work, family formation, and asset accumulation. These include:

Optional Retrospective Budgeting. The proposal will conform AFDC to the Food Stamp Program's more flexible requirements for reporting and budgeting. Under Food Stamp Program rules, States are given the option to use prospective or retrospective budgeting with or without monthly reporting. This proposal will foster consistency between the AFDC and Food Stamp programs and give States greater flexibility to administer their programs.

Resources and assets. The policies proposed under this category generally conform the way in which assets and resources are treated for the purpose of determining eligibility for both AFDC and Food Stamps for the purpose of encouraging work and promoting self-sufficiency. Currently, asset and resource rules are not consistent across programs, creating confusion and administrative complexity. In addition, the very restrictive asset rules across Federal assistance programs are perceived as significant barriers to families saving and investing in their futures.

We propose to develop uniform resource exclusion policies in AFDC and Food Stamps. This proposal will increase the AFDC resource limit (currently \$1,000) to \$2,000 (or \$3,000 for a household with a member age 60 or over) to conform to the Food Stamp resource limit. We will generally conform AFDC to Food Stamp policy regarding burial plots, funeral agreements, real property, cash surrender value of life insurance policies and transfer of resources.

The administrative complexities that exist in applying resource requirements in the AFDC and Food Stamp programs will be greatly reduced under these proposed changes. Welfare administrators will be able to apply the same rules to the same resources for the same family. These conforming changes achieve simplification by streamlining the administrative processes in both programs.

The proposal also includes a self-employment/microenterprise demonstration program. This program will attempt 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 will explore the extent to which self-employment can serve as a route to self-sufficiency for recipients of cash assistance by encouraging persons on assistance to start microenterprises (small businesses). In addition, resources necessary for self-employment, including business loans, will be excluded from the general resource limits.

Treatment of income. Federal AFDC law requires that all income received by an AFDC recipient or applicant be counted against the AFDC grant except income that is explicitly excluded by definition or deduction. A number of changes are proposed to bring greater conformity between the AFDC and Food Stamp programs, to streamline both programs and/or to reintroduce positive incentives for recipients to work. Several provisions will meet these objectives.

This proposal will exclude non-recurring lump sum payments from income for AFDC, and disregard reimbursements and EITC as resources for both programs. Lump sum payments, such as EITC or reimbursements, will be disregarded as resources for one year from the date of receipt allowing families to conserve the payments to meet future living expenses. In addition, we will disregard all education assistance and earnings of students up to age 19, exclude inconsequential income up to \$30 per individual per quarter, disregard JTPA stipends and allowances, disregard both earned and unearned in-kind income and count OJT and other earned income. Allowances, stipends and educational awards received by volunteers participating in a National Service Program will be disregarded for AFDC to conform to Food Stamp policy.

Together these proposals will make the treatment of income simpler for both recipients and welfare officials to understand. They will make work and education a more attractive, rational option for those who would continue to receive assistance and they will improve the economic well-being of those who need to combine work and welfare.

Other Conformities. We propose conforming and streamlining AFDC and Food Stamp policies regarding underpayments and verifications. Underpayments will be restored to both current and former recipients for a period not to exceed 12 months. While verification of information needed for eligibility and benefit determinations will continue to be critical to delivering assistance, States will be given flexibility to simplify verification systems, methods, and timeframes for income, identity, alien status and Social Security Numbers. AFDC requirements concerning declaration of citizenship and alien status will be amended to conform to Food Stamp policy. States will be permitted to implement Federal income tax intercept programs to collect outstanding AFDC overpayments, as currently available for Food Stamps.

Territories. The territories operate AFDC, AABD, JOBS, child care and Foster Care programs under the same eligibility and payment requirements as the States. However, funding for these programs is capped for the territories, with the Federal government matching up to 75 percent of costs. Benefit payments above the cap are financed 100 percent by the territories. The caps are \$82 million for Puerto Rico, \$3.8 million for Guam, and \$2.8 million for the Virgin Islands. Between 1979 and the present, the caps were increased once, by roughly 13 percent. The number of public assistance programs funded under the current caps, coupled with only one adjustment to these caps in 15 years, has seriously limited the territories' abilities to provide, let alone increase, benefits. Further, beginning October, 1994, Puerto Rico will be required to extend eligibility to two-parent families.

We will increase the current caps by an additional 25 percent to create realistic funding levels for the territories that are reflective of the current economy and caseload. We will also create a mechanism for indexing the caps to provide for occasional adjustments in funding levels in lieu of the current burdensome method of petitioning Congress for adjustments. Requirements to operate AFDC-UP programs in the territories will be eliminated. This proposal will continue to give territories the authority to operate public assistance programs and adequate means to do so.

Essential Persons

Under current law, States are permitted, at their option, to include in the AFDC grant benefits for persons who are considered essential to the well-being of an AFDC recipient in the family. Currently, 22 States have selected the option of including essential persons as part of the AFDC unit. Such individuals are not eligible for AFDC in their own right, but their needs are taken into account in determining the benefits payable to the AFDC family because of the benefits or services they provide to the family. This proposal will limit the kinds of individuals that a State may identify as "essential" to eliminate the loophole that allows States to bring relatives like adult siblings into the AFDC unit. We propose defining essential persons as only those who: 1) provide child care that allows the caretaker relative to pursue work and education, or 2) provide care for an incapacitated AFDC family member in the home.

ACCOUNTABILITY, EFFICIENCY AND REDUCING FRAUD

Improvements in administration of welfare programs through the use of computerized information systems began in the late 1970s, but efforts have been sporadic, fragmented and have resulted in varying degrees of sophistication, often depending on available funding incentives. Many of these systems have serious limitations, including limited flexibility, lack of interactive access and limited ability to electronically exchange data. Multiple and uncoordinated programs and complex regulations invite waste, fraudulent behavior and simple error.

Computer and information technology solutions will support welfare reform by providing new automated screening and intake processes, eligibility decision-making tools, and benefit delivery techniques. Application of modern technologies such as expert systems, relational databases, voice recognition units and high performance computer networks will permit the development of an information infrastructure and system that is able to: eliminate the need for clients to access different entry points before receiving services, eliminate the need for agency workers (and clients) to encounter and understand a wide variety of complex rules and procedures, fully share computer data with programs within the State and among States, and provide the kind of case tracking and management that will be needed for a time-limited welfare system.

We are proposing to make use of new technology and automation to develop an information infrastructure which allows State-level integration and interfacing of multiple systems (including AFDC, food stamps, work programs, child care, child support enforcement, and others) and offers the chance to implement transitional programs which ensure quality service, fiscal accountability and program integrity. States will be able to use the location and receipt of AFDC and the names and Social Security Numbers of members of AFDC families to detect and prevent fraud and abuse. Such information, either alone or by matching it with other data sources, will allow States to prevent, for example, clients from receiving benefits in multiple locations, from claiming non-existent children, and from claiming children by more than one family.

Partly as a result of increasing the detection of fraud and abuse and partly as a result of changing the culture of the welfare system, much fraud and abuse will be prevented or deterred before it occurs. For instance, people who currently have unreported jobs, but are fraudulently getting cash assistance, will be "smoked-out" because the JOBS plus WORK requirements will prevent them from working at their unreported employment. In the face of increased likelihood of detection of fraud and abuse, others may decide not to come onto the rolls at all or, once on, to actively pursue self-sufficiency.

Program integrity activities will focus on ensuring overall payment accuracy, and detection and prevention of recipient, worker and vendor fraud. The new systems at the local, State, and Federal levels will dramatically increase the ability to detect many kinds of fraud and abuse. To support the broader information needs, the new information infrastructure needs to include both a national data clearinghouse to coordinate data exchange, as well as enhanced State and local information processing.

A nationwide public assistance clearinghouse will be created which will be a collection of abbreviated case and other data. The clearinghouse will maintain at least the following data registries: the National New Hire Registry of employment data including new hires; the National Locate Registry that subsumes the current Federal Parent Locator Service; the National Child Support Registry of data on noncustodial parents who have support orders; and the National Transitional Assistance Registry to assist in operating a national time-limited assistance "clock" by tracking people whenever and wherever they use welfare. Such a system is essential for keeping the clock in a time-limited welfare system. Persons will not be able to escape their responsibilities by moving or by trying to collect benefits in two jurisdictions simultaneously.

State tracking systems which follow people in the JOBS and WORK programs. These systems will ensure that people are getting access to what they deserve and that they are being held accountable if they are failing to meet their obligations. Each State will be expected to develop a tracking system which indicates whether people are receiving and participating in the training and placement services they are expected to.

In sum, the new welfare system, on the one hand, will provide government agencies enhanced tools to detect fraud and abuse and, on the other, will prevent and deter clients from engaging in such activities or will encourage clients to participate more actively in their own self-improvement.

Expansion of EBT systems. As part of the National Performance Review, Vice President Al Gore charged a Federal Task Force representing the Departments of Health and Human Services, Agriculture, Education, Treasury, the Office of Personnel Management, and the Office of Management and Budget to develop a strategic plan for a nationwide system to deliver government benefits, including welfare assistance, electronically. In its recent report, the Task Force sets forth a vision for implementation of a uniform, integrated national system for Electronic Benefits Transfer (EBT) by 1999.

This system will replace today's multiple paper systems and provide better service to unbanked benefit recipients at a lower cost to the taxpayer. Under EBT, recipients will receive a single EBT card which they could use at ATM or point-of-sale (POS) machines in stores and other locations to electronically access one or many types of benefits, from welfare to Social Security. The card helps to eliminate the stigma associated with cashing a welfare check or using food stamps at a grocery store, and restores the dignity and control associated with work and independence. EBT also

eliminates much of the high risk of theft associated with getting a benefit check in the mail and with cashing it for its full value. Recipients can access their benefits at their convenience (compatible with their work or training schedule), and without incurring check cashing fees. And, since using an EBT card is like using a bank card, recipients will be better prepared to participate in the economic mainstream of the community as they begin to work.

An EBT system has strong long-term potential for better coordination of Federal benefit programs. At least 12 Federal and State assistance programs could use EBT to replace their paper benefit delivery methods. Once the full range of programs is included, a nationwide EBT system could deliver at least \$111 billion in benefits annually, with annual Federal savings in the range of \$195 million.

A PERFORMANCE-BASED SYSTEM

One objective of welfare reform is to transform the culture of the welfare system -- from an institutional system whose primary mission is to ensure that poor children have a minimal level of economic resources, to a system that focuses equal attention on the task of integrating their adult caretakers into the economic mainstream of society. We envision an outcome-based performance measurement system that consists of a limited set of broad measures and focuses State efforts on the goals of the transitional support system -- helping recipients become self-sufficient, reducing dependency and moving recipients into work. The Secretary of Health and Human Services will develop a system of performance standards which measures States' success in moving clients toward self-sufficiency and reducing their tenure on welfare. The system will be developed and implemented over time; interested parties will be included in the process for determining outcome-based performance measures and standards.

Until a system incorporating outcome-based standards can be put into place, State performance will be measured against service delivery standards. These standards will be used to monitor program implementation and operations, provide incentives for timely implementation, and ensure that States are providing services needed to convert welfare into a transitional support system. The new service delivery measures for JOBS are designed to see that a substantial portion of such cases are being served on an ongoing basis. As soon as WORK program requirements begin to take effect, States also will be subject to performance standards under the WORK program to ensure that recipients are provided with jobs when they reach the time limit. Until automated systems are operational and reliable, State performance vis-s-vis these service delivery measures will be based on information gathered through a modified Quality Control system.

New Performance Measures and Service Delivery Standards

Consistent with the theme of "reinventing government," State performance in accomplishing the goals of this reform initiative will ultimately be judged on the basis of outcomes rather than inputs or effort -- by the results they achieve rather than the way they achieve those results. An outcome-based performance standards system will keep the focus of welfare reform on the goals of moving recipients toward self-sufficiency and independence while ensuring the overall well-being of children and their families.

In order to change the focus of the welfare system, the outcome-based performance standards system will measure the extent to which the program helps participants improve their self-sufficiency, their independence from welfare, their labor market participation, and the economic well-being of families with children. Recognizing the complexity of this task, this proposal adopts a prudent strategy that moves forcefully, yet with reasonable caution, in the direction of developing an outcome-based performance system. Performance measures will be developed first, and then standards of performance with respect to those measures will be set. Relevant parties will be consulted during this process to ensure that consideration is given to important measurement issues such as what would be an appropriate set of measures, what kind of realistic standards should be set with respect to those measures, and what the consequences should be for failing to meet established standards.

For the purposes of accountability and compliance, service delivery measures will be implemented first to ensure that welfare systems are operating the program for the phased-in mandatory population as intended. The new performance system will provide rewards and penalties for State performance through adjustments to the State's claims for Federal matching funds on AFDC payments and bonus payments to States. The measures are designed to provide positive and negative incentives to States to serve recipients under the new transitional system and to monitor program operations. States will be subject to service delivery standards and financial incentives in the following areas: the cap in pre-JOBS assignments, a monthly participation rate in JOBS, the cap on JOBS extensions, State accuracy in keeping the two-year clock, and a participation rate in WORK.

Improved Quality Assurance System

As part of the effort to refocus the welfare system, the Quality Control (QC) system will be revised to include outcome and service delivery standards in addition to ensuring that income support is provided competently. The existing QC system focuses on how well the welfare system's income support function is performed to the exclusion of other system goals. This emphasis shapes the atmosphere and feel (the "culture") within welfare agencies, how personnel are selected and trained, how administrative processes are organized, and how organizational rewards are allocated. Moving to the new system envisioned by this proposal will present implementation and operational challenges that make the current system of judging performance inadequate.

The new, broader, QC system will give equal priority to payment accuracy and the other designated performance standards, and will include improving the accuracy of benefit and wage payments in the AFDC and WORK programs, assessing the quality and accuracy of State-reported JOBS/WORK data, and measuring the extent to which performance standards are met.

Technical Assistance

Welfare reform seeks nothing less than a change in the culture of the welfare system. This necessitates making major changes in a system that has primarily been issuing checks for the past two decades. Now we will be expecting States to change individual behavior and their own institutions themselves so that welfare recipients will be moved into mainstream society. This will not be done easily. We envision a major role for evaluation, technical assistance and information sharing.

Initially, States will require considerable assistance as they design and implement the changes required under this proposal. Then, as one State or locality finds strategies that work, those lessons ought to be widely shared with others. One of the elements critical to this reform effort has been the lessons learned from the careful evaluations done of earlier programs. Those lessons and the feedback secured during the implementation of these reforms will be used in a formative sense and will guide continuing innovation into the future. We will reserve two percent of the total annual capped entitlement funding for the Secretary of Health and Human Services to be spent on JOBS, WORK and child care for research, demonstrations, evaluation and technical assistance. In addition, the level of Federal technical assistance provided to State child support agencies will be expanded to prevent deficiencies before they occur.



TABLE 5

[DETAILED YEAR-BY-YEAR COST TABLE WITH TEXT TO BE ADDED HERE]

FINANCING

The financing for welfare reform comes from three areas: (1) reductions in entitlement programs; (2) extensions of various savings provisions set to expire in the future; and (3) better enforcement of revenue-raising measures. Total estimated savings for all proposals are roughly \$9.3 billion over five years.

Entitlement Reforms

Cap the Emergency Assistance Program. The little known AFDC-Emergency Assistance (EA) Program is an uncapped entitlement program which has skyrocketed in recent years. In fiscal year 1990, expenditures totalled \$189 million; in fiscal year 1995, it is estimated that expenditures will be \$644 million and by fiscal year 1999 almost \$1 billion. While the intent of the EA program is to meet short-term emergency needs and help keep people off welfare, States currently have wide latitude to determine the scope of their EA programs. Recently, States have realized that the definition of the program is so broad that it can fund almost any critical services to low-income persons. States have rapidly begun shifting costs from programs which the States fund primarily on their own such as foster care, family preservation, and homeless services into the matched EA program. States appear to be funding services that address long-term problems as well as true emergency issues.

We propose to modify the current Emergency Assistance program by establishing a Federal cap for each State's EA expenditures. The basic allocation formula balances the need to protect States that have been spending heavily on EA in and before 1994 with the potential claims of States which have not yet begun claiming for services under EA.

The basic allocation formula is a combination of two components:

- (1) Allocation among States proportional to their requested expenditures in 1994; and
- (2) Allocation among States proportional to their total AFDC spending in the previous year.

There will be ten-year transition period, and the weighting of the components will shift over time, with increasingly more weight being given to the second component. Beginning in 1995, the weighting will be 90 percent by component 1 and 10 percent by component 2. The weighting will be altered gradually each year such that by 2004, the weighting will be 100 percent by component 2.

The allocation formula established a hold-harmless level at actual 1991 levels. Choosing 1991 prevents gaming, since the window in which 1991 claims can be submitted is closed.

The Federal match will continue at 50 percent up to the cap. Under the new capped program, States will also be given the flexibility to determine their own definition of emergency services. This will give the States flexibility to address various special emergency problems. This proposal raises \$1.60 billion over five years.

Tighten Sponsorship and Eligibility Rules for Non-Citizens. In recent years, the number of non-citizens lawfully residing in the U.S. who collect SSI has risen dramatically. The chart below shows that immigrants rose from 5 percent of the SSI aged caseload in 1982 to over 25 percent of the

caseload in 1992. Since 1982, applications for SSI from immigrants have tripled, while immigration rose by only about 50 percent over the period.

Most of the legal permanent resident applicants enter the country sponsored by their relatives. Until this year, current law required that for 3 years, a portion of the sponsor's income in excess of 110 percent of poverty be "deemed" as available to help support the legal permanent resident (LPR) immigrant should they need public assistance. Currently, about one-third of the LPR immigrants on SSI subject to the deeming rules apply in their 4th year of residency. Last fall, to pay for extended unemployment benefits, Congress extended the time of deeming under SSI from 3 years to 5 years until 1996 when it reverts to 3 years again.

The Administration proposal related to non-citizens contains two parts--extending the deeming period for sponsor income and coordinating eligibility criteria under four Federal assistance programs.

Deeming. Our proposal makes permanent the five-year sponsor-to-alien deeming under the SSI program and extends from three years to five years sponsor-to-alien deeming under the AFDC and Food Stamp programs. For the period beginning with six years after being lawfully admitted for permanent residence in the U.S. and until a sponsored immigrant attains citizenship status, no sponsored immigrant shall be eligible for benefits under the AFDC, SSI, and Food Stamp programs, unless the annual income of the immigrant's sponsor is below U.S. median income. In other words, beyond the five years, an LPR immigrant will be ineligible for welfare if his or her sponsor's income is in the top half of the income distribution. Once immigrants with relatively wealthy sponsors attain citizenship, they will be potentially eligible for benefits. Any immigrant whose sponsor is receiving SSI or AFDC benefits would be exempt from sponsor-to-alien deeming under SSI, AFDC and food stamps. INS proposals to speed and simplify the citizenship process will help improve the current naturalization system. The proposal affects applications after the date of enactment (i.e., it would grandfather current recipients as long as they remained continuously eligible for benefits). This part of the proposal saves \$3.06 billion over 5 years.

The proposal sets consistent deeming rules for LPR immigrants across three Federal programs (SSI, AFDC, and Food Stamps). Extended deeming is based on longstanding immigration policy that LPR immigrants should not become public charges. Sponsored LPR immigrants most often apply for SSI benefits on the basis of being aged, and are different from most citizens in that the latter typically spent their life working and paying taxes in the U.S. At the same time, this proposal ensures that truly needy sponsored immigrants will not be denied welfare benefits if they can establish that their sponsors are no longer able to support them, if their sponsors die, or if the immigrant becomes blind or disabled after entry into the U.S. The policy would not affect refugees or asylees.

Eligibility criteria. The second element of this proposal establishes similar eligibility criteria under four Federal programs (SSI, AFDC, Medicaid, and Food Stamps) for all categories of immigrants who are not legal permanent residents. This element establishes in statute a consistent definition of which non-LPR immigrants are eligible for welfare benefits. Currently, due to different eligibility criteria in statute, and litigation over how to interpret statutory language, the four Federal programs do not cover the same categories of non-LPR immigrants. The Food Stamp program has the most restrictive definition of which categories of non-LPR immigrants are eligible for benefits (i.e., the eligibility criteria encompass a fewer number of INS statuses). SSI and Medicaid have the most expansive definition of which categories of non-LPR immigrants are eligible for benefits, and the AFDC program falls between these extremes.

This proposal creates eligibility criteria in the SSI, Medicaid, and AFDC programs that are similar to the criteria that currently exists in the Food Stamp program. The new list of INS statuses required for potential eligibility to the SSI, Medicaid, and AFDC programs is also virtually identical to those listed in the Health Security Act providing eligibility for the Health Security Card. Like the extended deeming provisions, this part of the proposal affects applications after date of enactment (i.e., it would grandfather current recipients as long as they remained continuously eligible for benefits). This part of the proposal saves \$890 million over 5 years.

Time Limit SSI Benefits for Drug and Alcohol Addicted Recipients.

Current law requires that all SSI disability recipients for whom substance abuse is material to the finding of disability must be in available treatment and must have their payments made through a representative payee (a third party who receives and manages the funds). Payments to these SSI drug addict and alcoholic (DA&A) beneficiaries are suspended if the individual fails to participate in appropriate alcohol or drug treatment, if such treatment is available. No similar requirements are made of Title II disability beneficiaries who receive benefits on the basis of addictions. The representative payee and treatment requirements have been part of the SSI program since its inception over 20 years ago. However, the provisions have not been implemented effectively.

Under the proposal, strengthened sanctions and new time limits will be applied to benefits paid to individuals receiving Supplemental Security Income (SSI) and Social Security Disability Insurance (SSDI) benefits who have substance abuse problems that are material to their disability finding. These requirements will be applied to new Title II beneficiaries and to current and future SSI beneficiaries who are classified as DA&As.

The Congress is reaching decisions on these proposals currently in conference on H.R. 4277, a bill which the Administration supports. We anticipate savings of \$600 million over five years.

Income Test Meal Reimbursements to Family Day Care Homes. The Child Care Food Program provides food subsidies for children in two types of settings: child care centers and family day care homes. They are administered quite differently. The subsidies in centers are well targeted because they are means-tested; USDA believes that over 90 percent of Federal dollars support meals served to low-income (below 185 percent of poverty) children. The family day care part of the program is not well targeted because it has no means test (due to the lack of administrative ability of the providers). A USDA-commissioned study estimates that 71 percent of Federal dollars support meals for children above 185 percent of the poverty line. While the child care center funding levels have been growing at a modest rate, the family day care funding levels are growing rapidly--16.5 percent between 1991 and 1992.

The following approach better targets the family day care funding to low-income children and creates minimal administrative requirements for providers.

- Family day care homes located in low-income areas (e.g., census tracts where half of the children are below 185 percent of the poverty line) would receive \$.84 and \$1.67 in breakfast and lunch reimbursements, respectively, during school year 1995. This is roughly equivalent to the "free meal" rate paid on behalf of low-income children in day care centers, whose families have incomes under 130 percent of poverty.

- All other homes would have a choice. They could elect not to use a means-test; if they elect this option, they would receive reimbursements at the reduced levels of \$.54 and \$1.27, respectively. Alternatively, a family day care home could administer a simplified, two-part means-test. Meals served to children below 185 percent of the poverty line would be reimbursed at the "free meal" rate. Meals served to children above 185 percent of the poverty line would be reimbursed at the reduced-price rate.
- Intermediaries that serve family day care homes in low-income areas would be reimbursed an extra \$10 per month for ongoing administrative costs, and a \$5 million set-aside would help such day care homes to become licensed (or registered).

This provision yields savings of \$520 million over five years.

Extend Expiring Provisions

Hold Constant the Portion of Food Stamp Overpayment Recoveries that States May Retain. States are permitted to keep some portion of the 100-percent Federal Food Stamp recoveries as an incentive payment for pursuing fraud cases. This proposal would extend the 1990 Farm Bill provision which reduced the percentage of recovered Food Stamp overissuances retainable by State agencies for fiscal years 1991-95. Under this provision, which would be extended to fiscal years 1996-2004, States could retain 25 percent of recoveries from fraud/intentional program violations (previously 50 percent) and 10 percent of other recoveries (previously 25 percent). This proposal raises \$50 million over five years.

Extend Fees for Passenger Processing and Other Custom Services. A flat-rate merchandise processing fee (MPF) is charged by U.S. customs for processing of commercial and non-commercial merchandise that enters or leaves U.S. warehouses. The fee, adopted by OBRA 1986, generally is set at 0.19 percent of the value of the good. Other variable customs fees are charged for: passenger processing; commercial truck arrivals; railroad car arrivals; private vessel or private aircraft entries; dutiable mail; broker permits; and barge/bulk carriers. NAFTA extended the MPF and other fees through September, 2003. The proposal extends the fees charged permanently.

Extend Railroad Safety User Fees. Railroad safety inspection fees were enacted in the Omnibus Budget Reconciliation Act of 1990 to pay for the costs of the Federal rail safety inspection program. The railroads are assessed fees according to a formula based on three criteria: road miles, as a measure of system size; train miles as a measure of volume; and employee hours as a measure of employee activity. The formula is applied across the board to all railroads to cover the full costs of the Federal railroad safety inspection program. The fees are set to expire in 1996. The 1995 President's Budget proposed to extend the fees through 1999 and expand them, effective in 1995, to cover other railroad safety costs. The proposal extends the fees permanently. This proposal raises \$160 million over five years.

Extend Corporate Environmental Income (Superfund) Tax. An environmental tax based on corporate alternative minimum taxable income (0.12 percent) was first enacted in 1986 and is set to expire at the end of 1995. This tax will be extended. The outlays from Superfund are already accounted for under the discretionary caps and are in no way affected by the extension of this tax. Extending this tax ensures that funding for environmental clean-up is not shifted to the general fund. This proposal would raise \$1.6 billion over five years.

Tax Compliance Measures

Deny EITC to Non-Resident Aliens. Under current law, non-resident aliens may receive the Earned Income Tax Credit (EITC). Because non-resident taxpayers are not required to report their worldwide income, it is currently impossible for the IRS to determine whether ineligible individuals (such as high-income nonresident aliens) are claiming the EITC. The proposal will deny the EITC to non-resident aliens completely. We estimate that about 50,000 taxpayers will be affected, mainly visiting foreign students and professors. The proposal raises \$130 million over five years.

Require Income Reporting for EITC Purposes for Department of Defense (DoD) Personnel. Under current law, families living overseas are ineligible for the EITC. The first part of this proposal would extend the EITC to active military families living overseas. To pay for this proposal, and to raise net revenues, the DoD would be required to report the nontaxable earned income paid to military personnel (both overseas and States-side) on Form W-2. Such nontaxable earned income includes basic allowances for subsistence and quarters. Because current law provides that in determining earned income for EITC purposes such nontaxable earned income must be taken into account, the additional information reporting would enhance compliance with the EITC rules. This proposal is supported by DoD. The combination of these two proposals raises \$160 million over five years.

TABLE 6

[DETAILED YEAR-BY-YEAR FINANCING TABLE TO BE ADDED HERE]

CONCLUSION

If welfare reform is to truly succeed, it must accomplish multiple and varied objectives. The current welfare initiative will focus on work, responsibility, family and opportunity, all important principles which are difficult to quantify. However, we are confident that enactment of the Administration welfare reform proposal will result in positive and tangible impacts. By sending a strong signal that young people should delay childbearing until they are prepared to accept the ensuing responsibilities, we will reduce teen pregnancies and the number of children born out of wedlock. By streamlining the paternity establishment process, ___ more children will have the benefit of knowing who their father is. By significantly strengthening our child support enforcement system and by providing incentives and opportunities for noncustodial parents, we will dramatically increase the amount of support paid--by \$ ___ billion--to children in this country. By expanding child care provided to working families, by allowing States to disregard additional earnings and child support and by making the EITC available on a regular basis, we will make work a rational and desirable choice for welfare recipients and those at-risk of going on welfare. By expanding the JOBS program and imposing time limits and work requirements, we will engender the values of work and responsibility among those who need public assistance. This will increase the number of custodial parents who enter the labor force and increase earnings for their families. And finally, by streamlining and simplifying government assistance programs, we will eliminate outdated and inefficient bureaucratic rules within the current system and improve incentives for recipients and welfare officials alike.

In summary, this proposal does "end welfare as we know it" by dramatically changing the values, expectations and incentives within our current welfare system. Ultimately, this plan is about improving the lives of children and families by encouraging the values of work, responsibility, family and opportunity. Through the provisions described above, and particularly through increased earnings from work and increased child support payments, the well-being of children in this country will be significantly improved.