



February 17, 1994

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FROM: Wendell Primus

SUBJECT: Legislative Specifications status

Enclosed in this package are the legislative specification drafts as of Thursday, February 17th. Please be advised that these drafts are undergoing major revisions. The following list illustrates the status of each section.

<u>Section Title</u>	<u>Latest Version</u>	<u>Status</u>
1. JOBS and Time Limits	Feb. 8	incorporates JOBS, Time-Limits, and coordination sections
2. WORK	Feb. 8	provisions under revision
3. Non-custodial Parents	Feb. 9	current (pending revised draft)
5. Make Work Pay	Feb. 14	current (pending revised draft)
6. Reinvent Government	Jan. 30th	pending revised cost estimates
7. Prevention	Jan. 7th	draft under revision
8. Child Care	Dec. 15th	draft under revision
9. Child Support	Jan. 25th	latest draft
<u>Not Available</u>		
10. Performance Measures	--	a new draft is being prepared, staff meetings are ongoing
11. Information Systems	--	a new draft is being prepared, staff meetings are ongoing
12. Funding	--	provisions being formulated
13. Technical Assistance	--	provisions being formulated

B. JOBS AND TIME LIMITS: IMPROVING ACCESS TO MAINSTREAM EDUCATION, TRAINING AND SELF-EMPLOYMENT OPPORTUNITIES

Current law

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.

Vision

The mission of the JOBS program will not be to create a separate education and training system for welfare recipients, but rather to ensure that they have access to and information about the broad array of existing programs in the mainstream system. The JOBS program needs to be redesigned to permit States to integrate other employment and training programs into the JOBS program, and to implement "one-stop shopping" education and training programs. Under current law, states are required to coordinate their JTPA and JOBS programs. The quality of those linkages varies considerably. Existing barriers are statutory and traditional; others are regulatory and policy. The barriers to better coordination need to be examined and addressed.

OPTION: Interagency board to facilitate coordination

Staff from the Departments of Agriculture, Education, Health & Human Services, and Labor have been meeting to discuss issues of coordination between employment and training programs in the context of ongoing welfare reform efforts. One option available to facilitate coordination is an inter-agency board which would serve a variety of functions. However, staff agreed that the scope of the board should be broader than welfare reform and waiver issues, and should address workforce participation issues among Federal programs in general. The creation of such a board could be done through executive order and that legislation would not be required. Its introduction could coincide with the introduction of welfare reform, or the Workforce Security Act. Staff has identified a tentative list of possible functions that such a board may undertake. These include activities to:

- * articulate a national workforce preparation and national self-sufficiency agenda, and develop an overall human investment strategy and plan;
- * consider and establish criteria upon which to evaluate and approve waivers from States which facilitate improved service delivery among the principle Federal job training programs;
- * explore and promote common definitions, administrative requirements among programs, common outcome measures, common reporting systems, and common eligibility determination;
- * set principles in evaluations of workforce programs and strategies;
- * suggest regulatory and legislative changes to promote improved program operation and facilitate coordination;
- * promote objective criteria to evaluate and measure interagency efforts to improve Federal program linkages and coordination;

- * promote collaboration with the private sector;
- * recognize and promote technology which facilitates the goals of program improvement;
- * provide a focal point for interaction with States and other entities to facilitate discussions and action on program issues; and
- * facilitate technical assistance for improving state and local programs.

OPTION: Optional joint planning and administration between JOBS and JTPA:

The Governor of each State could have the option to require a joint plan from the two agencies indicating how responsibilities would be sorted out for the 2 year transitional period and the post-transitional period. Current law specifies joint review of plan; joint sign-off would be substituted.

NOTE: Further staff meetings to develop this option are scheduled.

Drafting Specs

1. **COORDINATED EFFORTS**

- (a) Amend the language in Social Security Act section 483(a)(1) which requires that there be coordination between JTPA, JOBS and education programs available in the State to specifically require coordination with the Adult Education Act and Carl D. Perkins Vocational Educational Act.
- (b) Where no appropriate review is made, (i.e., by an interagency board) the State council on vocational education and the State advisory council on adult education review the State JOBS plan and submit comments to the Governor.

C. CONSOLIDATING THE FNS EMPLOYMENT & TRAINING PROGRAM

FNS staff have provided the following options for our consideration for inclusion as part of the current round of welfare. These options involve the Food Stamp Education and Training (E&T) program.

OPTION 1: Consolidating E&T with JOBS

State agencies stress that serving similar populations with different program rules and funding structures increases the complexity of the programs and their resulting ability to operate the program effectively. Consolidating the E&T program with JOBS would result in a more effective overall administration of Federal employment and training programs. While the program would continue to serve recipients of public assistance and those not receiving public assistance (NPA) the administrative burden associated with the operation of 2 separate Federal employment and training programs would be eliminated.

NOTE: Staff from HHS and FNS will collaborate to propose specific statutory language, pending the outcome of the group's decision.

ISSUE: Is this a potential avenue for incorporating the employment & training needs of non-custodial parents?

1. FUNDING

Currently, USDA distributes \$75 million in a 100% grant to State agencies to administer their E&T programs. States that choose to spend more than their 100% grant can receive a 50% Federal match for administrative costs. Legislation could conform match rates for E&T services with JOBS match rates. If transferred to HHS, consolidating funding structures and Federal financial requirements for the 2 programs would greatly reduce the administrative burden for State operating agencies.

\$150 per participant
1988 study -
no result

OPTION: Alternative funding streams for a consolidated model include:

- (i) transferring funds from USDA to HHS;
- (ii) USDA funding States directly through contracts
- (iii) funding appropriated directly to HHS.

Admin costs = 165m state/fed

2. MINIMUM PARTICIPATION REQUIREMENTS

In FY 1990 and FY 1991 States were required to place no fewer than 50% of their E&T mandatory population into E&T activities. This performance standard was lowered to 10% for FY 1992 and beyond.

Serves GA - 23% 2 part
.14% single

OPTION: As a way to ensure continued participation in employment and training activities by Food Stamp recipients, HHS would direct State agencies to serve a minimum number of NPAs, possibly based on the current 10% required participation rate. The lowered standard allows for more intensive services. States would specify in their State JOBS plans how this population would be served and how participation requirements would be met.

6-month delay
would keep
most off

OPTION 2: Conforming the Food Stamp E&T program with JOBS.**1. CONFORM NON-COMPLIANCE SANCTIONS WITH JOBS NON-COMPLIANCE SANCTIONS**

Currently, the sanction for non-compliance with Food Stamp work requirements affects the entire household. Under AFDC-JOBS, the sanction affects only the individual not in compliance.

Recommendation: conform to E&T policy with JOBS sanction policy.

- (a) Eliminate the distinction between individual and household ineligibility arising from non-compliance with work requirements.
- (b) Eliminate the requirements governing the designation of head of household for E&T purposes.
- (c) Adopt provision of AFDC-JOBS sanction periods for E&T.

2. E&T EXPENSE REIMBURSEMENT

Currently, the Food Stamp E&T program provides payments or reimbursements to individuals for transportation and other expenses (excluding dependent care) related to participation in the program. Participants receive payments for actual costs up to \$25 per month for expenses deemed necessary for participation in the E&T program. The Federal government matches up to half of the amount State agencies spend, up \$12.50 of the \$25. State may supplement the amount without additional matching funds from the Federal government. The JOBS program provides reimbursement to participants for transportation and other costs necessary to enable individuals to participate in JOBS. The Federal government matches the State agency costs up to 50%. State agencies describe in their State plans the monetary limits to be applied to transportation and other support services.

Recommendation: conform E&T reimbursement policy with JOBS policy.

- (a) Conform Food Stamp E&T reimbursement policy to JOBS reimbursement policy by eliminating the \$25 maximum and allowing State agencies to specify monetary limits to be applied to transportation and related expenses.

3. FOOD STAMP E&T DEPENDENT CARE EXEMPTIONS

The Food Stamp E&T program allows State agencies to exempt certain individuals from participation in program activities. Currently, State agencies may exempt from work registration a parent or other household member who is responsible for the care of a dependent child under age 6 or an incapacitated person. State agency may require the parent or other caretaker relative of a child under age 6 to participate in JOBS. However, mandatory individual must be assured by the State agency that child care will be guaranteed and that s/he will not be required to participate more than 20 hours per week. A parent or relative who is personally providing care for a child under age 3 (or younger at State option) is automatically exempt from JOBS participation. Conforming Food Stamp E&T exemption provisions for dependent caretakers to the JOBS criteria would require a greater percentage of the Food Stamp population to register for work at the time of application for benefits, thereby reaching a greater proportion of the employable Food Stamp population.

Recommendation: conform E&T exemption provisions with JOBS criteria.

4. PERFORMANCE FUNDING FOR FOOD STAMP E&T

Currently, the Food Stamp E&T program distributes \$75 million as a Federal grant to State agencies for the administration of their E&T programs. Of this \$75 million, \$60 million is distributed according to each State's proportion of work registrants (nonperformance funding), while the remaining \$15 million is based on State program performance. This option would eliminate the \$15 million performance funding category for Food Stamp E&T. The USDA would distribute the entire \$75 million based on the nonperformance formula.

Recommendation: eliminate the \$15 million performance funding category.

- (a) Eliminate the \$15 million performance funding category for Food Stamp E&T.
- (b) Distribution of Federal funds for E&T will be based according to each State's proportion of work registrants.

JOBS AND TIME LIMITS

ADMINISTRATIVE
POL

1. PROGRAM ENROLLMENT

Current Law

The Family Support Act mandated that upon enrollment into the AFDC program, the State must make an initial assessment of applicants with respect to child care needs, skills of the applicant, prior work experience, and employability of the applicant. On the basis of this assessment, the State must develop an employability plan for the applicant. The State may require participants to enter into a formal agreement which specifies the participant's obligations under the program and the activities and services provided by the State. The employability plan is not considered a contract. States may require some applicants to undergo job search activities for 8 weeks and an additional 8 weeks for AFDC recipients.

Vision

At the point of the intake process, applicants will learn of their specific responsibilities and expectations regarding the JOBS program and time limits. All States and applicants will now be required to enter into an agreement specifying the responsibilities of each party. This will be accomplished through a mutual responsibility agreement and an employability plan. While the mutual responsibility agreement will outline a general agreement, the employability plan will be focussed on the specific employment-related needs of the applicant. Although these are not legal contracts, these agreements will serve to refocus the direction of the welfare program.

Rationale

States must change the culture of the welfare system by changing the expectations of both applicants and case workers. This can be done by modifying the mission of the welfare system at the point of the intake process to stress the shift from eligibility and benefit determination to employment and access to education and training. The mutual obligations of the State and the participant must be spelled out and enforced. JOBS programs must continue to be utilized as an entity designed to link clients to services in the community.

- (a) All applicants, upon enrollment, will be required to sign a Mutual Responsibility Agreement with the State specifying the general responsibilities of both the participant and the State agency under the revised transitional assistance program.
- (b) Upon enrollment, all applicants must be provided with information about the revised JOBS program and the time limit on cash assistance. Each applicant would be informed of the number of months of cash assistance for which he or she was eligible (e.g., 24 for first-time applicants).
- (c) The Mutual Responsibility Agreement shall not be a legal contract.

2. EMPLOYABILITY PLAN

- (a) Change current Social Security Act language that a State "may" require the participant to enter into an agreement with the State agency to follow the employability plan as developed to "must."
- (b) Add language requiring States to complete the assessment and employability plan within a period of time (e.g., 90 days from date of application) specified by the Secretary of Health and Human Services.
- (c) The employability plan shall specify a time frame for achieving self-sufficiency and the prescribed activities would be designed to enable the participant to obtain employment within this time period.
- (d) Amend section 482(b)(1)(A) by adding "literacy" after the word "skills."

3. JOBS-PREP

Current Law

States must require non-exempt AFDC recipients to participate in the JOBS program to the extent that resources are available. Exemptions under the current JOBS program are for those applicants and recipients who are ill, incapacitated, or of advanced age; needed in the home because of the illness or incapacity of another family member; the caretaker of a child under age 3 (or, at State option, age 1); employed more than 30 hours per week; a dependant child under age 16 or attending a full time educational program; women in the second and third trimester of pregnancy; and residing in an area where the program is not available. The parent of a child under age 6 (but older than the age for an exemption) who is personally providing care for the child may be required to participate only if participation requirements are limited to 20 hours per week and child care is guaranteed. For AFDC-UP families, the exemption relating to the age of a child may only apply to one parent, or to neither parent if child care is guaranteed.

Vision

Under new provisions, a greater number of participants will be JOBS-mandatory. Single-parent and two-parent families will be treated similarly under the new JOBS system. The current exemption policy, which is based on an individual's characteristics, will be replaced with a policy which will allow persons not yet ready for participation in JOBS to be assigned to the JOBS-Prep program.

Rationale

In order to change the culture of welfare, it is necessary to stress the importance of full participation in the JOBS program. It is also important to ensure that all welfare recipients who are able to participate in JOBS have such services made available to them by the States. Elimination of exemptions sends a strong message that full participation in JOBS should be the normal flow of

events, and not the exception. The JOBS-Prep program gives States the ability to consider differences in the ability to work and participate in education and training activities.

- (a) Adult recipients (see Teen Parents below for treatment of minor custodial parents) who were not able to work or participate in education or training activities (e.g., due to care of a disabled child) could be assigned to the JOBS-Prep program either prior to or after entry into the JOBS program. For example, if an individual became seriously ill after entering the JOBS program, he or she would then be placed in the JOBS-Prep program.
- (b) Persons in the JOBS-Prep program would be expected to engage in activities intended to prepare them for employment and/or the JOBS program. The employability plan for a recipient in JOBS-Prep would detail the steps, such as finding permanent housing or obtaining medical care, needed to enable him or her to enter the JOBS program. Services for disabled persons could be made available as part of the JOBS-Prep program.

Recipients not likely to ever participate in the JOBS program (e.g., those of advanced age) would not be expected to engage in JOBS-Prep activities. States could, however, make JOBS-Prep services available to such persons. For individuals whose are expected to enter the JOBS program shortly in any event (e.g., mothers of young children), JOBS-Prep activities could be provided, when appropriate, to address any outstanding barriers to successful participation in JOBS.

The JOBS-Prep program would not be as service-intensive as the JOBS program. States would not be required to guarantee child care or provide other supportive services for persons in the JOBS-Prep program. No monitoring requirements or sanctions would be established in statute.

- (c) Persons in JOBS-Prep would not be subject to the time limit, e.g., months in which a recipient was assigned to JOBS-Prep would not count against the two-year limit on cash benefits.

EXAMPLE:

An individual applies for cash assistance in January of 1996. She and her caseworker design an employability plan in March of 1996 and she begins participating in the JOBS program activities in the plan. In September 1996, her father becomes seriously ill and she is needed in the home to care for him. At that point, she is placed in the JOBS-Prep program. Her JOBS-Prep caseworker assists her in obtaining medical care for her father. Her father's condition improves and by August 1997 he no longer requires full-time care. As of August 1997, she is eligible for 16 more months of cash assistance. She re-enters the JOBS program and reaches the 24-month time limit in November 1998. At that point, however, she is only four months from completing her Licensed Practical Nurse (LPN) training. She is then granted a 4-month extension to finish her LPN training.

- (d) The JOBS-Prep placement policy would take the following form:

A parent of a child under one, provided the child was conceived prior to the family's most recent application for assistance, would be assigned to the JOBS-Prep program. A parent of a child conceived after the most recent application for assistance would be

placed in JOBS-Prep for a twelve-week period following the birth of the child (consistent with the Family and Medical Leave Act).

States would have the option of requiring even parents of a child under one conceived before the application for assistance to participate in the JOBS program, rather than assigning such parents to the JOBS-Prep program. In States electing this option, only parents of a child under twelve weeks old, regardless of the date of conception, would be assigned to JOBS-Prep.

States would be permitted, in addition, to place up to a fixed percentage of all adult recipients in JOBS-Prep for criteria other than age of youngest child. The percentage (e.g., 20%) would be set by the Secretary of Health and Human Services.

- (e) Grounds for assignment to JOBS-Prep would not be specified at the Federal level, either in statute or regulation, but States would be required to establish such criteria.
- (f) The percentage cap would in general apply regardless of how broadly or narrowly a State defined the criteria for placement in JOBS-Prep. In other words, a State which defined grounds for assignment to JOBS-Prep so broadly that the number of persons qualifying for JOBS-Prep seriously exceeded the cap would still be limited to the capped level. States would be permitted, in the event of extraordinary circumstances, to apply to the Secretary to have the percentage cap lifted.
- (g) Recipients who would otherwise have been placed in the JOBS-Prep program would be permitted to volunteer for the JOBS program. States would have the option to apply the time limit to such persons and would be required to notify each volunteer as to whether he or she were subject to the time limit.

4. DEFINITION OF TIME LIMIT

Current Law

The AFDC program provides cash assistance to households in which needy children have been deprived of parental support (Section 401, Social Security Act), including two-parent households in which the principal earner is unemployed (AFDC-UP program, Section 407). Operating within broad Federal guidelines, States set standards used to determine need and payment. In order to be eligible for AFDC, the household's gross income cannot exceed 185 percent of the State's need standard (Section 402(a)), its countable income must be less than the need standard, and the total value of its assets must be below the limit set by the State.

The cash assistance is provided to, and accounts for the needs of, the parent(s) or other caretaker relative, as well as the dependent children (Section 402(a) and others, Social Security Act). Some States (those which did not have an AFDC-UP program in place as of September 26, 1988) are permitted to place a type of time limit on participation in the AFDC-UP program, restricting eligibility for AFDC-UP to 6 months in any 12-month period (Section 407(b)). Thirteen states

presently impose time limits on AFDC-UP eligibility. Under current law, however, no other type of time limits may be placed on participation in the AFDC program.

Vision

Most of the people who enter the welfare system do not stay on AFDC for many years consecutively. It is much more common for recipients to move in and out of the welfare system, staying 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 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, however, 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 moving in the direction of self-sufficiency. Most long-term recipients are not on a track toward obtaining employment that will enable them to leave AFDC.

The proposal would impose, on adults, a cumulative time limit of two years on the receipt of cash assistance, with deferrals of and extensions to the time limit to be granted under certain circumstances. Months in which a recipient was working part-time would not count against the time limit. The two-year limit would be renewable—once an individual left welfare, he or she would begin to earn back eligibility for assistance.

The two-year time limit is part of the overall effort to shift the focus of the welfare system from disbursing funds to promoting self-sufficiency through work. This time limit gives both recipient and the welfare agency a structure that necessitates steady progress in the direction of employment and economic independence. As discussed elsewhere, recipients who reach the two-year time limit without finding a private sector job will be offered publicly subsidized work assignments to enable them to support their families.

- (a) The time limit would be a limit of 24 on the cumulative number of months of cash assistance an adult could receive before being subject to the work requirement (see Teen Parents for treatment of custodial parents under 20). Months in which an individual was receiving assistance but was in JOBS-Prep rather than in JOBS would not count against the 24-month time limit.
- (b) The time limit, as indicated in (a) above, would generally be linked to IOBS participation. Recipients required to participate in JOBS would be subject to the time limit. Conversely, the clock would not run for persons assigned to JOBS-Prep.
- (c) States would be required to keep records of cash assistance receipt dating back at least seven years.

5. APPLICABILITY OF TIME LIMITS

- (a) The time limit would apply to parents (for treatment of teen parents, see Teen Parents below). A record of the number of months of eligibility for cash assistance remaining would be kept for each individual subject to the time limit. Caretaker relatives would not be subject to the time limit.
- (b) In a two-parent family, both parents would be subject to the time limit, provided neither parent was placed in the JOBS-Prep program. The family would continue to be eligible for benefits so long as one of the two parents had not reached the time limit for transitional assistance.

EXAMPLE:

A single father with two children who came onto the rolls twelve months ago marries a woman with no children and no prior welfare receipt. Both are required to participate in JOBS. The family at this point is eligible for twenty-four months of benefits. The marriage does not go well and they separate after ten months. The father and his children at this point are eligible for only two more months of cash assistance. If, on the other hand, the two had remained together, the family would have been eligible for fourteen more months of cash benefits.

Under current law, the second parent in a two-parent family is not exempted from participation in JOBS. If, however, a State chose to assign the second parent to JOBS-Prep, the second parent would not be subject to the time limit. The second parent would then be counted toward the maximum number of adult recipients a State is permitted to place in JOBS-Prep. In such an instance, a two-parent family could be eligible for as many as 48 months of cash assistance, as opposed to 24 for a single-parent family. Again, this would only be the case if the second parent were not required to participate in JOBS.

RATIONALE:

While the provision described above might be interpreted to favor two-parent families over single-parent households, its intent is actually to equalize treatment of one and two-parent families. Applying the time limit to a parent in a two-parent family who did not have access to JOBS services (due to placement in JOBS-Prep) but not to a single parent assigned to JOBS-Prep would constitute, to some extent, a bias against two-parent families.

NOTE: If a second parent who would otherwise be placed in JOBS-Prep volunteered for the JOBS program, that second parent would be subject to the time limit.

6. TEEN PARENTS

- (a) All custodial parents under 20 (hereafter teen parents) would be required to participate in the JOBS program and would be subject to the 24-month time limit. The clock would begin to run upon receipt of assistance as a custodial parent.
- (b) Teen parents of very young children would in general be required to participate in JOBS, rather than assigned to the JOBS-Prep program. State criteria for placement in JOBS-Prep would have to specify the grounds for assigning teen parents to JOBS-Prep.

- (c) Teen parents who would otherwise have reached the time limit would receive an automatic extension to age 18 (19 if enrolled in high school). These extensions would not be counted against the cap on extensions. Teen parents who received the automatic extension would still be eligible for the standard extensions (see Extensions).
- (d) Teen parents who had reached the time limit, notwithstanding extensions, would be permitted to enroll in job search (and continue receiving cash benefits) for up to 3 months before entering the WORK program.
- (e) States would be required to provide comprehensive case management services to all custodial parents under 19.

[see Promote Parental Responsibility and Prevent Teen Pregnancy specifications for a discussion of all provisions in the plan concerning teen parents, including further detail on comprehensive case management.]

7. JOBS SERVICES AVAILABLE TO PARTICIPANTS

Current Law

A range of services and activities must be offered by States under the current JOBS program, but States are not required to implement JOBS uniformly in all parts of the State and JOBS programs vary widely among States. The services which must be included are: educational activities, including high school and equivalent education, basic literacy, and English proficiency; jobs skills training; job readiness activities; job development and job placement; and supportive services to the extent that these services are necessary for participation in JOBS. Supportive services include child care under a variety of circumstances, and transportation and work related expenses. States must also offer at least 2 of the following services: group and individual job search; on-the-job training (OJT); work supplementation programs (WSP); and community work experience programs (CWEP). There is a need to expand the definition and range of services available under JOBS. States would maintain the flexibility to determine the mix of JOBS services available and required for participants.

Vision

The definition of satisfactory participation in the JOBS program will be broadened to include activities that are important to helping individuals achieve self-sufficiency. States will have broad latitude in determining which services are provided. Additionally, job search activities will be emphasized to promote work and employment.

- (a) Amend job search rules to accomplish the following:
 - (1) Require States to include job search among the JOBS services offered;
 - (2) Extend permissible period of initial (upon application) job search from 8 weeks to 12;

- (3) Remove the requirement that job search after initial job-search period may only be required in combination with education and training; and
 - (4) Clarify the rules so as to limit job search to 4 months in any 12-month period. Initial job search would be counted against the 4-month limit, but the 45-90 days of job search required immediately before the end of the 2-year time limit (see Transition to Work/WORK) would not.
- (b) Eliminate the requirement that States expend 55 percent of JOBS funds on services to the target groups.
 - (c) Change the anti-displacement language to permit work supplementation participants to be assigned to established unfilled vacancies in the private sector.
 - (d) Limit Alternative Work Experience to 90 days within any 12-month period (*by regulation*).
 - (e) Amend section 482(d)(1)(A) by replacing "basic and remedial education to achieve a basic literacy level" with "employment-oriented education to achieve literacy levels needed for economic self-sufficiency."

8. PART-TIME WORK

[Detailed specifications awaiting resolution of key questions]

9. JOBS PARTICIPATION

Current Law

Under the Family Support Act of 1988 which established the JOBS program, certain minimum participation standards were established for fiscal years 1990-1995 for the AFDC caseload. States face a reduced federal match rate if those standards are not met. In FY 1993 at least 11% of the non-exempt caseload in each State must participate in JOBS. The standards increase to 15% for FY 1994 and 20% for FY 1995. There are no standards specified after FY 1995. There is a need to extend and increase minimum participation standards beyond 1995 in order to implement JOBS and transform the welfare system from an income support system into a work support system.

Vision

In order for the JOBS program to become the centerpiece of government assistance, the JOBS program must experience a dramatic expansion of both services and participants. Under the provisions of the new transitional assistance program, JOBS participation will be greatly expanded and increased participation rates will be phased-in until States reach a full-participation model. States will be given flexibility in designing systems to achieve these objectives.

- (a) Alter the definition of participation such that an individual enrolled full-time in an educational activity who was making suitable progress would be considered to be participating satisfactorily in JOBS (*by regulation*).
- (b) Broaden the definition of JOBS participation to include participation in activities, other than the optional and mandatory JOBS services, which are consistent with the individual's employability plan (*again, by regulation*). The broadened definition of participation would include participation in the Small Business Administration Microloan Demonstration program or another *structured* self-employment program.
- (c) Permit States to require a parent of a child under 6 to participate in JOBS for more than 20 hours per week (*prohibited under current law*).

10. ANNUAL ASSESSMENT

- (a) States would be required to conduct an assessment of all adult recipients, including both those in JOBS-Prep and those in JOBS, on at least an annual basis to evaluate progress toward achieving the goals in the employability plan. This assessment could be integrated with the annual eligibility redetermination (see Reinvent Government Assistance specifications). Persons in JOBS-Prep found to be ready for participation in employment and training could be assigned to the JOBS program following the assessment. Conversely, persons in the JOBS program discovered to be facing very serious obstacles to participation could be placed in the JOBS-Prep program.
- (b) The assessment would entail an evaluation of the extent to which the State was providing the services called for in the employability plan. In instances in which the State was found not to be delivering the specified education, training and/or supportive services, the agency would be required to document that failure and establish a plan to ensure that the services would be delivered from that point forward.

11. SANCTIONS

Current Law

The sanction for non-compliance under the current JOBS program is the loss of the non-compliant individual's share of the grant, until the failure to comply ceases. In the event of subsequent non-compliance, the sanction is a minimum of 3 months for the second failure to comply, and a minimum of 6 months for all subsequent non-compliance. The State, however, cannot sanction an individual for refusing to accept an offer of employment, if that employment would result in a net loss of income to the family.

For sanctioned two-parent families, both parents' shares of the total benefit are deducted from the family's grant, unless the second parent is participating satisfactorily in the JOBS program.

Vision

Under these provisions, States would gain some flexibility regarding sanction policy but much of the current sanction policy would remain intact.

(a) Program Interactions:

1. Sanctioned families would still have access to other available services, including JOBS activities, child care and Medicaid.
2. Sanctioned months would be counted against the time limit on cash benefits.

ISSUE: Should sanction policy be adjusted to conform with the APWA recommendation of a sanction equal to 25% of the total of AFDC plus food stamps?

- (b) Eliminate the requirement that States establish a conciliation process for resolution of disputes involving JOBS participation. States would still be required to provide an opportunity for a fair hearing in such instances.
- (c) Lift the prohibition against imposing a sanction on a parent of a child under 6 for failure to accept an offer of a 20-plus hour per week job.
- (d) Change the statute such that for sanctioned two-parent families, the second parent's share of the benefit would not also be deducted from the grant, unless the second parent were also required to participate in JOBS and was similarly non-compliant.

12. **TRANSITION TO WORK/WORK**

- (a) Persons would be required to engage in job search during a period of not less than 45 days (up to 90 days, at State option) before taking a WORK assignment. In most cases, the job search would be performed during the 45-90 days immediately preceding the end of the time limit. An individual who reached the time limit without having finished the 45-90 days of job search would not be eligible for a WORK assignment until the required period of job search was completed.
- (b) Persons who through no fault of their own did not complete the required period of job search before reaching the time limit would continue to be eligible for cash benefits while finishing the 45-90 days. Individuals who had refused to perform this required job search, either before or after reaching the time limit, would not be able to receive cash benefits while completing the job search period.
- (c) States would have the option of providing additional months of cash assistance to individuals who found employment just as their eligibility for cash assistance ended, if necessary to tide them over until the first paycheck.

EXAMPLE:

January is the last month in which a recipient is eligible for cash benefits. At the end of January, he finds a job. He will not, however, receive his first paycheck until the end of February. The State would have the option of issuing a benefit check for the month of February, even though he reached the time limit in January.

- (d) At State option, persons who had left the JOBS program for work would still be eligible for selected JOBS services, including case management.
- (e) States would be required to continue providing transitional Medicaid benefits as under current law; States would be relieved of this requirement only if and when universal health care coverage were guaranteed within the State.

13. EXTENSIONS

- (a) States would be required to grant extensions to persons who reached the time limit without having had adequate access to the services specified in the employability plan. In instances in which a State failed to substantially provide the services, including child care, called for in the employability plan, the recipient would be eligible for an extension equal to the number of months needed to complete the activities in the employability plan (up to a limit of 24 months). States would be required to take the results of the annual assessment(s) into account in determining if services were delivered satisfactorily. [Office of the General Counsel is developing language for this provision]
- (b) Persons, including both teen parents and individuals over 19, enrolled in a structured learning program (including, but not limited to, those created under the School-to-Work Opportunities Act) would be granted an extension up to age 22 for completion of such a program. A structured learning program would be defined as a program that begins at the secondary school level and continues into a post-secondary program and is designed to lead to a degree and/or recognized skills certificate. Such extensions would not count against the cap on extensions (see below).
- (c) States would also be permitted to grant extensions of the time limit under the circumstances listed below, up to a fixed percentage (e.g., 10%), to be set by the Secretary, of either all adult recipients or adults required to participate in JOBS. Persons granted extensions due to State failure to deliver services, as discussed above, would be included under the cap.
 - (1) For completion of a GED program (extension limited to 12 months)
 - (2) For completion of high school, an English as a Second Language (ESL) program or other certificate-granting training program or educational activity, including post-secondary education or a structured microenterprise program, expected to enhance employability or income. The extension is contingent on the individual's making satisfactory progress toward attaining a diploma or completing the program (extension limited to 24 months).

← tied to employability plan

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state by state look

language barriers

shift from deferral to extension cap

(3) For some persons who are learning disabled, illiterate or who face other substantial barriers to employment. This would include a seriously learning disabled person whose employability plan to date has been designed to overcome that obstacle and who consequently has not yet obtained the job skills training needed to secure employment (extension not limited in duration).

(d) States would be required to continue providing supportive services as needed to persons who had received extensions of the time limit.

14. **EARNING BACK ELIGIBILITY**

(a) Persons who had left the cash assistance program would earn back eligibility for months of cash assistance at a rate of one month of cash assistance eligibility for every four months during which the individual did not receive cash assistance and was not in the WORK program. The total months of assistance for which a person was eligible at any time could never exceed 24.

EXAMPLE:

An individual applies for assistance for the first time in January 1997, is not deferred from the JOBS program and enters a JTPA in-class vocational training program in March 1997. She obtains a private sector position and leaves the JOBS program in December of 1997. At that point, she is eligible for 13 months of cash assistance. Two years later, she is laid off from her job and is unable to find another. She re-applies for assistance in February 2000, 26 months after leaving welfare. At this point, she has earned back 6.5 months of cash assistance (26 total months divided by 4), which, when added to the original 13 months, gives her 19.5 months of eligibility remaining.

(b) Persons who left the WORK program would also be able to earn back months of cash assistance, just as described in (a).

NOTE: A generous "earn-back" provision could contribute to minimizing the number of people entering, or re-entering, the WORK program.

ISSUE: Should States be given the option to limit the number of months an individual could earn back (i.e., short of the 24-month limit on cash assistance)?

APWA → hates earnback
come back into
WORK program
-discussion

JOBS AND TIME LIMITS

1. PROGRAM ENROLLMENT

Current Law

The Family Support Act mandated that upon enrollment into the AFDC program, the State must make an initial assessment of applicants with respect to child care needs, skills of the applicant, prior work experience, and employability of the applicant. On the basis of this assessment, the State must develop an employability plan for the applicant. The State may require participants to enter into a formal agreement which specifies the participant's obligations under the program and the activities and services provided by the State. The employability plan is not considered a contract. States may require some applicants to undergo job search activities for 8 weeks and an additional 8 weeks for AFDC recipients.

Vision

At the point of the intake process, applicants will learn of their specific responsibilities and expectations regarding the JOBS program and time-limits. All States and applicants will now be required to enter into an agreement specifying the responsibilities of each party. This will be accomplished through a social contract and an employability plan. While the social contract will outline a general agreement, the employability plan will be focussed on the specific employment related needs of the applicant. Although these are not legal contracts, these agreements will serve to refocus the direction of the welfare program.

Rationale

States must change the culture of the welfare system by changing the expectations of both applicants and case workers. This can be done by modifying the mission of the welfare system at the point of the intake process to stress the shift from eligibility and benefit determination to employment and access to education and training. The mutual obligations of the State and the participant must be spelled out and enforced. JOBS programs must continue to be utilized as an entry designed to link clients to services in the community.

- (a) All applicants, upon enrollment, will be required to sign a Social Contract with the State specifying the responsibilities of both the participant and the State agency under the revised transitional assistance (JOBS) program and under a program of time-limited assistance.
- (b) Upon enrollment, all applicants must be provided with information about the revised JOBS program and informed of their status regarding eligibility for transitional assistance, specifically the amount of time of remaining eligibility.
- (c) The Social Contract shall not be a legal contract.

2. EMPLOYABILITY PLAN

- (a) Change current SSA language that a State "may" require the participant to enter into an agreement with the State agency to follow the employability plan as developed to "must."
- (b) Add language requiring States to complete the assessment and employability plan within a time-frame specified by the Secretary of Health and Human Services.
- (c) The employability plan shall specify a time-frame for achieving self-sufficiency (pursuant to the sections regarding time-limited transitional benefits) and the prescribed activities shall reflect the needs of the participant to successfully meet this time-frame.

3. DEFERRALS UNDER JOBS

Current Law

States must require non-exempt AFDC recipients to participate in the JOBS program to the extent that resources are available. Exemptions under the current JOBS program are for those applicants and recipients who are ill, incapacitated, or of advanced age; needed in the home because of the illness or incapacity of another family member; the caretaker of a child under age 3 (or, at State option, age 1); employed more than 30 hours per week; a dependant child under age 16 or attending a full time educational program; women in the second and third trimester of pregnancy; and residing in an area where the program is not available. The parent of a child under age 6 (but older than the age for an exemption) who is personally providing care for the child may be required to participate only if participation requirements are limited to 20 hours per week and child care is guaranteed. For AFDC-UP families, the exemption relating to the age of a child may only apply to one parent, or to neither parent if child care is guaranteed.

Vision

Under new provisions, a greater number of participants will be JOBS mandatory. Single-parent and two-parent families will be treated similarly under the new JOBS system. The current exemption policy, which is based on an individual's characteristics, will be replaced with a policy which will allow for temporary deferment from participation requirements for good cause as determined by the State.

Rationale

In order to change the culture of welfare, it is necessary to stress the importance of full participation in the JOBS program. It is also important to ensure that all welfare recipients who are able to participate in JOBS have such services made available to them by the States. Elimination of exemptions sends a strong message that full participation in JOBS should be the normal flow of events, and not the exception. A limited deferment policy gives the States the flexibility to temporarily excuse recipients from participation who are unable due to good cause.

- (a) Adult recipients (see Teen Parents below for treatment of minor custodial parents) could be deferred from participation in the JOBS program either prior to or after entry into the program. For example, if an individual became seriously ill after entering the JOBS program, he or she could be deferred at that point. Months in which a recipient was deferred from the JOBS program would not count against the time limit.

EXAMPLE:

An individual applies for cash assistance in January of 1996. She and her caseworker design an employability plan in March of 1996 and she begins participating in the JOBS program activities in the plan. In September 1996, her father becomes seriously ill and she is needed in the home to care for him. At that point, she is deferred from JOBS participation. Her deferment lasts for eleven months, until August 1997, when her father recovers and no longer requires full-time care. As of August 1997, she is eligible for 16 more months of cash assistance. She re-enters the JOBS program and reaches the 24-month time limit in November 1998. At that point, however, she is only four months from completing her Licensed Practical Nurse (LPN) training. She is then granted a 4-month extension to finish her LPN training.

- (b) Deferral policy would take the following form:

A parent of a child under one, provided the child was born either prior to or within 10 months of the family's most recent application for assistance, would be deferred from participation in the JOBS program. A parent of a child born more than 10 months after the most recent application for assistance would be deferred for a 120-day period following the birth of the child.

States would be permitted, in addition, to defer up to a fixed percentage (e.g., 20%), with the number to be set by the Secretary, of all adult recipients under the following criteria or for good cause as determined by the State (see attachment on participation standards for discussion of the numerator and denominator for this calculation):

- (1) Illness, including mental illness, incapacity or advanced age;
(Same as current law)
[see specifications on substance abuse for discussion of the approach for persons with drug or alcohol problems]
- (2) Needed in the home to care for another member of the household who is ill or incapacitated;
(Same as current law)
- (3) Second or third trimester of pregnancy; and
(Same as current law)
- (4) Living more than two hours round-trip travel time (by public transportation or by car, whichever is applicable) from the nearest JOBS program site or activity.
(Same as current law, specifically CFR 250.30.5)

Dependent children, other than custodial parents, would not be required to participate in the JOBS program and would not be included in the denominator for the deferral calculation.

ISSUE: Should States be required to defer persons meeting the criteria specified above, unless such persons volunteer to participate in JOBS (similar to current law)? Or should the criteria above be considered guidelines, with States permitted to require some persons meeting the criteria above to participate in JOBS, if appropriate?

- (c) Recipients who would otherwise be deferred from the JOBS program would be permitted to volunteer for the program, but such persons would then be subject to the time limit. States would have the option of giving first consideration to volunteers but would not be required to do so.
- (d) When appropriate, persons deferred from the JOBS program would be required to engage in activities intended to prepare them for the JOBS program. The employability plan for a deferred recipient would detail the steps, such as finding permanent housing or obtaining medical care, needed to enable him or her to enter the JOBS program. Services for disabled persons could be made available as part of the pre-JOBS phase.

Recipients not likely to ever participate in the JOBS program (e.g., those of advanced age) would not be required to engage in pre-JOBS activities, but would have access to pre-JOBS services. For individuals whose deferral is expected to end shortly in any event (e.g., mothers of young children), pre-JOBS activities would be intended to address barriers, if any, to successful participation in JOBS.

The pre-JOBS phase would not be as service-intensive as the JOBS program. States would not be required to guarantee child care or provide other supportive services for persons in the pre-JOBS phase. Monitoring would be relaxed considerably relative to JOBS. States would, however, have the option to sanction persons in the pre-JOBS phase for not following through with the steps in the employability plan.

RATIONALE FOR PRE-JOBS:

Requiring at least a modest number of recipients (e.g., 10% of those deferred, with the number to be determined by the Secretary) deferred from JOBS to participate in pre-JOBS activities would encourage States to devote some attention to deferred persons. A pre-JOBS phase might, to some extent, assuage concerns about the magnitude of the deferral rates.

4. DEFINITION OF TIME LIMIT

Current Law

The AFDC program provides cash assistance to households in which needy children have been deprived of parental support (Section 401, Social Security Act), including two-parent households in which the principal earner is unemployed (AFDC-UP program, Section 407). Operating within broad

Federal guidelines, States set standards used to determine need and payment. In order to be eligible for AFDC, the household's gross income cannot exceed 185 percent of the State's need standard (Section 402(a)), its countable income must be less than the need standard, and the total value of its assets must be below the limit set by the State.

The cash assistance is provided to, and accounts for the needs of, the parent(s) or other caretaker relative, as well as the dependent children (Section 402(a) and others, Social Security Act). Some States (those which did not have an AFDC-UP program in place as of September 26, 1988) are permitted to place a type of time limit on participation in the AFDC-UP program, restricting eligibility for AFDC-UP to 6 months in any 12-month period (Section 407(b)). Thirteen states presently impose time limits on AFDC-UP eligibility. Under current law, however, no other type of time limits may be placed on participation in the AFDC program.

Vision

Most of the people who enter the welfare system do not stay on AFDC for many years consecutively. It is much more common for recipients to move in and out of the welfare system, staying 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 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, however, 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 moving in the direction of self-sufficiency. Most long-term recipients are not on a track toward obtaining employment that will enable them to leave AFDC.

The proposal would impose, on adults, a cumulative time limit of two years on the receipt of cash assistance, with deferrals of and extensions to the time limit to be granted under certain circumstances. Months in which a recipient was working part-time would not count against the time limit. The two-year limit would be renewable--once an individual left welfare, he or she would begin to earn back eligibility for assistance.

The two-year time limit is part of the overall effort to shift the focus of the welfare system from disbursing funds to promoting self-sufficiency through work. This time limit gives both recipient and the welfare agency a structure that necessitates steady progress in the direction of employment and economic independence. As discussed elsewhere, recipients who reach the two-year time limit without finding a private sector job will be offered publicly subsidized work assignments to enable them to support their families.

- (a) The time limit would be a limit of 24 on the cumulative number of months of cash assistance an adult could receive before being subject to the work requirement (see Teen Parents for treatment of custodial parents under 20). Months in which an individual was receiving

assistance but was deferred from the JOBS program (not required to participate) would not count against the 24-month time limit.

- (b) The time limit, as indicated in (a) above, would be linked to JOBS participation. Recipients required to participate in JOBS would be subject to the time limit. Conversely, the clock would not run for persons deferred from JOBS participation.

5. APPLICABILITY OF TIME LIMITS

- (a) The time limit would apply to parents (for treatment of teen parents, see Teen Parents below). A record of the number of months of cash assistance received would be kept for each individual subject to the time limit. Caretaker relatives would not be subject to the time limit.

In a two-parent family, both parents would be subject to the time limit, provided neither parent was deferred from JOBS. The family would continue to be eligible for benefits so long as one of the two parents had not reached the time limit for transitional assistance.

EXAMPLE:

A single father with two children who came onto the rolls twelve months ago marries a woman with no children and no prior welfare receipt. Both are required to participate in JOBS. The family at this point is eligible for twenty-four months of benefits. The marriage does not go well and they separate after ten months. The father and his children at this point are eligible for only two more months of cash assistance. If, on the other hand, the two had remained together, the family would have been eligible for fourteen more months of cash benefits.

Under current law, the second parent in a two-parent family is not exempted from participation in JOBS. If, however, a State chose to defer the second parent from JOBS, the second parent would not be subject to the time limit. The second parent would then be treated as any other deferred recipient—counted toward the maximum number of adult recipients a State is permitted to defer (see Deferrals above). In such an instance, a two-parent family could be eligible for as many as 48 months of cash assistance, as opposed to 24 for a single-parent family. Again, this would only be the case if the second parent were deferred from the JOBS program.

RATIONALE:

While the provision described above might be interpreted to favor two-parent families over single-parent households, its intent is actually to equalize treatment of one and two-parent families. Applying the time limit to a parent in a two-parent family who did not have access to JOBS services (due to deferral) but not to a deferred parent in a one-parent family would constitute, to some extent, a bias against two-parent families.

NOTE: If a second parent who would otherwise be deferred volunteered for the JOBS program, that second parent would be subject to the time limit.

6. TEEN PARENTS

- (a) All custodial parents under 20 (hereafter teen parents) would be required to participate in the JOBS and would be subject to the 24-month time limit. The clock would begin to run upon receipt of assistance as a custodial parent.

- (b) Teen parents who would otherwise have reached the time limit would receive an automatic extensions to age 18 (19 if enrolled in high school). These extensions would not be counted against the cap on extensions. Teen parents who received the automatic extension would still be eligible for the standard extensions (see Extensions).
- (c) Teen parents who had reached the time limit, notwithstanding extensions, would be permitted to enroll in job search (and continue receiving cash benefits) for up to 3 months before entering the WORK program.

[see specifications on prevention for a discussion of all provisions in the plan concerning teen parents]

7. PART-TIME WORK

- (a) Part-time work (for persons receiving cash benefits) would be treated as distinct from both participation in the JOBS program and deferral from the JOBS program.
- (b) An individual working an average of 20 or more hours per week or earning at least \$400 during the month would not be required to participate in the JOBS program but would not be considered deferred for purposes of calculating the percentage of adult recipients deferred. States would have the option of requiring parents of children 6 and over to work at least 30 hours per week in order to be considered working part-time.
- (c) Months in which an individual worked part-time, as defined here, would not be counted against the time limit. Persons working part-time would be permitted to volunteer for the JOBS program. Months in which an individual was working part-time and participating in the JOBS program would be counted against the time limit.

8. JOBS SERVICES AVAILABLE TO PARTICIPANTS

Current Law

A range of services and activities must be offered by States under the current JOBS program, but States are not required to implement JOBS uniformly in all parts of the State and JOBS programs vary widely among States. The services which must be included are: educational activities, including high school and equivalent education, basic literacy, and English proficiency; jobs skills training; job readiness activities; job development and job placement; and supportive services to the extent that these services are necessary for participation in JOBS. Supportive services include child care under a variety of circumstances, and transportation and work related expenses. States must also offer at least 2 of the following services: group and individual job search; on-the-job training (OJT); work supplementation programs (WSP); and community work experience programs (CWEP). There is a need to expand the definition and range of services available under JOBS. States would maintain the flexibility to determine the mix of JOBS services available and required for participants.

Vision

The definition of satisfactory participation in the JOBS program will be broadened to include activities that are important to helping individuals prepare for work and self-sufficiency. States will have broad latitude in determining which services are provided. Additionally, job search activities will be emphasized to promote work and employment.

- (a) Amend job search rules to accomplish the following:
 - (1) Require States to include job search among the JOBS services offered;
 - (2) Extend permissible period of mandated job search for individual applicants to 12 weeks upon application from 8;
 - (3) Remove the requirement that job search after initial job-search period may only be required in combination with education and training; and
 - (4) Clarify the rules so as to limit job search to 4 months in any 12-month period. Initial job search would be counted against the 4-month limit, but the 45-90 days of job search required immediately before the end of the 2-year time limit (see Transition to Work/WORK) would not.
- (b) Eliminate the requirement that States expend 55 percent of JOBS funds on services to the target groups.
- (c) Change the anti-displacement language to permit work supplementation participants to be assigned to established unfilled vacancies in the private sector.
- (d) Limit Alternative Work Experience to 90 days within any 12-month period (*by regulation*).

9. JOBS PARTICIPATION

Current Law

Under the Family Support Act of 1988 which established the JOBS program, certain minimum participation standards were established for fiscal years 1990-1995 for the AFDC caseload. States face a reduced federal match rate if those standards are not met. In FY 1993 at least 11% of the non-exempt caseload in each State must participate in JOBS. The standards increase to 15% for FY 1994 and 20% for FY 1995. There are no standards specified after FY 1995. There is a need to extend and increase minimum participation standards beyond 1995 in order to implement JOBS and transform the welfare system from an income support system into a work support system. The ACF current budget proposal for phase-in increase in participation standards for JOBS from the current level to 20% of non-exempt caseload in FY 1995, 25% for FY 1996, 30% for FY 1997, 35% for FY 1998, 40% FY 1999, 45% for FY 2000.

Vision

In order for the JOBS program to become the centerpiece of government assistance, the JOBS program must experience a dramatic expansion of both services and participants. Under the provisions of the new transitional assistance program, JOBS participation will be greatly expanded and increased participation rates will be phased-in until States reach a full-participation model. States will be given flexibility in designing systems to achieve these objectives.

ISSUE

ISSUE: What adjustments should be made to the 20 hour rule?

Drafting Specs

- (a) Alter the definition of participation such that an individual enrolled full-time in an educational activity who was making suitable progress would be considered to be participating satisfactorily in JOBS (by regulation).
- (b) Broaden the definition of JOBS participation to include participation in activities, other than the optional and mandatory JOBS services, which are consistent with the individual's employability plan (again, by regulation).
- (c) Permit States to require a parent of a child under 6 to participate in JOBS for more than 20 hours per week (prohibited under current law).

10. SANCTIONS

Current Law

Sanctions for non-participation under the current JOBS program result in a loss in the portion of benefits for the individual not in compliance with required activities until the failure to comply ceases. In the event of subsequent non-compliance, the sanction is a minimum of 3 months for the second failure to comply, and a minimum of 6 months for all subsequent non-compliance. Additionally, the State cannot require a participant to accept employment if the net result to the family is a decrease in cash income.

For sanctioned two-parent families, both parents' shares of the total benefit are deducted from the family's grant, unless the second parent is participating satisfactorily in the JOBS program.

Vision

Under these provisions, States would gain some flexibility regarding sanction policy but much of the current sanction policy would remain intact.

- (a) Program Interactions:
 - I. During sanction periods, assume an unsanctioned AFDC benefit when calculating benefits for other means-tested programs.

2. Sanctioned families would still have complete access to other available services.
 3. Sanctioned months would be considered months of receipt for calculating time-limits.
- (b) Eliminate the requirement that States establish a conciliation process for resolution of disputes involving JOBS participation. States would still be required to provide an opportunity for a fair hearing in such instances.
 - (c) Lift the prohibition against imposing a sanction on a parent of a child under 6 for failure to accept an offer of a 20-plus hour per week job.
 - (d) Change the statute such that for sanctioned two-parent families, the second parent's share of the benefit would not also be deducted from the grant, unless the second parent were also required to participate in JOBS and was similarly non-compliant.

11. TRANSITION TO WORK/WORK

- (a) Persons would be required to engage in job search during a period of not less than 45 days (up to 90 days, at State option) before taking a WORK assignment. In most cases, the job search would be performed during the 45-90 days immediately preceding the end of the time limit. An individual who reached the time limit without having finished the 45-90 days of job search would not be eligible for a WORK assignment until the required period of job search was completed.
- (b) Persons who through no fault of their own did not complete the required period of job search before reaching the time limit would continue to be eligible for cash benefits while finishing the 45-90 days. Individuals who had refused to perform this required job search, either before or after reaching the time limit, would not be able to receive cash benefits while completing the job search period.
- (c) States would have the option of providing additional months of cash assistance to individuals who found employment just as their eligibility for cash assistance ended, if necessary to tide them over until the first paycheck.

EXAMPLE:

January is the last month in which a recipient is eligible for cash benefits. At the end of January, he finds a job. He will not, however, receive his first paycheck until the end of February. The State would have the option of issuing a benefit check for the month of February, even though he reached the time limit in January.

- (d) At State option, persons who had left the JOBS program for work would still be eligible for selected JOBS services, including case management.
- (e) States would be required to continue providing transitional Medicaid benefits as under current law; States would be relieved of this requirement only if and when universal health care coverage were guaranteed within the State.

12. EXTENSIONS

- (a) States would be required to grant extensions to persons who reached the time limit without having adequate access to the services specified in the employability plan. In instances in which a State failed to substantially provide the services, including child care, called for in the employability plan, the recipient would be eligible for an extension equal to the number of months needed to complete the activities in the employability plan (up to a limit of 24 months). [Michael Wald is developing language for this provision]

States would also be permitted to grant extensions of the time limit under the circumstances listed below, up to a fixed percentage (e.g., 10%, see participation standards attachment for numerator and denominator), to be set by the Secretary, of adult recipients (persons granted extensions due to State failure to deliver services, as discussed above, would be included under the cap).

- (1) For completion of a GED program (extension limited to 12 months)
 - (2) For completion of high school, an English as a Second Language (ESL) program or other certificate-granting training program or educational activity, including post-secondary education, expected to enhance employability. The extension is contingent on the individual's making satisfactory progress toward attaining a diploma or completing the program (extension limited to 24 months).
 - (3) For some persons who are learning disabled, illiterate or who face other substantial barriers to employment. This would include a seriously learning disabled person whose employability plan to date has been designed to overcome that obstacle and who consequently has not yet obtained the job skills training needed to secure employment (extension not limited in duration). These decisions would be made on a case-by-case basis.
- (b) States would be required to continue providing supportive services as needed to persons who had received extensions of the time limit.

13. EARNING BACK ELIGIBILITY

- (a) Persons who had left the cash assistance program would earn back eligibility for months of cash assistance at a rate of one month of cash assistance eligibility for every four months during which the individual did not receive cash assistance and was not in the WORK program. The total months of assistance for which a person was eligible at any time could never exceed 24.

EXAMPLE:

An individual applies for assistance for the first time in January 1997, is not deferred from the JOBS program and enters a JTPA in-class vocational training program in March 1997. She obtains a private sector position and leaves the JOBS program in December of 1997. At that point, she is eligible for 13 months of cash assistance. Two years later, she is laid off from her job and is unable to find another. She re-applies for assistance in February 2000, 26

months after leaving welfare. At this point, she has earned back 6.5 months of cash assistance (26 total months divided by 4), which, when added to the original 13 months, gives her 19.5 months of eligibility remaining.

NOTE: A generous "earn-back" provision could contribute to minimizing the number of people re-entering the WORK program.

- (b) Persons who left the WORK program would also be able to earn back months of cash assistance, just as described above.
- (c) States would be permitted, subject to the approval of the Secretary of HHS, to implement alternate "earn-back" strategies.

B. IMPROVING ACCESS TO MAINSTREAM EDUCATION, TRAINING AND SELF-EMPLOYMENT OPPORTUNITIES

Current law

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.

Vision

The mission of the JOBS program will not be to create a separate education and training system for welfare recipients, but rather to ensure that they have access to and information about the broad array of existing programs in the mainstream system. The JOBS program needs to be redesigned to permit States to integrate other employment and training programs into the JOBS program, and to implement "one-stop shopping" education and training programs. Under current law, states are required to coordinate their JTPA and JOBS programs. The quality of those linkages varies considerably. Existing barriers are statutory and traditional; others are regulatory and policy. The barriers to better coordination need to be examined and addressed.

OPTION: Interagency board to facilitate coordination

Staff from the Departments of Agriculture, Education, Health & Human Services, and Labor have been meeting to discuss issues of coordination between employment and training programs in the context of ongoing welfare reform efforts. One option available to facilitate coordination is an inter-agency board which would serve a variety of functions. However, staff agreed that the scope of the board should be broader than welfare reform and waiver issues, and should address workforce participation issues among Federal programs in general. The creation of such a board could be done through executive order and that legislation would not be required. Its introduction could coincide with the introduction of welfare reform, or the Workforce Security Act. Staff has identified a tentative list of possible functions that such a board may undertake. These include activities to:

- * articulate a national workforce preparation and national self-sufficiency agenda, and develop an overall human investment strategy and plan;
- * consider and establish criteria upon which to evaluate and approve waivers from States which facilitate improved service delivery among the principle Federal job training programs;
- * explore and promote common definitions, administrative requirements among programs, common outcome measures, common reporting systems, and common eligibility determination;
- * set principles in evaluations of workforce programs and strategies;

- * suggest regulatory and legislative changes to promote improved program operation and facilitate coordination;
- * promote objective criteria to evaluate and measure interagency efforts to improve Federal program linkages and coordination;
- * promote collaboration with the private sector;
- * recognize and promote technology which facilitates the goals of program improvement;
- * provide a focal point for interaction with States and other entities to facilitate discussions and action on program issues; and
- * facilitate technical assistance for improving state and local programs.

NOTE: Efforts regarding this board should be tied in to current interagency discussion regarding Human Resource Development Boards.

OPTION: Optional joint planning and administration between JOBS and JTPA:

The Governor of each State could have the option to require a joint plan from the two agencies indicating how responsibilities would be sorted out for the 2 year transitional period and the post-transitional period. Current law specifies joint review of plan; joint sign-off would be substituted.

Drafting Specs

1. **COORDINATED EFFORTS**

- (a) Department of Education proposes: Amend the language in SSA section 483(a) which requires that there be coordination between JTPA, JOBS and education programs available in the State to specifically require coordination with the Adult Education Act and Carl D. Perkins Vocational Educational Act. **NOTE: Education will recommend specific language.**
- (b) Department of Education proposes: The State JOBS plan must be consistent basic-literacy and job training goals and objectives of the plans required by the Adult Education Act and the Carl D. Perkins Vocational Education Act. **NOTE: Education will recommend specific language.**
- (c) Department of Education proposes: Require employability plan to contain explicit consideration of basic literacy and employment skills.

C. CONSOLIDATING THE FNS EMPLOYMENT & TRAINING PROGRAM

FNS staff have provided the following options for our consideration for inclusion as part of the current round of welfare. These options involve the Food Stamp Education and Training (E&T) program.

OPTION 1: Consolidating E&T with JOBS

State agencies stress that serving similar populations with different program rules and funding structures increases the complexity of the programs and their resulting ability to operate the program effectively. Consolidating the E&T program with JOBS would result in a more effective overall administration of Federal employment and training programs. While the program would continue to serve recipients of public assistance and those not receiving public assistance (NPA), the administrative burden associated with the operation of 2 separate Federal employment and training programs would be eliminated.

NOTE: Staff from HHS and FNS will collaborate to propose specific statutory language, pending the outcome of the group's decision.

ISSUE: Is this a potential avenue for incorporating the employment & training needs of non-custodial parents?

1. FUNDING

Currently, USDA distributes \$75 million in a 100% grant to State agencies to administer their E&T programs. States that choose to spend more than their 100% grant can receive a 50% Federal match for administrative costs. Legislation could conform match rates for E&T services with JOBS match rates. If transferred to HHS, consolidating funding structures and Federal financial requirements for the 2 programs would greatly reduce the administrative burden for State operating agencies.

OPTION: Alternative funding streams for a consolidated model include:

- (i) transferring funds from USDA to HHS;
- (ii) USDA funding States directly through contracts
- (iii) funding appropriated directly to HHS.

2. MINIMUM PARTICIPATION REQUIREMENTS

In FY 1990 and FY 1991 States were required to place no fewer than 50% of their E&T mandatory population into E&T activities. This performance standard was lowered to 10% for FY 1992 and beyond.

OPTION: As a way to ensure continued participation in employment and training activities by Food Stamp recipients, HHS would direct State agencies to serve a minimum number

of NPAs, possibly based on the current 10% required participation rate. The lowered standard allows for more intensive services. States would specify in their State JOBS plans how this population would be served and how participation requirements would be met.

OPTION 2: Conforming the Food Stamp E&T program with JOBS.

1. CONFORM NON-COMPLIANCE SANCTIONS WITH JOBS NON-COMPLIANCE SANCTIONS

Currently, the sanction for non-compliance with Food Stamp work requirements affects the entire household. Under AFDC-JOBS, the sanction affects only the individual not in compliance. Recommendation: conform to E&T policy with JOBS sanction policy.

- (a) Eliminate the distinction between individual and household ineligibility arising from non-compliance with work requirements.
- (b) Eliminate the requirements governing the designation of head of household for E&T purposes.
- (c) Adopt provision of AFDC-JOBS sanction periods for E&T.

2. E&T EXPENSE REIMBURSEMENT

Currently, the Food Stamp E&T program provides payments or reimbursements to individuals for transportation and other expenses (excluding dependent care) related to participation in the program. Participants receive payments for actual costs up to \$25 per month for expenses deemed necessary for participation in the E&T program. The Federal government matches up to half of the amount State agencies spend, up \$12.50 of the \$25. State may supplement the amount without additional matching funds from the Federal government. The JOBS program provides reimbursement to participants for transportation and other costs necessary to enable individuals to participate in JOBS. The Federal government matches the State agency costs up to 50%. State agencies describe in their State plans the monetary limits to be applied to transportation and other support services. Recommendation: conform E&T reimbursement policy with JOBS policy.

- (a) Conform Food Stamp E&T reimbursement policy to JOBS reimbursement policy by eliminating the \$25 maximum and allowing State agencies to specify monetary limits to be applied to transportation and related expenses.

3. FOOD STAMP E&T DEPENDENT CARE EXEMPTIONS

The Food Stamp E&T program allows State agencies to exempt certain individuals from participation in program activities. Currently, State agencies may exempt from work registration a parent or other household member who is responsible for the care of a dependent child under age 6 or an incapacitated person. State agency may require the parent or other caretaker relative of a child under age 6 to participate in JOBS. However, mandatory individual must be assured by the State agency that child care will be guaranteed and that s/he will not be required to participate more than

20 hours per week. A parent or relative who is personally providing care for a child under age 3 (or younger at State option) is automatically exempt from JOBS participation. Conforming Food Stamp E&T exemption provisions for dependent caretakers to the JOBS criteria would require a greater percentage of the Food Stamp population to register for work at the time of application for benefits, thereby reaching a greater proportion of the employable Food Stamp population.
Recommendation: conform E&T exemption provisions with JOBS criteria.

4. PERFORMANCE FUNDING FOR FOOD STAMP E&T

Currently, the Food Stamp E&T program distributes \$75 million as a Federal grant to State agencies for the administration of their E&T programs. Of this \$75 million, \$60 million is distributed according to each State's proportion of work registrants (nonperformance funding), while the remaining \$15 million is based on State program performance. This option would eliminate the \$15 million performance funding category for Food Stamp E&T. The USDA would distribute the entire \$75 million based on the nonperformance formula.
Recommendation: eliminate the \$15 million performance funding category.

- (a) Eliminate the \$15 million performance funding category for Food Stamp E&T.
- (b) Distribution of Federal funds for E&T will be based according to each State's proportion of work registrants.

WORK

Current Law

There is at present nothing in Title IV of the Social Security Act concerning a work program of the type envisioned here. States are presently permitted to operate on-the-job training, work supplementation and community work experience programs as part of the JOBS program (Section 482(e) and 482(f), Social Security Act, CFR 250.61, 250.62, 250.63). Regulations, however, explicitly prohibit States from operating a program of public service employment under the JOBS umbrella (CFR 250.47).

Vision

The focus of the transitional assistance program will be helping people move from welfare to self-sufficiency through work. The two-year time limit is part of this effort. Some welfare recipients will, however, reach the two-year time limit without having found a job, despite having participated satisfactorily in the JOBS program. We are committed to providing them with the opportunity to work to support their families.

The WORK program would make work assignments (hereafter WORK assignments) in the public, private and non-profit sectors available to persons who had reached the time limit for transitional assistance. States would be required to create a minimum number of WORK assignments, but would otherwise be given considerable flexibility in the expenditure of WORK program funds. For example, States would be permitted to contract with private firms and non-profits to place persons in unsubsidized private sector jobs.

Definition: The terms "WORK assignments" and "WORK positions" are defined as temporary, publicly subsidized jobs in the public, private and non-profit sectors.

1. ADMINISTRATIVE STRUCTURE

- (a) Each State would be required to operate a WORK program which would make at least a minimum number of WORK assignments available to persons who had reached the time limit for transitional assistance.
- (b) States would be required to assign administration of the WORK program to a single State agency. The administrative structure of the WORK program at the State level would take one of the following three forms:

OPTION ONE.

States would have complete flexibility as to which agency would administer the WORK program, which would permit States to administer the JOBS and WORK programs either through the same agency or through different agencies.

OPTION TWO.

States would be required to administer the JOBS and WORK programs through the same agency, but the provision in current law mandating States to administer the JOBS program through the IV-A agency would be eliminated, which would, for example, allow States to operate both programs through the JTPA system.

OPTION THREE.

States would be required to administer both the JOBS and WORK programs through the IV-A agency, but the IV-A agency would be encouraged to subcontract with the State JTPA program to provide services, including both WORK assignments and job search assistance, to WORK program participants.

PROS AND CONS OF THE OPTIONS.

Operating the JOBS and WORK programs through different agencies, as States would be permitted to do under Option One, could present serious administrative headaches. The agency in charge of the JOBS program would have a strong incentive to concentrate on the more employable participants, leaving the more difficult-to-serve for the WORK program. The agency operating the WORK program would have an equally strong incentive to put the blame for any difficulties it was experiencing in moving WORK program participants into unsubsidized jobs on the JOBS program's failure to adequately prepare them for employment.

On the other hand, a State might conclude that one agency is best suited for providing education and training services and moving recipients into work, while another is best equipped to generate WORK assignments which will lead to unsubsidized private sector employment. Moreover, separating the administration of the two programs would emphasize the distinction between cash assistance and the WORK program. A State might be aware of the potential for coordination problems and yet judge that the benefits from administering the two programs through different entities might outweigh the costs. It is not clear that such a State should be precluded from opting for this route.

Under Option Two, a State would be required to operate both programs through a single agency, but that agency could be an entity other than the IV-A agency. Apart from the issues concerning moving the JOBS program out of the IV-A agency, there is the question of coordination between the WORK program and the waiting list. Regardless of which entity administers the WORK program, the IV-A agency would likely need to be involved with respect to the waiting list, given that some monitoring of the activities required of persons on the waiting list would be needed (see Allocation of WORK Assignments/Waiting List below).

Assigning responsibility for the WORK program to the IV-A agency would not preclude extensive involvement by the JTPA system in the WORK program. Under Option Three, the IV-A agency could, for example, subcontract with the JTPA program to generate the WORK assignments in the private and non-profit sectors, keeping the task of creating public sector WORK assignments for itself.

Option Three would give overall control of the WORK program to the IV-A agency. A State might strongly prefer to give the final say over the WORK program to the JTPA program or another entity and again, it is not clear that a State should be explicitly prohibited from doing so.

- (c) Localities would be required to designate a body with balanced private sector, union and community (e.g., community-based organization) representation, such as the local Private Industry Council (PIC), to provide guidance and oversight to the WORK program.
- (d) Each State would be required to make the WORK program available in all areas of the State by a specified date.
- (e) States would be permitted but not required to have the entity administering the WORK program act as the employer of WORK program participants with respect to disbursing paychecks, Workers' Compensation and so forth.

2. FUNDING

The actual cost of the WORK program, for budget purposes, is the additional cost of placing persons in WORK assignments relative to paying them cash benefits. The term "WORK program funds" as used below refers only to the new funding for developing and maintaining the WORK assignments. [The method of reimbursing States for wages paid to persons in WORK assignments will be considered as part of the discussion of all match rates (AFDC, JOBS and WORK) to be held separately.]

- (a) Federal WORK program funds would be allocated to States by the JOBS formula (see chart showing State allotments using the JOBS and JTPA formulas).

RATIONALE:

Using a formula other than the JOBS mechanism to distribute WORK program funds would ensure a formula battle. An argument can be made for using the same formula for both JOBS and WORK funds, as both programs serve essentially the same population. Employing the JOBS formula, but with a countercyclical provision as discussed below, would to some degree take local economic conditions into consideration, without igniting a full-scale debate on the formula question.

- (b) Total Federal funds available for the WORK program would be capped.
- (c) A State's allocation of WORK program funds would be increased if unemployment in the State rose above a specified level, to be determined by the Secretary. The overall cap on WORK program funding would be raised accordingly.

3. FLEXIBILITY

- (a) States would enjoy wide discretion concerning the spending of WORK program funds. A State could pursue any of a wide range of strategies to provide work to those who had

reached the two-year time limit, with the stipulation that the combination of strategies employed by the State would have to generate the minimum number of WORK assignments (see Number of WORK Assignments below).

Approaches could include the following:

- Subsidize not-for-profit or private sector jobs (for example, through expanded use of on-the-job training vouchers).
- Offer employers other incentives to hire JOBS graduates.
- Execute performance-based contracts with private firms or not-for-profit organizations to place WORK program participants in unsubsidized jobs.
- Create positions in public sector agencies.
- Support microenterprise and self-employment efforts.
- Set up community service projects employing welfare recipients as, for example, health aides in clinics located in underserved communities.
- Employ adult welfare recipients as mentors for teen parents on assistance.

The approaches above would be listed in statute as examples, but States would not be restricted to these strategies.

- (b) States would be required to submit a WORK plan, similar to the State JOBS plan, for the approval of the Secretary. The Secretary would, as with the JOBS plan, consult with the Secretary of Labor on plan requirements and criteria for approving State plans.

4. LIMITS ON SUBSIDIES TO PRIVATE SECTOR EMPLOYERS

- (a) The WORK program subsidy for a position in a private, for-profit firm would be limited to 50 percent of the wages paid to the participant.
- (b) For WORK assignments in the private sector, the wages of a participant could be subsidized for no more than 12 months, consistent with the 12-month time limit on any single WORK assignment (see below). If an employer chose to retain a participant after the subsidy ended, the position would no longer be considered a WORK assignment, but rather unsubsidized employment.

5. COORDINATION

- (a) States would be required to coordinate the WORK program with other employment programs, including the Employment Service, One-Stop Shopping and School-to-Work, as well as with the efforts of the Corporation for National and Community Service.

6. RETENTION REQUIREMENTS

- (a) States would be required to track and monitor the performance of private, for-profit employers in retaining WORK program participants after the subsidy ended. Employers who had demonstrated a pattern of failing to retain WORK program participants at wages comparable to those of similarly situated employees would be excluded from the program. Prohibited employers would not be eligible for WORK program funds. The definition of a pattern of not retaining WORK program participants would be left to the discretion of the States.
- (b) States would similarly be required to monitor the performance of for-profit firms or not-for-profits with contracts to place WORK program participants into unsubsidized employment. Contractors that demonstrated a pattern of poor performance in placing WORK program participants into lasting unsubsidized jobs would likewise be prohibited from contracting with the WORK program. The definition of poor performance would, as above, be determined by the State.

7. NON-DISPLACEMENT

- (a) Non-displacement language would be based on current law (Section 484(c), Social Security Act), except that WORK program participants could be placed in unfilled vacancies in the private sector, provided the vacancies were not created by layoffs (H.R. 11 would have eliminated the restriction on placing Work Supplementation participants in unfilled vacancies in the private sector).
- (b) Anti-displacement language applying to the public sector would be adapted from the non-displacement language in the National and Community Service Trust Act.

8. NUMBER OF WORK ASSIGNMENTS

- (a) The participation standard for the WORK program would be expressed as a minimum average monthly number of WORK assignments each State would be expected to provide (see attachment on participation standards).

RATIONALE

A State, acting in good faith, might easily expend the majority of its WORK program funds on placement contracts with private firms, only to find that the firms were placing participants who would have found jobs on their own, leaving the State with no money for WORK assignments and a sizeable waiting list. Spending on, for example, economic development might prove equally ineffective and leave a State in the same predicament. HHS would then be held accountable for what would be regarded as a waste of Federal funds.

A WORK program which grants States almost complete flexibility with no standard to meet may prove rather difficult to defend. An approach which might garner wider

support would be to grant States great latitude provided some basic standard, e.g., providing a minimum number of WORK assignments, were met.

- (b) States would not be permitted to count unsubsidized private sector jobs toward the minimum number of WORK assignments.

RATIONALE

Counting placements into unsubsidized jobs toward the minimum number of WORK assignments would be problematic. It would be difficult to distinguish WORK participants who found, or would have found, jobs through their own efforts from those whose employment was attributable to State job placement strategies.

Consequently, a State which was especially creative at counting could claim to have provided the minimum number of WORK assignments while still having a lengthy waiting list.

Moreover, States which were having difficulty generating the minimum number of WORK assignments would have an incentive to delay the movement of JOBS participants into private sector employment, in order to count these placements as WORK program positions.

- (c) The minimum number of WORK assignments for each State would be set by the Secretary, based on the participation standard and the number of persons who had been in the WORK program for less than two years (see attachment on participation rates).

The minimum number would be set such that States could meet the standard and still have WORK program funding available for supervised job search and other strategies (e.g., performance-based placement contracts with private firms).

9. ALLOCATION OF WORK ASSIGNMENTS/WAITING LIST

- (a) If the number of persons who were eligible and applied for WORK positions exceeded the number of WORK assignments available at that point, a State would be required to allocate WORK assignments according to a priority system and to maintain a list of persons awaiting a WORK assignment. States would be mandated to give preference for WORK assignments to persons new to the WORK program (as opposed to persons that had already held a WORK position).
- (b) Each State would be required to establish a uniform set of rules by which the priority system would operate and inform all persons on the waiting list of these rules.
- (c) In localities in which the WORK program was not administered by the IV-A agency, the IV-A agency and the entity operating the WORK program would maintain the waiting list jointly. The WORK program agency would be responsible for placing persons on the waiting list into WORK assignments, while the IV-A agency would be responsible for ensuring that persons on the waiting list were participating in the required activities (e.g., self-initiated community service).

Waiting list policy could take one of the following three forms:

OPTION ONE.

Persons on the waiting list for a WORK assignment would be expected to find volunteer work in the community for at least 20 hours per week in order to be eligible for cash benefits. This volunteer work would be distinct from a WORK assignment. The recipient would be wholly responsible for arranging the place(s) and hours, and would not receive wages for hours worked. The cash assistance check would continue to be treated as benefits rather than earnings for all purposes.

OPTION TWO.

Same as Option One, except that a cap, to be set by the Secretary, would be placed on the number of persons who were required to perform volunteer work in exchange for benefits.

OPTION THREE.

Same as Option One, except that individuals who for good cause were unable to find volunteer work (e.g., persons unable to arrange for child care, individuals lacking suitable sites at which to volunteer) would be eligible for benefits provided they participated in another approved activity for at least 20 hours or 3 days per week. The range of allowable approved activities would be established at the State level, but could include human development activities such as parenting skills classes or domestic violence counseling, or self-initiated education or training. The State would not be required to fund participation in these activities.

DISCUSSION OF THE OPTIONS.

Option One presents something of a Catch-22. In order to sell self-initiated community service as work, roughly equivalent to a WORK assignment, it would be necessary to monitor compliance with the requirement fairly closely. If persons were required to volunteer for a minimum of 20 hours per week, child care would have to be provided. Monitoring and child care, however, represent the bulk of the cost of a WORK assignment. A strict 20-hour per week volunteering requirement is not consistent with the strategy of limiting the cost of the WORK program by not meeting the full demand for WORK positions.

Requiring persons on the waiting list to arrange to volunteer at a non-profit while the WORK program agency is approaching the same non-profits about providing WORK assignments is not an ideal situation. While relatively few non-profits would be willing and able to kick in part of the wage cost for WORK assignments, that number would fall to virtually zero if non-profits could as easily take on board persons eager to offer their time for free.

Unions (AFSCME, SEIU) concerned about WORK program participants working at below the prevailing wage would likely be even more alarmed about a strict self-initiated community service requirement, which could give non-profits and even public sector agencies easy access to free labor, without the administrative responsibilities associated with a WORK assignment.

While there are serious problems with attempting to sell self-initiated community service as work, it can be presented as one of a number of appropriate activities for persons to engage in while awaiting a WORK assignment, an activity that can yield both personal and societal benefits. Option Three is an attempt to adapt the Michigan "Social Contract" concept to the WORK program waiting list. Volunteer work would still be the preferred activity, but persons unable to find volunteer work would be permitted to engage in other approved activities similar to the more informal Michigan "social contract" activities--self-initiated education and training or human development activities.

- (d) States would not be required to guarantee child care or supportive services to persons on the waiting list for participation in approved activities. States would, however, be required to provide child care and/or other supportive services if needed to enable a person on the waiting list to participate in supervised job search.
- (e) The State IV-A agency would be required to establish procedures, subject to the approval of the Secretary, for monitoring participation in approved activities.
- (f) States would not be permitted to distinguish between persons on the waiting list and other recipients of cash assistance with respect to the determination of eligibility and calculation of benefits--States could not provide reduced benefits to persons on the waiting list.
- (g) The IV-A agency would be required to make at least quarterly contact with individuals on the waiting list for a WORK assignment and to make case management services available to these persons. Persons on the waiting list would be required to engage in supervised job search either periodically or continuously, with the minimum number of hours to be set by the State (see Job Search below).

10. TIME LIMIT ON PARTICIPATION IN THE WORK PROGRAM

- a) Individuals would be limited to a maximum of 12 months in any single WORK assignment, after which they would be placed on the waiting list for a new WORK position.
- b) There would be no time limit on overall participation in the WORK program.
- c) States would be required to conduct an assessment of each person who had completed at least two WORK assignments or had been in the WORK program for at least two years to determine if any additional services might be needed to enable that individual to secure private sector employment. In instances in which services other than a WORK assignment or job search were deemed necessary, persons would be permitted to participate in such activities, in lieu of self-initiated community service, while on the waiting list (even if volunteer work were readily available). States would have the option of making funding available for such activities, including education and training.

11. ELIGIBILITY CRITERIA AND APPLICATION PROCESS

- (a) Adult recipients who had reached the time limit for cash assistance and who otherwise met the cash assistance eligibility criteria (e.g., income and asset limits) would be eligible for a WORK assignment.
- (b) States would be mandated to describe the WORK program, including the terms and conditions of participation, to all adult recipients who had reached the time limit for cash benefits. States would be permitted to establish an application process for the WORK program separate from the application for cash benefits, but would be prohibited from denying eligible persons entry into the WORK program, provided they agreed to comply with all WORK program rules and requirements.
- (c) In instances in which the cash benefit to the family did not exceed \$100 per month, the adult recipient(s) would not be subject to the work requirement.
- (d) States would have the option to apply the work requirement to only one parent in a two-parent family—only one parent would be permitted to participate in the WORK program.
- (e) An individual who had left the WORK program but had not earned back any months of cash assistance would be permitted to re-enroll in the WORK program, provided he or she did not quit a private sector job without good cause.

EXAMPLE:

A WORK program participant finds a private sector job and leaves the WORK program, but is laid off after just one month, before earning back any months of cash assistance (see JOBS and Time Limits specifications for discussion of the earn-back provision). This person would be eligible for a WORK assignment.

- (f) States would have the option of assigning WORK program re-entrants to supervised or unsupervised job search for up to 3 months before placing them on the waiting list for WORK assignments (these WORK program re-entrants would be eligible for cash benefits while participating in job search).
- (g) Persons who had left the WORK program but who voluntarily quit a job, otherwise reduced their earned income without good cause or refused a bona fide offer of private sector employment would not be permitted to re-enter the WORK program for a period of time to be set by the State, but not to exceed 3 months.
- (h) If the family income of an individual in a WORK assignment rose (e.g., through marriage or an increase in unearned income) such that the family's income, less WORK program wages, exceeded the income limit for cash benefits, the participant would still be permitted to complete the WORK assignment. At the conclusion of that assignment, however, the individual would not be eligible for the WORK program and accordingly would not be placed on the waiting list for a new position (unless the family's income had fallen back below the income limit before the conclusion of the WORK assignment). The same provision would apply if a family's circumstances otherwise changed (e.g., a child's leaving home) such that the family no longer met the eligibility criteria for cash benefits.

12. WAGES AND BENEFITS

- (a) Participants in WORK assignments would be compensated for hours worked at no less than the higher of the Federal minimum wage and any applicable State or local minimum wage law. States would have the option to provide WORK assignments which pay an hourly wage higher than the minimum wage.
- (b) The earnings disregard for WORK assignment wages would be set at a flat \$100 per month. Individuals in WORK assignments would not be eligible for the other disregards (e.g., thirty and one-third).
- (c) Wages from WORK assignments would be treated as earned income with respect to Worker's Compensation and Federal assistance programs (e.g., food stamps, public and Section 8 housing). [Treatment of FICA awaiting analysis by CEA]
- (d) Earnings from WORK positions would not be included in Aggregate Gross Income, and consequently would not be treated as earned income for the purpose of calculating the Earned Income Tax Credit.
- (e) For WORK program participants not receiving cash assistance in addition to WORK program wages, child support collected would be paid directly to the WORK program participant. In instances in which the WORK program participant was receiving cash benefits in addition to WORK program wages, child support would be treated just as for any other family receiving cash benefits. If child support collected exceeded the cash benefit, the difference would be paid to the participant.
- (f) Wages would be paid in the form of weekly or bi-weekly checks. In instances in which an individual was receiving both wages and cash benefits there would be separate checks for wages and for benefits, regardless of the entity issuing the check for hours worked (i.e., even if the IV-A agency were responsible for both paying wages and disbursing supplementary benefits, the two would not be combined into one check).

13. HOURS OF WORK

- (a) States would have the flexibility to determine the number of hours for each WORK assignment, which could vary depending on the nature of the position. WORK assignments would have to be for a minimum of 15 hours per week or 65 hours per month, whichever is greater, and for no more than 35 hours per week or 150 hours per month, whichever is greater.

A State could, for example, make all WORK assignments the same number of hours (e.g., 20), regardless of the size of the grant, and supplement wages with cash benefits such that persons in WORK assignments are not worse off than those on the assistance. High-benefit States might choose to make the number of hours 30 or 35, as opposed to 15 or 20. States could also opt to calculate the number of hours for each participant by dividing the AFDC

grant by the minimum wage (as under CWEP), provided that each participant was required to work at least 15 and no more than 35 hours per week.

NOTE: The marginal cost of enrolling an individual in a WORK assignment would not in general vary based on the number of hours of the WORK assignment (since wages would replace cash benefits on a dollar-for-dollar basis, apart from the disregard).

The marginal cost would vary with the hours of the WORK assignment if the WORK assignment wages, apart from the disregard, were actually higher than the cash benefits provided to the family (e.g., if Texas enrolled an individual in a three-person family in a 35-hour WORK assignment). A State would, however, still be required to generate the minimum number of WORK assignments, regardless of the number of hours.

14. SANCTIONS

- (a) WORK program participants would receive wages for hours worked. Failure to work the set number of hours for a WORK assignment would result in a corresponding loss in earnings. Cash assistance would not act to offset the drop in WORK program earnings, for either WORK program participants who were already receiving supplemental cash benefits or for participants for whom the reduction in income would otherwise have made them eligible for cash assistance. The loss in wages would be treated as a decline in earned income with respect to other assistance programs.
- (b) A WORK program participant who repeatedly failed to show up for work or whose performance was otherwise unsatisfactory could be fired. The entity administering the WORK program would be required to determine if the individual was fired for cause. During the period in which the determination was being made, the family would continue to be eligible for cash benefits. Individuals who were determined to have been fired for cause would have the right to a fair hearing from the WORK program upon request. [Michael Wald will be developing language for this provision]
 - (1) An individual who was fired from a WORK assignment for cause for the first time would be placed at the end of the waiting list for WORK assignments and the family would not be eligible for cash benefits for a period of 3 months after the date of determination. States would be required to make vendor payments to landlords and utilities if needed to prevent homelessness or utility shut-off.
 - (2) A person fired from WORK assignment for a second time for cause would be placed on the waiting list only after 6 months. During that six-month period, the family would not be eligible for cash benefits. States would, as above, be required to make vendor payments when necessary.
 - (3) Persons fired for a third time would not be able to enter the waiting list or receive cash benefits for a period of one year (vendor payment as above).

Time in sanction status would not be counted as time not in the WORK program for purposes of earning back eligibility for cash assistance.

- (c) States would be required to refer for intensive intervention persons fired for cause more than once (see Referrals to Services for Unsuccessful WORK Participants below).
- (d) Persons subject to the work requirement who were not eligible for cash benefits due to sanction would still be able to receive food stamps, Medicaid and other in-kind assistance.
- (e) An individual otherwise eligible for the WORK program who refused an offer of unsubsidized private sector employment without good cause would not be eligible for a WORK assignment for six months from the date of refusal. Cash benefits during this six-month period would be calculated as if the job offer had been accepted. When calculating benefits for families so sanctioned, the disregards would apply. The sanction would end upon acceptance of a private sector job. WORK program participants are permitted to refuse a job offer if accepting the offer would result in a net loss of cash income (as under current law, Section 402(a), Social Security Act).

15. WORK PLACE RULES

- (a) Providers of WORK assignments, whether public, private or non-profit, would be required to treat WORK program participants as other entry-level employees with respect to sick and annual leave and other workplace rules. A State would have the option to waive this requirement for specific employers of WORK program participants, provided that the employer were complying with all applicable Federal and State laws concerning workplace rules.

16. JOB SEARCH

- (a) WORK program participants would be required to engage in job search either continuously (e.g., 5-10 hours per week) or periodically (e.g., for four weeks immediately after completing a WORK assignment) or a combination of the two. Job search requirements for persons in the WORK program would be set by the State. While job search for persons on the waiting list is discussed above, that provision should not be read as precluding States from requiring persons in WORK assignments to also simultaneously participate in supervised job search. The combination of supervised job search and a WORK assignment or self-initiated community service/approved activity—i.e., of all WORK program activities—could not exceed an average of 35 hours per week in any month.

17. SUPPORTIVE SERVICES

- (a) States would be required to guarantee child care for any person in a WORK assignment, as with JOBS program participants under current law (Section 402(g), Social Security Act). States are also mandated to provide other supportive services as needed for participation in a WORK position (as with JOBS participants, Section 402(g), Social Security Act).

18. DEFERRALS

- (a) Persons who had reached the two-year time limit and would otherwise be subject to the work requirement could be deferred from participation in the WORK program. The criteria for deferral from the WORK program would be identical to the criteria for deferral from the JOBS program (see JOBS and Time Limits specifications). Parents of newborn children would be deferred for a 120-day period following the birth of the child.
- (b) In localities in which the IV-A agency did not administer the WORK program, the entity operating the WORK program would refer persons meeting the deferral criteria to the IV-A agency, which would make the determination as to whether the individual should be deferred from WORK program participation.
- (c) Deferred persons would be eligible for cash benefits (not wages), without a requirement to find volunteer work, for as long as the condition necessitating the deferral continued.
- (d) Persons deferred from the WORK program would be treated as persons deferred from the JOBS program in all respects, except that once the deferral ended, they would re-enter the WORK program, rather than the JOBS program. Individuals deferred from the WORK program would count against the cap on the number of persons who could be deferred from participation in the JOBS program (see JOBS and Time Limits specifications).

19. REFERRALS TO SERVICES FOR UNSUCCESSFUL WORK PARTICIPANTS

- (a) The entity administering the WORK program would be required to arrange for intensive intervention, by, for example, a preventive service agency, for WORK program participants who had been fired from a WORK program position more than once. The agency responsible for the intervention would attempt to resolve the outstanding issues to enable the individual to hold a WORK assignment. In instances in which an individual has left the WORK program entirely, the agency would assess the family's food, housing and clothing needs and make referrals to child protective services if the children were at risk of abuse or neglect.

ENHANCING RESPONSIBILITY AND OPPORTUNITY FOR NON-CUSTODIAL PARENTS

Rationale:

The well-being of children, who only live with one parent, would be enhanced if emotional and financial support were provided by both of their parents. There are many reasons that such support is not provided. In some cases non-custodial parents are unwilling to provide financial support. Proposed improvements in the Child Support Enforcement System will reduce such willful denial of financial support. There are other impediments to the lack of parental support from non-custodial parents. Some parents have difficulties negotiating successful parenting partnerships once the family is no longer living together, such families often can benefit from programs which focus on the need by the children to have continuing relationships with both parents. Other parents have inadequate skills and resources to meet their financial responsibilities to their children. These parents are often part of the growing number of workers with low and very low incomes. Young workers, the less well-educated, and minorities in particular have disproportionately borne the brunt of the economic changes of the past few decades. These parents need help in obtaining skills and jobs which will help them meet their financial responsibilities to their children, through the provision of child support payments. Lastly, some non-custodial parents have difficulty understanding their rights and responsibilities as parents, because they had missing or inadequate role models when they were children. These parents need programs to help them re-connect to a family structure in which they can nurture and support their children. These programs will help communities and families work together to improve the wellbeing of our most vulnerable children. As there is not a long track record of research and evaluation on programs for non-custodial parents, it is envisioned that new programs should be modest and flexible, growing only as evaluation findings begin to identify the most effective strategies.

A. ACCESS AND VISITATION

Current Law:

Section 504 of the Family Support Act authorized Access demonstration to determine if such projects reduced the amount of time required to resolve access disputes, reduced litigation relating to access disputes, and improved compliance in the payment of support. There is no provision for the on-going funding of such projects. Most existing projects have been funded by or through the State court systems with State funds.

Specifications:

Grants to States

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

- (b) States would be required to monitor and evaluate their programs. Evaluation and reporting requirements would be determined by the Secretary.
- (c) HHS would administer the grants under ACF/ACYF/Children's Bureau (Or OCSE depending on the reception by advocacy groups). Grants would be made to the state but could be sub-granted or contracted to courts, local public agencies or to private non-profit agencies. Programs would not have to be state-wide.
- (d) Funds would be authorized as a capped entitlement under section IV-D of the Social Security Act, eligible for FFP at the regular program rate. (Funding estimated at \$10m, \$15m, \$20m, \$20m and \$20 over 5 years)

Issue: A small set-aside of an entitlement program makes the most sense but linkages to child support may be a problem since child support and visitation have been perceived as issues to be kept entirely and completely separate. However, using AFDC, JOBS or Work is more problematic since those are means-tested programs and this program is intended, like child support to serve all families not just welfare families. grant program.

- (e) Project must supplement rather than supplant State funds.

B. TRAINING AND EMPLOYMENT

1. JOBS Participation (Included in JOBS Provisions in section Promoting Self-Sufficiency)

Current Law:

Section 482 of the Social Security Act (Title IV-F) permits the Secretary to fund demonstrations to provide services to non-custodial parents. The Secretary is limited as to the number of projects that can be funded under this provision. Evaluations are required. (This, along with section 1115 of the Social Security Act is the authority for the Parents Fair Share Demonstrations currently underway.

Amends title IV-F of the Social Security Act and PL 99-509 (OBRA '86). States would have considerable flexibility in the design of their non-custodial parents JOBS program. JOBS and WORK funding could be combined or programs could be run separately.

Specifications:

- (a) At State option up to 10 percent of JOBS program funding could be used for training and work readiness programs for noncustodial parents. JOBS and WORK programs could be operated as a combined or as separate programs. States would have to agree to evaluation and reporting requirements, including random assignment, as determined by the Secretary.
- (b) Participation by non-custodial parents could be mandatory or voluntary at State option. The non-custodial parents' children would have to be receiving AFDC or WORK services at the time of referral. Non-custodial parents could continue participating in the program even if the

their children became ineligible for AFDC. However, if the non-custodial parent voluntarily left the program, was placed in a job, or was terminated from the program, he could not be readmitted unless his child(ren) was once again reliant on AFDC (or similar) benefits. Paternity, if not already established, would have to be voluntarily acknowledged prior to participation in the program.

- (c) The non-custodial parent's participation would not be linked to self-sufficiency requirements or JOBS/WORK participation by the custodial parent.
 - (d) Parenting and peer support would be eligible for FFP.
 - (e) Payment of training stipends would be allowed and such payments would be eligible for FFP. Stipends could be garnished for payment of current support.
 - (f) State-wideness requirements would not apply. States would not have to provide the same JOBS services to custodial and non-custodial parents, although they could choose too.
2. WORK Participation (Included in WORK Provisions in the section Promoting Self-Sufficiency)

Current Law:

None. This provision would be included in the new WORK provisions in title IV of the Social Security Act.

Specifications:

- (a) At State option up to 10 percent of WORK program funding could be used for programs work and work opportunities for noncustodial parents. JOBS and WORK programs could be operated as a combined or as separate programs. States would have to agreed to evaluation and reporting requirements, including random assignment, as determined by the Secretary.
- (b) Participation by non-custodial parents could be mandatory or voluntary at State option. The non-custodial parents' children would have to be receiving AFDC/JOBS/WORK services at the time of referral or have arrearages owed to the State for periods when the children were participating in the AFDC/JOBS/WORK program. Non-custodial parents could continue participating in the program even if the their children became ineligible for AFDC. However, if the non-custodial parent voluntarily left the program, was placed in a job, or was terminated from the program, he could not be readmitted unless his child(ren) was once again reliant on AFDC (or similar) benefits or arrears to the State were still outstanding. Participation in JOBS is not a prerequisite for participation in WORK. Paternity , if not already established, would have to be voluntarily acknowledged prior to participation in the program.
- (c) The non-custodial parent's participation would not be linked to self-sufficiency requirements or JOBS/WORK participation by the custodial parent.

- (d) Parenting and peer support would be eligible for FFP.
- (e) Payment of WORK stipends would be required. Stipends could be garnish to pay current child support.
- (f) State-wideness requirements would not apply. States would not have to provide all WORK opportunities offered to custodial parents in their non-custodial parents WORK program, although they could choose to.

3. Targeted Jobs Tax Credit

Current Law:

Amends section 51 of the Internal Revenue Code. This item is being held pending further discussions regarding the Administration's position on the reauthorization of the TJTC program.

Specifications:

- (a) The Targeted Jobs Tax Credit (TJTC) would be made available to fathers with children receiving food stamps and children receiving AFDC-only or Medicaid-only.
- (b) In addition to the requirement that the children (covered by the support order) are receiving mean's tested benefits the non-custodial parent would have to meet the definition of economically disadvantaged and have at least two months child support arrears at the time certification or referral.
- (c) The child support enforcement program or a private entity acting on it's behalf will be responsible for the certification/referral process.

C. PATERNITY AND PARENTING

Current Law: None.

- (a) Demonstration grants to states and/or community based organization to develop and implement non-custodial parent (fathers) components for existing programs for high risk families (e.g. Head Start, Healthy Start, Family Preservation, Teen Pregnancy and Prevention) to promote responsible parenting, including the importance of paternity establishment and economic security for children and the development of parenting skills.
- (b) Three year grants, must have evaluation component and be replicable in similar programs.
- (c) Funding appropriation would be a capped set-aside within WORK at \$10 million for the first 5 years.

(February 14, 1994)

MAKE WORK PAY

Work is not a guaranteed route out of poverty, particularly in recent years. Real wages have declined over the past two decades for several family types disproportionately represented at the lower end of the income distribution; single-parent families, young heads of families, less educated heads of families. This recent wage stagnation has been particularly devastating since dramatic growth had been realized during the prior time period. Inflation adjusted wages had more than doubled between 1949 and 1973, creating expectations of future growth that could not be sustained.

Evidence of serious labor-market wage opportunities abound. For example, mean hourly wages for males at the lower end of the wage distribution (bottom quintile) dropped by 20.6% between 1973 and 1991 in inflation-adjusted terms; the comparable drop for females was 10.3%. The proportion of what are termed low-earners (earning less than is required to lift a four person family out of poverty working full-time, full-time) declined sharply between the late 1940s and 1960s and increased just as sharply after that. As an example, two-thirds of black males ages 25-34 would have been classified as low earners in 1949. The proportion dropped to one-in-five by 1969. By 1991, one half of this group fell into this category. And a recent study indicates that by 1988 nearly 15 percent of children under six lived in families that could not have escaped poverty even if the adults in their family were working full time and earning at their full earnings capacity levels.

Making work pay is a multi-dimensional challenge. But the bottom line is that work should constitute a rational option for those otherwise eligible for welfare benefits. Work should result in compensation levels that are favorable relative to what can be obtained from welfare and, if feasible, ensure that the family is lifted out of poverty. Those who work should not incur prohibitive financial and other transaction costs such as costly or inappropriate child care. And those who work should not have to sacrifice essential goods and services such as health insurance simply because they are playing by society's rules. Unfortunately, the existing reality is that working poor families frequently have no health coverage and lack access to affordable child care.

The expansion of the EITC enacted in the last budget legislation will substantially increase the income of working poor families. The EITC, however, generally comes in the form of a lump sum payment after the tax return is filed. Fewer than 1 percent of EITC eligibles avail themselves of the advance payment option (AEITC). The EITC is consequently not available to poor families to meet needs that arise throughout the year. Passage of the Health Security Act will ensure health care coverage for low-income working families. To ensure that work truly does pay, still more needs to be done. Access to child care for poor families must be expanded and the EITC delivered on a timely basis throughout the year so that poor families can reap the full benefit of the credit.

The challenge of making work pay encompasses several initiatives: (1) disentangling access to health insurance from welfare status; (2) ensuring accessible and affordable child care; (3) demonstrating the feasibility of implementing non-means tested income supports such as the Child Support Assurance/Insurance concept; (4) making improvements to the Earned Income Tax Credit (EITC); (5) making work rational within welfare; and (6) demonstrating new systems for easing the volatility and uncertainty of life in the low-wage secondary labor market. We focus on initiatives (4) to (6) in this document.

I. MAKING WORK PAY BY IMPROVING THE EITC

A. PERMITTING PUBLICLY ADMINISTERED ADVANCED EITC PAYMENT SYSTEMS

Current Law

The earned income tax credit (EITC) is a refundable tax credit available to a low-income filer who has earned income and whose adjusted gross income is below specified thresholds. Because the credit is refundable, individuals can receive the full amount to which they are entitled, even if the amount exceeds their income tax liability. The amount of the credit depends on a taxpayer's earned income, adjusted gross income, and the number of qualifying children. The size of the credit increases significantly if an individual has one or more qualifying children who meet age, residency, and relationship tests.

Low income workers can claim the EITC when filing their tax returns at the end of the year. In addition, workers with children have the choice of obtaining a portion of the credit in advance through their employers, and claiming the balance of the credit upon filing their income tax returns. The amount of the advanced payment is calculated on the basis that taxpayers have only one qualifying child. The annual advanced EITC payment cannot exceed 60 percent of the maximum full-year EITC for a family with one child. In 1994, the maximum advance payment would be \$1,223 in 1994, relative to a maximum annual EITC of \$2,038 for a family with one child for a family with one child and \$2,528 for a family with two or more children.

An employee choosing to receive a portion of the EITC in advance does so by filing a form W-5 with his or her employer. The employer is not required to verify employee's eligibility for the credit. Employers may be penalized for failing to comply with an employee's request for an advanced payment. The employer calculates the advanced EITC payment to which an employee is entitled based on the employee's wages and filing status and adds the appropriate amount to the employee's paycheck. The employer reduces its payment of employment and income taxes to the IRS by the aggregate amount of advanced EITC payments made during the period and reports this amount to the IRS on form 941.

At the end of the year, the employer notifies both the IRS and the employee of the actual amounts of advanced credits paid to the employee by filling in a box on the form W-2. When filing their income tax return at the end of the year, an employee is required to report advance payments, if any, of the EITC.

Vision

The proposal would promote use of advance payment option of the Earned Income Tax Credit by shifting the outreach and administrative burden from employers to selected public agencies, such as by permitting States to deliver the advance payment through food stamp offices and by encouraging experimentation of integrating EITC transfers both with emerging technologies (EBT) and other income support transfer systems.

Rationale

Few programs are as effective in reaching the eligible population as the EITC. Every person who files an income tax return encounters information about the EITC. If the person does not claim the EITC but appears eligible for the credit based on information on his or her return, the IRS will send a letter to the person telling them about the credit. In addition, the IRS operates extensive outreach programs to inform low-income workers of their eligibility for the EITC.

Despite the successes of the current program, the delivery of the EITC could be improved in a number of ways. First, information about the EITC should be broadly disseminated. Of particular concern are welfare recipients and other non-filers. These individuals may not know about the EITC because they do not have to file a tax return if their adjusted gross incomes are below the tax thresholds.

Second, certain barriers to claiming the EITC in advance should be removed. In recent years, fewer than 1 percent of EITC claimants have received the credit through advance payments in their paychecks. The reasons for the 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. To remedy this problem, the IRS has begun an intensive effort to educate and encourage employers to help deliver advance EITC payments in workers' paychecks.

There may be other barriers to participation in the advance payment option. The GAO study also found that once informed, many workers stated that they would prefer to receive the EITC in a lump-sum payment. While some workers may simply prefer the forced savings aspect of receiving the credit in a lump sum, others may fear their employer's reaction if they ask for a government wage supplement to be added to their paycheck. Others may be fearful of owing the government a large sum of money at the end of the year because they received too large an amount in advance.

While many EITC recipients may prefer to receive the credit as a lump-sum payment, others could benefit from receiving the credit in more regular intervals throughout the year. By receiving the credit as they earn wages, workers would observe the direct link between work effort and the EITC. Some workers may experience cash-flow problems, and the promise of the credit at the end of the year may not be sufficient collateral for a loan. Others rely on expensive refund-anticipation programs and pay high interest rates in order to receive the credit several weeks early.

Third, the potential for fraudulent and erroneous claims of the EITC should be reduced. At the time that advance payments are made to workers, neither the IRS nor employers have reliable information about worker's eligibility for the EITC. Workers may receive the EITC in advance, only to learn at the end of the year that they must repay the IRS some or all of the advance payments because they erroneously claimed advance payments. Other workers may make fraudulent advance payment claims. If the advance payments were based on more complete information about the worker's eligibility (and the level of eligibility), such erroneous and fraudulent claims could be reduced. For example, by 1996 a worker with two qualifying children and \$8,425 in self-employment will be entitled to receive a \$3,370 EITC. Filing a return and claiming the credit would obligate the taxpayer to pay \$1,289 (.153*\$8,425) in social security payroll tax, but the taxpayer would receive an SS retirement benefit and a cash benefit of 2,081. This creates a powerful incentive to create fictitious earnings (or inflate earnings) particularly for the 40% of EITC recipients who use professional tax preparers (some of whom may not be terribly ethical). Double dipping (taking the advance and lump sum payment is also a potential problem). And the political fallout from a few highly publicized horror stories could be devastating.

PRIMARY OPTION

Allowing states the option to provide advance payments of the EITC through other agencies (e.g., the offices which also provide food stamp benefits) may resolve many of these problems. A state could choose to target information about the EITC to welfare recipients or other individuals currently outside the workforce. Individuals could have the a choice of receiving the credit from a neutral third-party, without fear of notifying their employers of their eligibility for the EITC. Moreover, they could receive assistance in determining appropriate amount of the EITC to claim in advance. States would also have the resources to verify eligibility for the credit better than employers, reducing the risk of erroneous payments being made to ineligible persons. This option would also allow for an evaluation of alternative delivery systems.

Drafting Specifications for Proposal

- (a) A State would have the option to propose to the Secretary of the Treasury a demonstration project pursuant to which advance payments of the EITC would be made to eligible residents through a state agency. Such agencies may include public assistance offices (AFDC and/or Food Stamps), Employment Service Offices, State finance and revenue agencies, and so forth. A state may choose only one agency to provide the advance credit.
- (b) Approval by the Secretary of the Treasury of a State's proposal would be required in all cases. The Secretary of the Treasury would consult with the Secretary of Health and Human Services, the Secretary of Agriculture, and other Departmental Secretaries as appropriate if the State proposal includes coordination of EITC payments and other Federal benefits.
- (c) Where appropriate, States may include in their proposals coordination of advance payments of the EITC and other federal benefits (such as food stamps) through electronic benefit technology.
- (d) State plans would be required to specify how payment of the EITC would be administered. States must include a detailed explanation of how eligibility for the credit would be determined and verified. States would also have to agree to provide recipients and the IRS with annual information reports in a timely fashion (typically by January 31 of the following year) showing the amounts of the EITC paid in advance. In addition, states would agree to provide the IRS with a listing by December 1st of the names, social security numbers, and the amounts of advance payments received through October of all persons who participated in the state program at any time during the year (through October). States which failed to meet these reporting requirements would not be allowed to continue participation in the program.
- (e) States would be allowed (but not required) to provide on an advanced basis up to 75 percent of the maximum amount of the credit for which the taxpayer is eligible.
- (f) States would reduce payments of withholding taxes (for both income and payroll taxes) from their own employees by the amount of the advance payments made during the prior quarter.

- (g) After the processing of income tax returns and matching of returns with information reports, the Secretary of the Treasury would be required to issue an annual report detailing the extent to which EITC claimants under State plans; (1) participated in the state plan; (2) filed a tax return; (3) reported accurately the amount of the advanced payments payable during the year by the state; and (4) repaid any overpayments of the advanced EITC within the proscribed time. The report would also contain an estimate of the amount of the excessive overpayments made by the state. Excessive overpayments would include advance payments not reported on the tax return and advance payments in excess of the EITC calculated on the basis of information reported to the IRS and causing taxpayers to owe outstanding amounts to the IRS.
- (h) States would be required to repay the Federal government the amounts of excessive advance payments made to State residents participating in the plan. The Secretary of the Treasury would demonstrate that due and diligent effort had been made to recapture these amounts through normal procedures. States would become liable for the excessive amounts within two years of the filing of a tax return was required. If the IRS subsequently collects outstanding amounts from the taxpayer, the state would be reimbursed.
- (i) The Secretary of Treasury and the Secretary of Health and Human Services would jointly ensure that technical assistance is provided to States undertaking demonstration projects aimed at increasing participation in the EITC and the EITC advanced payment programs. Sufficient training and adequate resources would be provided to both agencies pursuant to the provision of technical assistance to the States. The Secretary of HHS will see that such pilots are rigorously evaluated.

ISSUES:

- (1) Part (h) above makes states liable for excessive advanced payments. This may discourage participation in program and further raise public concern about "error" in the EITC.
- (2) The above only deals with statutory changes involving increasing use of the advance EITC payment. There are no provisions here for non welfare earnings supports or increasing the use of the end-of-year EIC refund. Should more be done?

B. MAKE THE EARNED INCOME TAX CREDIT RESIDENCY CONSISTENT FOR FOSTER CARE CHILDREN.

Current Law

The 1990 amendments to the EITC authorized foster children as "qualifying children." However Congress imposed a one-year household residency requirement for foster children, although this requirement is only six months for all other categories of qualifying children. The legislative history (conference Report 101-964, pp. 1037-1038) provides no explanation for imposing a longer residency requirement on foster children.

Vision

Change the EIC household residency requirements for qualifying foster children to six months.

Rationale

Because of the current residence requirement, some foster parents who would otherwise be eligible for the EIC do not qualify, especially those caring for children for relatively short periods of time. This creates a disincentive for these parents to continue caring for foster children and to becoming foster parents in the first place.

Many foster children enter and exit foster care within a year, meaning that their foster parents cannot claim the EIC for that portion of the year. Furthermore, even if a child is in care for a full twelve months, unless this time period exactly coincides with the tax year, the parents could not qualify for the EIC. For example, foster parents caring for a child for a 20-month period (from February 1993 to October 1994) would not be eligible for the EIC in either year.

Drafting Specs

Change the EIC household residency requirements for qualifying foster children to six months.

II. MAKING WORK PAY THROUGH THE MODIFICATION OF WELFARE RULES

Current Law

Federal AFDC law requires that all income received by an AFDC recipient or applicant be counted against the AFDC grant except that income explicitly excluded by definition or deduction. States are required by Federal law to disregard certain earned income when determining the amount of benefits to which a recipient family is entitled. For the first four months of earnings, working recipients were allowed a \$90 work expense disregard, another \$30 disregard, and one-third of remaining earnings are also disregarded. The one-third deduction ends after four months and the \$30 deduction after 12 months. 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. States are now required to disregard the EITC in determining eligibility for and benefits under the AFDC program.

Two other provisions in current law are relevant to this discussion. Allowable resources are limited, by Public Law 97-35, to \$1,000 (or such lower amount as the state may determine) equity value (i.e., market value minus any encumbrances) per family, excluding the home and one automobile if the family member's interest does not exceed a limit chosen by the Secretary of Health and Human Services. HHS regulations set \$1,500 or a lower level set by the state as the equity value limit for the automobile and permit states to exclude from countable resources "basic items essential to day to day living," such as clothing and furniture. Neither law nor Federal regulations mention capital equipment as being exempt from the resource requirement.

AFDC provides cash welfare benefits for (1) needy children who have been deprived of parental support or care because their father or mother is absent from the home continuously, is incapacitated, is deceased or is unemployed, and (2) certain others in the household of such child.

There is nothing in Title IV of the Social Security Act directly comparable to the provision described in this section. Several States have, however, established their own Earned Income Tax Credits. Some States in which the maximum benefit is less than the need standard disregard earned income such that working families continue to receive assistance up to the full need standard.

The measures discussed below are intended to ensure that families which are playing by the rules; where the responsible adult has cooperated in securing a child support order (where appropriate) and works at a half-time, full-year job is able to escape poverty.

Vision

Welfare reform is difficult to achieve. On the one hand, we want to "end welfare as we know it," particularly chronic and exclusive dependency on cash public assistance. On the other hand, we want children to be free from economic want, to have access to a sense of economic security. At the same time, we want our public resources to be spent wisely, specifically, that our limited resources be targeted on those for whom the benefits were intended. It is the vision of this reform to substantially reduce child poverty while minimizing the most devastating form of dependency, the exclusive reliance upon public assistance. Finally, we want to target scarce public resources carefully.

This vision can be realized only if we redesign and coordinate our tax and transfer system. Such an integrated Tax-transfer (ITT) system would achieve four objectives: 1) reduce poverty among children in working families who otherwise would be eligible for AFDC benefits; 2) enhance the economic rationality of work over exclusive dependence on welfare; 3) more efficiently target benefits on the poor and near-poor; and 4) minimize the degree to which fraudulent and inappropriate expenditures

are made in the current system. While the ITT proposal encompasses two major initiatives, a recapture component that uses the tax system to recoup a portion of benefits paid to the non-poor and a supplement component that uses the income transfer system to "make work pay," the discussion below focuses entirely on the second component.

The supplement or fill-the-gap component would use the means-tested transfer system to ensure that AFDC recipients who work at some reasonable level of effort and receive child support can have incomes that equal the poverty threshold or some specified fraction thereof before benefits are phased out. By making certain changes in the AFDC earnings disregard policy (as described below), dissatisfaction with the current system could be muted. The proportion of families who derive all of their economic support from welfare would drop substantially. The ability of low-income working families with children to escape poverty would be enhanced. The effectiveness of this component would further be strengthened if asset and filing unit rules also made it easier for low-income families to achieve self-sufficiency.

A GENERAL ISSUE:

This proposal raises a very important issue straight on. Will poverty, particularly child poverty, be addressed in this reform package? Other technical and normative issues are also posed. To what extent should welfare or welfare-related policy be used to support part-time work: will it distort labor market decisions about the kind of jobs that will be offered; will it encourage a standard of expected behavior among recipients that will fall short of self-sufficiency (in the eyes of many observers)? Can we sell the concept that working part-time and receiving welfare benefits is "changing welfare as we know it?"

Rationale

Real wage opportunities for young heads of households have dropped substantially over the past two decades. One recent study estimates that by 1988 nearly 15 percent of children under six lived in families that could not have escaped poverty even if the adults in their families were working and earning at their full capacity levels. This is because the family heads' earnings capacity were low due to poor education and other human capital traits.

Emerging labor market challenges simply cannot be ignored. For more than two decades in the post World War II period real wage growth was unparalleled and wage inequality fell. That reversed in the early 1970s. Low-earners (those who cannot earn enough to lift a four-person family out of poverty) fell dramatically between the late 40s and early 70s, by some two-thirds for some groups. The proportions have now risen to their 1950s levels for many of those same groups. These trends encompass even those with human capital levels that would have been considered adequate by historically standards, e.g. those with a high school diploma.

Public supports for low income workers have been improved recently but (and I might not admit this publicly) not enough. Increase in the minimum wage offset some of the loss in value experienced during the 1980s. However, the \$4.25 level remains far below the \$6 + value that prevailed some quarter century ago. The EITC has been dramatically expanded. When fully implemented, a minimum-wage worker getting the maximum credit will receive what amounts to more than a \$1.60 per hour benefit or "raise." Still, in 1996, the net hourly pay for a full-time minimum wage earner with two children, accounting for EITC and payroll taxes will be \$.65 less an hour than it was in 1979. The net hourly pay (worker with 2 or more children) was \$5.79 in 1979; dropped to \$4.13 in

1989; and will increase to \$5.14 in 1996. Unless additional changes are made, the value will begin to decline again (assuming inflation and not deflation).

Moreover, the value of welfare benefits have declined--the "ending welfare as we know it" by the inch process. The weighted average of AFDC benefits across states declined by 44.5 percent since 1970; combined with the cushion provided by food stamps, the decline is still 28.5 percent. The typical non-working family in the typical state can expect AFDC benefits that won't reach 40 percent of poverty and combined benefits that might get them to 70 percent. And since, in the long run, earnings largely substitute for welfare (i.e., welfare does not supplement earnings very well), the challenge of raising many families out of poverty remains daunting.

In addition, as a normative statement, it is arguable that ought not expect all single parents with children to work full-time; something that most married mothers do not do. A single parent raising children might well have to work more than full time to be fully self-sufficient, particularly if no child support was received. Since low-income parents cannot afford to purchase some of the supports higher income parents can, this is a very high expectation indeed. And there is the practical side.

From the scarce data available, working welfare exiters who subsequently lose their jobs are three times as likely to fall back onto welfare than get UI. Using welfare as an earnings supplement may make transitions in and out of the labor market seamless for those whose earnings capacity remains low. That is, a welfare mother might be hesitant to enter the labor market because she cannot predict her income stream well, may be concerned about loss of health care, and may be concerned about getting back on to welfare if the job is lost. These uncertainties represent very real concerns for those on the economic margin.

There is no denying that using welfare as an earnings supplement potentially is controversial. But it may be the only practical solution in the intermediate term. None of the other potential non-welfare solutions--further increase in the EITC or other refundable family and child tax credits, raising minimum wage levels, assured child support, and so forth--are likely to be entertained seriously in the near future. Making work pay within welfare may be an expedient solution in the intermediate term.

Over a decade ago, the politics of combining work and welfare were clear. The Reagan administration articulated a policy position that welfare was not to be consciously used to supplement income. This is not really a sustainable position among conservatives, most of whom believe in economic rationality and opportunity. In consequence, the optics of this proposal are not straight forward. The Republican administration in Michigan is pushing AFDC as an income supplement. The proportion of their AFDC caseload that is working is approaching 25 percent and their total AFDC caseload is falling. They are happy. Wisconsin's proposal (Parental and Family Responsibility or Bridefare) consciously uses welfare as an earnings supplement for the intended target group--they introduce a \$200 + 50% rule where the first \$200 is disregarded and 50% of the remainder. A Florida waiver proposal would combine time-limited AFDC payments with an increased asset limit and a similar \$200 and 50% income disregard rule.

The ultimate conundrum and challenge of this proposal is that one must argue that "ending welfare as we know it" may require that continued welfare receipt be institutionalized for a subset of the target population. This goes to the very heart of the reform debate: what is dependency; is reform only concerned with ending dependency or with reducing poverty and dependency; and so forth. If clients are working, that may satisfy the ending welfare as we know it pledge.

If the merit of the arguments are not persuasive, certain realities associated with not pursuing this alternative must be considered. We might call these the cost and capacity realities. If we assume that the proportion of working recipients increases by eight percent, about double the rate with any earnings now, this would immeasurably help the reform in its steady state condition. Assuming the time clock stops, that would be by eight percent fewer families hitting the wall and requiring a WORK slot. This might be some 450,000 slots in several years or almost a doubling of the number of slots that might be available. This is not a mere matter of cost but also of institutional capacity, the ability to create these positions in the first place. Moreover, failing to move in this direction could well put us in the position of requiring people to quit a part time private sector position to take a public sector position (or heavily subsidized private sector position), an outcome that will be difficult to explain.

PRIMARY OPTION: REQUIRE STATES TO USE WELFARE TO SUPPLEMENT EARNINGS.

Some states have chosen to set their AFDC benefits very low. Politically, we cannot do anything to raise the need standard or benefit level in particular states. However, if individuals work or receive child support (i.e., are "playing by the rules"), this additional income should be used to supplement benefits in low-benefit states (through a fill-the-gap policy), instead of reducing benefits as under current law, until the family's income is up to some fraction of the poverty threshold.

Drafting Specifications of Proposal

- (a) The asset limit will be changed to conform with the Food Stamp program; \$2,000 for filing units headed by a non-elderly adult and \$3,000 if headed by an elderly adult.
- (b) The rules governing filing unit will be changed to conform with the Food Stamp program regulations (?) /new filing unit gross income limit (?). [need decision here]
- (c) States would continue to set payment standards as under current law; except as modified under part d.
- (d) The proposed AFDC benefit calculation differs from current law in several respects: i) the payment standard (guarantee) in all states shall be the lessor of the {(% of need met) * Standard of Need] or the Maximum Allowable Benefit; ii) all states Rateable Reduction percentages are set equal to one and are eliminated from consideration; iii) the definition of countable income is changed by redefining the Earnings Disregard, first by eliminating the distinction between income derived from earnings and child support (the \$50 child support pass-thru is incorporated in the earned income disregard), second by changing the amount of the current flat income disregard to \$200, and third by introducing a variable earnings disregard (see (f) below).
- (e) Each state will determine if it has a Benefit Gap (BG). The BG is calculated by first adding the AFDC Payment Standard and the Food Stamp allotment. The BP is equal to 75% of the Census poverty threshold for a family of three minus this sum. An amount equal to the BG will be added to the new flat income disregard of \$200, if applicable.

- (f) No state will be allowed to begin reducing the AFDC payment standard until earnings (including the EITC) plus child support payments are equal to 75% of the poverty threshold. Then a variable benefit reduction rate will be determined for each state, based upon a Poverty Threshold Factor (PTF). The calculation of the PTF is based on the presumption that a mother who receives \$200 per month in child support and works half-time at a minimum wage job (subject to a payroll tax) should be able to reach 100% of the census bureau's poverty threshold. The PTF is the proportion of earnings plus child support net of the flat disregard which must be disregarded to achieve 100% of the poverty threshold for a family of three. The range of allowable PTFs would be from 0 percent (a 100 percent marginal tax rate) to 50 percent (a 50 percent marginal tax rate). States would be allowed to set their PTF's so that the break even point would be higher than the poverty threshold. The break even point shall not be higher than ___ % of the poverty threshold.
- (g) Non earned income would be treated as under current law.

Simply put, AFDC benefits could not be reduced until income from those sources reaches that proportion of the poverty threshold. That is, states would disregard all earnings and child support until the combination of earnings (including the EITC) and child support exceeded 75 percent of the three person poverty threshold. After that, AFDC benefits are reduced at a rate such that the cash benefits end when combined resources from the above mentioned sources reach 100 percent of the three person poverty line. The benefit reduction rate may be set so that the break even point is higher than this poverty threshold but never lower.

In effect, the federal government would establish a new break-even point for working families. For recipients with earnings, states must ensure that AFDC benefits do not phase out completely until AFDC, food stamps, earnings, and child support (anything else?) are equal to 100 to ___ percent of the poverty guideline for a family of three.

ADDENDUM TO OPTION--PART TIME WORK.

Another way of viewing this issue is that we would be dividing AFDC into two programs: Transitional Support (for those not working or not working much) and Work Support (for those working at least half-time). The proposal would make life easier for the working poor by simplifying their interactions with assistance programs. It would separate out the two missions that have evolved--TS for non or marginal workers and WS for low income workers.

Transitional Support (TS) would be the time limited AFDC program. JOBS participation would be mandatory for receipt of TS, although referrals and extensions would be available as discussed elsewhere.

Being on **Work Support (WS)** would be more attractive than being on TS:

- adopt the food stamp filing unit for this program.
- asset rules would be liberalized and IDA demonstrations might be limited to WS participants.
- WS system could set up state EITC and/or administer the EITC advance payments as discussed earlier.
- WS would not be time limited as long as participant worked a minimum of 20 hours per week (vary by benefit level?).

Addendum Issues:

Is this little more than a name change? Does it reduce or increase complexity. Does it really deal with challenges that originally would have been addressed by Work Support Agencies.

General Issues:

- (1) **Should states be required to maintain AFDC guarantees at some inflation-adjusted level?**
- (2) **Can the president send a message that half-time work is playing by the rules and supporting what some consider market failures through the welfare system?**
- (3) **What benefits will be included in the definition of income for the purpose of making these calculations; SSI, Section 8 housing, and so forth?**

III. MAKING WORK PAY THROUGH WORK SUPPORT DEMONSTRATIONS

A. GENERAL WORK SUPPORT DEMONSTRATIONS

Current Law

Currently, there are some support services for welfare recipients while they are on assistance and preparing to become self sufficient. These services may include child care during AFDC/JOBS, medical assistance, transportation, transportation, family planning, life skills enhancement, and case management. Child care and medicaid can be extended up to one year for those exiting welfare because of higher earnings. But the current system is front-end loaded. That is, the assumption is that a participant is trained, exits welfare and stays off welfare.

Vision

The vision being contemplated is one where supports for low-wage workers with families are available on an ongoing basis. These services should seek to reemploy those who lose their jobs and provide those services, including temporary financial help, so that labor market disruptions can be minimized and re-entry onto welfare can be avoided.

Rationale

The traditional stereotype was a person was on welfare or not. When they left welfare, if ever, they stayed off. It was also assumed that those in the work world would find a job after graduation (high school or college) and remain employed and employable for their adult lives, in most cases.

Common sense has always suggested that this welfare image was too simplistic. And the accumulating empirical evidence over the past decade has indeed presented a quite different picture. A significant proportion of new entrants will move between states of dependency and non dependency. Some 70% of new entrants exit in two years, about one-half for work. But within 5 years, some 70 percent of those will return. A similar turbulent picture is found for those in the secondary labor market. Job transitions and disruptions are very common, even within brief time periods. Many of these people do not have sufficient work histories to qualify for benefits under the UI system. The primary recourse available to them upon a job loss is the welfare system.

Our welfare and JOBS systems are geared toward graduations; treating people and moving them on. We now assume that even those with high levels of human capital may have to make 7 or 8 re-investments in training and new skill/technology acquisitions over the course of a lifetime. We must begin to work on developing a similar perspective and supportive systems for low-wage workers and those who must, on occasion, receive income assistance for their families.

Stigma is a two edge sword. On the one hand we want to send the message that personal responsibility and work is expected; that work is better than welfare, and that welfare is to be temporary support. On the other, we must be careful not to unfairly stigmatize those who have no choice but to be on welfare, at least temporarily.

I. Work Support Demonstrations.

A series of demonstrations would be adopted to test other strategies to support low-income working families:

States would establish work support agencies with distinctly different responsibilities than IV-A agencies and possibly housed separately from the local IV-A agencies to provide centralized services specifically to working families. The Work Support agencies could be administered, for example, by the State employment or labor departments; by Community Action Agencies, or a One-Stop Shopping Center.

The work support offices would provide food stamps, child care, advance EITC payments, and possibly health insurance subsidies to eligible low-income working families, or (at local discretion) families suffering a temporary labor market disruption. Employment-related services such as career counseling, assistance with updating resumes and filling out job applications would also be made available specifically to working families, as opposed to AFDC recipients, through the work support office.

The participating State would be responsible for the design of the work support agency, including the administrative structure and the menu of services, but would have to receive approval from the appropriate departments (in most cases Agriculture, Health and Human Services and Treasury)

The Secretaries of DHHS and Labor jointly would issue general guidelines for the development of these pilot programs. Among other things, these pilots generally would address the following design and administrative questions:

- * **Target Population:** Who should such an agency serve. Possible populations range from working welfare clients to broad groups of current and former recipients as well as other low-income families with children.
- * **Basic Organizational Questions:** Who should run such a program; the welfare office, the ITPA Service Delivery Areas, employment service, an integrated one-stop career center, and entirely new agency? Who should make key strategic and case-level decisions? What type of staff is needed? And so forth.
- * **Basic Design Questions:** Should services be on-site or should the agency merely broker, refer, and/or advocate for clients? What range of services ought to be offered? And so forth.
- * **Basic Process Questions:** Which clients should get what, when, and in what order? Who should make these decisions and on what basis? For how long should services be provided? And so forth.
- * **Definition of Success:** What will constitute a successful system's exit? How will we know if such a program is working? What cost of success is acceptable?

To answer these and other questions, the Secretary of DHHS will carry out the following steps:

1. No less than ___ state/or local demonstrations of the Work Support Agency concept be undertaken, testing out various alternatives and strategies for developing effective work support functions.

2. The relevant federal agencies (see above) will prepare guidelines for establishing the pilot programs by ____ .
3. A host of possible organizations and agencies (e.g., local and state, profit and non-profit, public and private) will be permitted and encouraged to apply.
4. No less than \$ ____ million be set aside to support these pilot efforts. States (or local sponsors) will be required to put up ____ % of the total cost and none of the evaluation costs.
5. These pilots will be implemented in a variety of environments: urban and rural sites; good and bad labor markets; sites encompassing various design and service strategies.
6. Work will immediately begin by DHHS on conducting an evaluability assessment. A plan for evaluating these pilots will be available by ____ .
7. The pilots will be coordinated to the extent feasible with the one-stop career center concept being developed within the Department of Labor. The Secretaries of HHS and Labor shall report to Congress on what steps have been taken to ensure that such coordination and integration takes place.
8. All demonstrations will be evaluated using approaches that satisfy basic social science standards.

To become a pilot program for this concept, States must respond to an RFP and submit a detailed plan for accomplishing the objectives established by the Secretaries of Labor and HHS.

B. ALTERNATIVE UNEMPLOYMENT INSURANCE DEMOS

Background

The Unemployment Insurance (UI) program pays benefits primarily to workers who have involuntarily lost their jobs and who have met certain earnings and employment requirements. The UI program is State designed and State operated; States establish the employment and earning requirements. Workers without substantial workforce attachment do not ordinarily qualify for benefits.

Workers who do not qualify for benefits may be forced by economic need to enter the welfare system. If a program of work related were created for these workers, they might be able to bridge temporary gaps in employment without recourse to means-tested benefits.

This new program could be called Alternative Unemployment Insurance (AUI)--a program which would provide a type of UI benefits to experienced workers with a weaker attachment to the labor force than is typically required by state-operated UI systems. AUI would be a federally designed and financed system but would be operated by the states. As such, it would be similar to other federal programs which pay benefits to former federal government workers, ex-military service members, or trade-impacted workers.

Ex-workers would receive re-employment assistance and search for employment while collecting AUI.

The Demonstration

An AUI demonstration would test the effectiveness of an alternative method for providing income support, labor market linkage assistance, and job search help to workers experiencing temporary unemployment. Such projects would be operated in 4 or 5 diverse, geographically dispersed, moderate-sized labor markets.

- (1) These labor markets would be diverse and selected to be somewhat representative of the U.S. as a whole.
- (2) The sites probably should be geographically isolated, because in-migration effects to take advantage of the new program are a possibility (another possibility is to have in-migrants meet certain residency requirements). The AUI program would have to make an offer of benefits not available in surrounding labor markets. Some general publicity about the new program is necessary since likely eligibles would not otherwise be eligible for UI and, since they recently have been employed, may not be coming from the welfare system.
- (3) The sites would also have to be moderate in size to assure a manageable labor market in which to operate a demonstration project, particularly if costs are to be contained.

Within this labor markets, workers (need better definition) who became unemployed would be offered AUI benefits, even if they did not qualify for benefits under the regular UI program. The demonstration would simulate what would happen if a Federal benefit were created and extended to this expanded target population.

The demonstrations would be designed as an experiment. Workers would be randomly selected into treatment and control groups. Some workers would collect AUI while others (the controls) would not be eligible for the benefits. Subjects in both groups would be followed for a period of 5 years to determine their subsequent labor market and welfare use behaviors along with other outcome measures of interest.

An evaluation would be conducted to determine the impact of AUI on workers (e.g., wages, duration of unemployment, welfare receipt) and a benefit-cost analysis will be done.

Funding

Funding for the demonstrations are to come from HHS research funds and would cover the cost of providing both benefits and the cost of administration. The cost of design, monitoring and evaluation would also be covered out of demonstration funds.

ISSUES:

- (1) Is this additional bureaucracy and expense necessary if AFDC will be available to half-time workers and eligible persons can earn back cash assistance as a function of time off assistance?
- (2) Is a demonstration strategy sufficient? Do we know enough to push further than this? What are the areas of management uncertainty:

Who should be able to apply; what should they get; and for how long?

Who should pay for this; who (Labor, DHHS) should be responsible?

Would this make states even more restrictive in their UI program if they can shift cost to the Feds by making maximum use of this program?

SOME GENERAL DEMONSTRATION ISSUES:

- (1) How can HHS proactively engage states to undertake innovations that are consistent with reform principles?**
 - * Actively solicit volunteer states?**
 - * Provide incentive money or favorable match?**
- (2) How can HHS better ensure that rigorous evaluations are done and the results used for policy purposes?**
- (3) How can successful demonstrations best be effectively transferred to other sites?**

D. USE ADVANCE CHILD SUPPORT PAYMENTS OR CHILD SUPPORT ASSURANCE PAYMENTS TO SUPPLEMENT EARNINGS.

A TENTATIVE DECISION HAS BEEN MADE AS PART OF THE CHILD SUPPORT RECOMMENDATIONS TO PERMIT AND ENCOURAGE DEMONSTRATIONS OF VARIOUS CHILD SUPPORT INSURANCE SCHEMES.

E. ENSURE ACCESS TO APPROPRIATE AND AFFORDABLE CHILD CARE.

SEE CHILD CARE RECOMMENDATIONS AND SPECIFICATIONS

F. ENSURE ACCESS TO HEALTH CARE IRRESPECTIVE OF WELFARE STATUS

PASS THE HEALTH SECURITY ACT OR ITS EQUIVALENT

REINVENT GOVERNMENT ASSISTANCE

A. RATIONALIZATION AND SIMPLIFICATION ACROSS ASSISTANCE PROGRAMS

The rationalization and simplification of assistance programs is something of the holy grail of welfare reform--always sought, never realized. The reasons are many: different goals of different programs, varied constituencies, Departmental differences, divergent Congressional committee jurisdictions, and the inevitable creation of winners and losers from changing the status quo. Yet everyone agrees that recipients, administrators, and taxpayers are all losers from the current complexity. Below are several proposals for reform. The proposals do not make substantial changes in program structures. Rather, the proposals achieve simplification by streamlining administrative processes and by conforming program rules between the AFDC and Food Stamp programs. The proposals modify existing rules that create unnecessary complexity and confusion for program administrators and recipients.

1. Filing Unit

NOTE: Filing unit options will be discussed at a separate meeting:

Under current law, the AFDC filing unit must consist of a needy deprived child, its natural or adoptive parent(s), and all natural and adoptive brothers and sisters (including half brothers and sisters) who are living together. The unit's income and resources are used to determine eligibility and the amount of payment. A stepparent is treated the same as a natural or adoptive parent for filing unit purposes in seven States (Nebraska, New Hampshire, Oregon, South Dakota, Utah, Vermont, and Washington). These States have laws of general applicability which hold the stepparent responsible for the children to the same extent as a natural or adoptive parent. In all other States, the stepparent's needs are not included in the unit and his/her income, after certain disregards, are considered available to the unit members.

If there is no parent in the home, then another non-legally responsible relative with whom the child is living may, at his/her option, join the unit and be assisted. Additionally, States may exercise the option of including an other individual(s) living in the home as an essential person(s). The essential person's income and resources are used to determine eligibility and amount of payment.

Certain parents and sibling are excluded from the unit: illegal and sponsored aliens, recipients of SSI, foster children, and individuals ineligible due to lump sum income.

- (a) Filing unit options range from making smaller changes to including the entire household, and eliminating the UP/IP test for 2-parent families. Staff have gathered data on several options which can be provided. Additional filing unit options include:

OPTION 1: Define the filing unit as households with a child or children under the age of 18, or age 19 at State option if a full time student, the child's siblings under the age of 22, and the child's natural, adoptive, or step- parents. The income and resources of these members will be used to determine eligibility and benefits.

- OPTION 2: Define the filing unit as households with children under the age of 18, or age 19 at State option, if a full time student and all adult members; the income and resources of all members will be used to determine eligibility and benefits.
- OPTION 3: Define the filing unit as households with children under the age of 18, or age 19 at State option, if a full time student and all adult members who purchase food and prepare meals together; the income and resources of these members will be used to determine eligibility and benefits.
- OPTION 4: Define the filing unit as households with children under the age of 18, or age 19 at State option, if a full-time student and their relatives, including any other individuals in the household who claim the children as dependents for income tax purposes; the income and resources of these members will be used to determine eligibility and benefits.

2. APPLICATION PROCESS ISSUES

(a) Application Forms

Current Law:

The Food Stamp Act requires the use of a simplified, national form or an approved substitute containing specific content requirements, including rights and responsibilities. A combined application for public assistance households and general assistance households is required. Under the AFDC program, States are free to design the application form that will be used and to prescribe how to notify applicants of their rights and obligations.

(b) Processing Standards

Current Law:

In AFDC, a decision on the application must be reached by the State within State established standards, not to exceed 45 days. Benefits may be provided from the date of application or not later than the date of authorization or 30 days from application. As a matter of practice, requested documentation must be provided by the applicant within a state specified time frame (usually 10 days) or the application may be denied.

The Food Stamp Act requires payment of benefits retroactive to the date of application within 30 days of application under normal processing or within 5 days for expedited service for clients in emergency situations. Regulations provide detailed procedures about scheduling appointments, including a second appointment if an applicant misses the first one, and other rules if a determination of eligibility is not made within 30 days.

Vision:

To provide applicants with one, simple, easy to read and understand application form for AFDC and food stamps. Expedited processing will be provided for families in emergency need situations. Eligibility will be determined within identical time frames in both programs for both expedited and normal applications. Flexibility will be given to States for scheduling appointments and verifying information.

Drafting Specs:

- (a) The Food Stamp statutory and regulatory provisions mandating the use of a national simplified form or approved substitute would be repealed.
- (b) New Food Stamp and AFDC provisions would require States to use a generic application for both programs to obtain basic household, income and resource information. The application would have to be *easy to read* and would *contain consistent information to notify the applicant of rights and responsibilities* for both programs.
- (c) AFDC rules would be revised to conform to the Food Stamp, 30 day standard for normal case processing with benefits retroactive to the date of application. A new, 10 day expedited processing standard would be set for both programs for applicants in extreme need situations, replacing the current 5 day food stamp requirement.
- (d) Food Stamps requirements to schedule a second appointment would be replaced with requirements for both programs to inform applicants of rescheduling procedures.
- (e) States would be allowed to deny an application for AFDC and Food Stamps as early as 10 days after requesting verification which has not been provided.

Rationale:

Uniform application requirements and processing standards will be less confusing for both applicants and workers and improve capacity for integrated processing. These proposals will streamline procedures which impede the delivery of timely assistance to those in need. A new 10 day expedited service standard for both programs will benefit AFDC applicants, offset the slight delay of the current 5 day level of service provided to food stamp applicants. States will gain needed flexibility and eliminate the need for postponing verification.

Cost: \$273 Million Federal AFDC share

3. THREE-MONTH ACCOUNTING PERIOD

One of the major complaints about the differences between the AFDC and Food Stamp programs is that the programs use different periods to determine benefits for the current month and require too much reporting of changes in circumstances. In a transitional program where more recipients may have fluctuating income, the reporting burdens on recipients, the fluctuations in benefit amounts, and the constant need for case worker recalculations of benefits would impose complexity on all parties

involved. Further, under retrospective accounting, recipients who lose jobs continue to receive assistance based on income levels during the period of unemployment for up to two months. This results in considerable hardship among recipients.

(a) budgeting and reporting requirements

Current Law

Both AFDC and Food Stamps permit States to adopt either retrospective and prospective budgeting rules to determine the benefit amounts for some or all cases as well as monthly reporting requirements. Yet, there are some differences in application. For example, the Food Stamp Act permits retrospective budgeting of non-monthly reporting cases, while the Social Security Act does not.

Under monthly reporting and retrospective budgeting system, families report income and other case circumstances every month, whether or not a change affecting eligibility and payment amounts has occurred since the previous month. This information, as well as any supplementary report of a change in circumstances, is used to determine continued eligibility and to determine the amount of the amount of assistance based on prior month's income.

Under a prospective budgeting system, eligibility and benefit amounts are based on a projection of income and circumstances that will exist in the month for which payment is to be made. The Food Stamp program by regulation and statute is more prescriptive in how the estimates are to be made. The AFDC rules are not contained in statute and provide States more flexibility in making the estimate.

(b) effective date of reported changes

Both programs require families to report changes in circumstances. In AFDC, States must establish procedures for timely and accurate reporting of changes that affect eligibility and amount of assistance. Any change is effective in the month it occurred and will result in an overpayment if not reported timely and adjustment is made. Food Stamp rules, allow for a tolerance in which a change of less than \$25 per month does not have to be reported and the rules governing the effective date of any change give the recipient and agency time to report and act upon the change.

(c) earned income penalties for failure to report

Both programs impose earned income deduction penalties when recipients fail to report timely. Under the AFDC program the penalty is applied whenever a recipient fails to timely report without good cause. In the Food Stamp program, the penalty is applied to any portion of income the recipient willfully failed to report. In AFDC the penalty applies to \$90 work expense, child care and the \$30 and 1/3 earned income disregard provisions. The Food Stamp program, the penalty is applied by not disregarding the 20 percent earned income deduction to any portion of the income that the recipient willfully failed to report.

(d) recertification period

In the Food Stamp program, recertification of eligibility is mandatory and must occur every one to twelve months (depending on the characteristics of the household) under specific procedural rules. In AFDC, redetermination of eligibility must occur every six to 12 months according to State established procedures. Unlike AFDC, food stamp benefits automatically terminate when the certification period expires.

Drafting Specs

For the joint AFDC/Food Stamp population, amend the Social Security Act and the Food Stamp Act and regulations as necessary to:

- (a) Repeal current monthly reporting and retrospective budgeting provisions. Replace with a requirement for prospective budgeting based on a fixed three-month accounting period. Adjustments to benefit levels resulting from changes in income during the current three-month period would be made in the next accounting period. States would be permitted the option to immediately recalculate benefits in cases where recipients report hardship circumstances due to a loss employment.
- (b) Require recipients to make timely, accurate and complete reports of all income received on a three-month (quarterly) based on State prescribed time frames. Other circumstance changes must be reported no later than 10 days after the change occurs. Changes in circumstances other than income would be made effective prospectively in accordance with time frames established in federal regulations. Overpayments would not occur where recipients report timely and adjustments are made no later than two months after the month of change subject to notice requirements.
- (c) Specify that earned income disregards are not allowed if all income is not timely, accurately and fully reported as required. This penalty will apply to the period for which the income was to be reported and any resulting overpayments are to be recovered or recouped.
- (d) Provide that all joint AFDC/Food Stamp assistance units would be certified to receive benefits for a 12-month period. A redetermination of eligibility must occur for benefits to continue beyond that period. If an assistance unit fails to comply with requirements for redetermination, benefits are to be terminated at the end of the twelfth month after proper notification.

Rationale

This set of proposed administrative rules will significantly simplify benefit calculation procedures for joint AFDC/food stamp households. By rationalizing the procedures in benefit determination and calculation, workers and recipients will benefit through less paperwork processing and time spent on recalculating benefits because of fluctuations in income. The rules maintain a balance between assuring

benefits are accurately determined by reducing the current complexities retaining the appropriate level of responsibilities on recipients to report information.

Cost: \$510 Million -- Federal AFDC share

4. RESOURCES

Current Law

AFDC Provisions: *The Social Security Act and implementing regulations set a \$1,000 limit (or a lower limit at State option) on the equity value of resources that a family may have and be eligible for AFDC. Excluded from consideration as countable resources are the home owned and occupied by the family; an automobile with a maximum equity value of \$1,500 (or a lower limit at State option); bona fide funeral agreements with a maximum equity value of \$1,500 for each family member (or lower limit set by the State); one burial plot for each family member; and real property for a period of 6 consecutive months (or 9 consecutive months at State option) which the family is making a good faith effort to sell. Under certain conditions, States may established rules regarding transfer of resources at less than fair market value.*

Food Stamp Provisions: *The Food Stamp Act and implementing regulations set a \$2,000 limit (or \$3,000 for a household with a member age 60 or over) on the value of resources a household may have and participate in the Program. The Act does not specify how the value of resources is to be determined, but provides for uniform national eligibility standards for income and resources. State agencies are prohibited from imposing any other standards of eligibility. Households in which each member receives AFDC, SSI, or general assistance from certain programs do not have to pass the food stamp resource eligibility test. Regulations exclude from resources the value of one burial plot per family member and the cash value of life insurance policies. Also excluded is real property which the household is making a good faith effort to sell at a reasonable price and which has not been sold. There is no specific exclusion for burial plans (funeral agreements). Any amount that can be withdrawn from a funeral contract without an obligation to repay is counted as a resource. Food Stamp law prohibits the transfer of resources within the 3-month period prior to application. A household that knowingly transfers resources for the purposes of qualifying or attempting to qualify for food stamps shall be ineligible to participate in the program for a period of up to one year from the date of discovery of the transfer.*

Vision

Both the AFDC and Food Stamps programs serve similar needy populations. Yet, because the rules for treatment of both the amounts and categories of resources are different in each program, resources that meet one program's requirement can result in ineligibility under the other. programs have substantially different rules for evaluating resources of that needy group, forcing welfare administrators to apply different program rules to the same resources in the same family. The following legislative proposal would reduce the current administrative complexity and confusion for welfare administrators and recipients by providing uniform treatment of assets where appropriate.

Drafting Specs

Require the Secretaries in both Departments to develop uniform resource exclusion policies in the following areas:

(a) Resource Limits:

(1) Increase the AFDC resource limit to \$2,000 (or \$3,000 for a household with a member age 60 or over) to conform to the Food Stamp resource limit.

NOTE: Indexing was considered but was eliminated because of the projected high cost to the Food Stamp Program.

(2) Permit demonstration projects to test varying resource limit amounts to determine the best resource limit for specific geographic areas and economic conditions.

(3) Permit a limited number of demonstration projects to allow States to evaluate a variety of incentives for recipients to accumulate savings for specific purposes as determined by each Department.

(4) Burial Plots: Amend AFDC regulations to totally exclude one burial plot per family member to conform to the Food Stamp policy.

(5) Funeral Agreements (Burial Plans): Amend regulations in both programs to totally disregard one funeral agreement per family member.

(6) Real Property: Amend AFDC regulations to exclude real property which the family is making a good faith effort to sell at a reasonable price and which has not been sold, to conform to the Food Stamp policy.

(7) Cash Surrender Value of Life Insurance Policies: Amend AFDC regulations to totally exclude the cash surrender value of life insurance policies to conform to the Food Stamp policy.

(8) Transfer of Resources: Develop AFDC regulations to provide that a household that knowingly transfers resources for the purposes of qualifying or attempting to qualify for aid shall be ineligible for benefits for a period of up to one year from the date of discovery of the transfer. This revision conforms to the Food Stamp policy.

Rationale

The administrative complexity that exist in applying certain resource requirements in the AFDC and Food Stamp programs will be greatly reduced under the 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.

Cost: \$ 475 million -- Federal AFDC share

(b) Automobile resource limit

Current Law

The Social Security Act provides for the exclusion of so much of a family member's ownership interest in one automobile as prescribed by the Secretary. That exclusion is set at \$1500 equity value (or a lower limit set by the State) in one vehicle with any excess equity value counted toward the \$1,000 AFDC resource limit.

The Food Stamp Act provides for the exclusion of vehicles in certain situations e.g., when used as a home, needed to produce income or to transport a physically disabled household member. The countable value of most licensed vehicles is the fair market value over \$4500 of one vehicle per household regardless of use and any vehicles used for employment, training or education in preparation for employment and provides for counting the greater of FMV over \$4500 or equity value for others.

Vision

Reliable transportation will be essential to achieving self-sufficiency for many recipients in a time-limited program. Because a dependable vehicle is important to individuals in finding and keeping a job, particularly for those in areas without adequate transportation, both the AFDC and the Food Stamp programs need a conforming automobile resource policy that supports recipients acquiring reliable vehicles. This proposal would simplify the automobile resource policy by conforming the program rules and reducing the unnecessary complexity and confusion for program administrators in both programs.

Drafting Specs

- (a) Repeal the Food Stamp Act automobile exclusion rules.
- (b) Amend the Social Security and the Food Stamp statutes to totally exclude one automobile, and count the equity value of all other automobile(s) toward the resource limit.

Rationale

This conforming proposed method is consistent with the recommendation from the American Public Welfare Association. In addition, it eliminates the administrative complexity involved with valuing vehicles under varying criteria and results in greater effectiveness and efficiency in the administration of both programs.

Cost: \$500 million -- AFDC federal share
\$292 million -- Food Stamps

5. INCOME ISSUES

Vision

Federal laws or rules frequently disregard a part of the total income of applicants and recipients in determining eligibility and benefits for assistance programs. Often, the same income is treated differently in the AFDC and Food Stamp programs. Such differences are incomprehensible to recipients and difficult to administer.

Our goal is to adopt uniform income disregard policies for the AFDC and Food Stamp programs which are easy to understand, simple to administer and promote work and education.

(a) TREATMENT OF LUMP SUM INCOME

Current Law

Under Section 402(a)(17) of the Social Security Act, non-recurring lump sum income is considered to be available to meet an AFDC family's current and future needs. If the assistance unit's countable income, because of receipt of lump sum income, exceeds the applicable State need standard, the unit is ineligible for a period determined by dividing the total countable income (including the lump sum) by the need standard.

The Food Stamp Act, at 5(d)(8), excludes from income non-recurring lump sum payments. Such amounts, if not spent in the month received, are treated as resources.

Drafting Specs

- (a) Amend section 402(a)(17) of the Social Security Act (SSA) to exclude non-recurring lump sum payments from income.
- (b) Amend both the SSA and FSA to disregard as resources, for one year from the date of receipt, non-recurring lump sum payments that are reimbursements for past, current or future costs or are intended to cover the cost of repairing or replacing assets.
- (c) Amend both the SSA and the Food Stamp Act (FSA) to disregard the amount of any Federal or State EITC lump sum payments as resources for one year from receipt.

Rationale

Lump sum payments are treated completely differently in the two programs. Considerable simplification for both the clients and workers can be achieved if the policies are consistent. Also, current AFDC policy can result in hardship for families since they are supposed to conserve the payments to meet future living expenses rather than to cover debts and other costs.

Cost: \$6 Million – Federal AFDC share

(b) SELF-EMPLOYMENT EXPENSES

Current Law

In the AFDC program, the Social Security Act is silent concerning exclusions from income to recognize the cost of producing self-employment income. The rules (45 CFR 233.20(a)(6)(v)(B)) provide that profit from self-employment is derived from subtracting business expenses from gross receipts. All the earned income disregards (Section 402(a)(8)) are applied to the profit the same as income from wages. Allowable business expenses are those directly related to producing goods or services. However, the following expenses are not allowed: depreciation, purchases of capital equipment, payments on the principal of loans for capital assets or durable goods, personal transportation, and personal business or entertainment expenses. A State may designate an objective flat amount or percentage for self-employment business expenses, but must allow higher actual costs.

Section 5(d)(9) of the Food Stamp Act excludes from income the cost of producing self-employment income. The rules (273.11(a)(4)(i)) list the following examples of the specific costs that should be excluded: the identifiable costs of labor, stock, raw material, seed and fertilizer, interest paid to purchase income-producing property, insurance premiums, and taxes paid on income-producing property. The following expenses are not excluded as costs of doing business: payments on the principal of the purchase price of income-producing real estate and capital assets, equipment, machinery, and other durable goods; net losses from previous periods; and depreciation. In addition, Federal, State, and local income taxes, retirement monies, and other work related personal expenses (such as transportation to and from work) are not allowed because these expenses are accounted for by the 20 percent earned income deduction in Section 273.9(d)(2).

Drafting Specs

- (a) No statutory change would be required.
- (b) Change the Food Stamp and the AFDC regulations to provide a deduction of the amount of depreciation or the actual cost of purchasing the asset, whichever is claimed for tax purposes.
- (c) Delete current language in AFDC regulations to conform with Food Stamp rules by adding examples of specific costs of producing self-employment income, such as the identifiable costs of labor, stock, raw material, interest paid to purchase income producing property, insurance premiums, and taxes paid on income producing property.

Rationale

A compatible AFDC/Food Stamp exclusion for business expenses, including a deduction for depreciation or actual the actual expenses of necessary assets, would result in greater effectiveness, clarity and efficiency in the administration of both programs. The change would encourage self-employment, self-sufficiency and recognize the legitimate cost of doing business. Allowing the eligibility worker to recognize business deductions as claims by the individual for income tax purposes would simplify such calculations.

Cost \$25-\$75 Million – Food Stamp
 Under \$1 Million –Federal AFDC share

(c) BOARDER INCOME

Current Law

Under the AFDC program, neither the statute or rules address allowable costs of business income received from boarders. Under program policy, a State may designate a flat amount or percentage for self-employment business expenses. However, the State must allow higher documented costs.

The Food Stamp Act is also silent on specific procedures for determining the income of households with self-employment income from boarders. However, the House Report which accompanied the Food Stamp Act of 1977 (H.R. 95-464, page 38) indicates Congressional intent that the cost of doing business for boarder income be calculated "for purposes of administrative ease, at a fixed rate or the value of a monthly coupon allotment for a one-person household" for each boarder. The report also indicates Congressional intent that actual costs be allowed, but the cost exclusions from income cannot exceed the income received.

Section 273.11(b)(1) of the Food Stamp rules provides procedures for calculating the income received from boarders based on the legislative history contained in the Food Stamp Act. Income from boarders includes all direct payments to the household for room and meals, including contributions to the household's shelter expenses. The cost of doing business is either (1) the maximum allotment amount for a household size that is equal to the number of boarders or (2) the actual documented cost of providing room and meals, if that cost exceeds the maximum allotment amount. If actual costs are used, only separate and identifiable costs of providing room and meals to boarders can be excluded. The excluded costs cannot exceed the amount of income received.

Drafting Specs

- (a) No statutory change would be required.
- (b) Modify AFDC and Food Stamp rules to permit States the option to allow a flat rate, a percentage, or either the maximum allotment for a household of the same size as the number of boarders in the thrifty food plan or the actual documented cost, if it is higher than the allotment. The same procedure would be adopted for each program.

Rationale

A uniform AFDC/Food Stamp policy in calculating boarder income would result in greater effectiveness and efficiency in the administration of both programs.

Cost: Minimal

(d) Treatment of Educational Assistance

Current Law

Several laws address the treatment of educational assistance for AFDC. Any educational assistance provided under programs in title IV of the Higher Education Act or the Bureau of Indian Affairs must be disregarded (P.L. 102-325, sec. 479B). A State must disregard payments made for attendance costs under the Carl D. Perkins Vocational and Applied Technology Education Act (P.L. 101-392, sec. 507(a)). Under AFDC rules, the State must disregard educational loans and grants that are obtained and used for direct educational expenses, such as tuition and books (233.20(a)(3)(iv)(B). (Any of the educational assistance covering items in the State's need standard is counted as income.) Also, States may disregard all educational assistance as complementary assistance that is for a different purpose than AFDC (233.20(a)(3)(vii)(a)).

Portions of income received under the Job Training Partnership Act and the Higher Education Act are disregarded in the Food Stamp program. By regulation, such educational assistance provided on behalf of the household for living expenses, food, or clothing to the extent that the funds exceed the costs of tuition and mandatory fees are counted as income. (7 CFR 273.9(c)(1)(v); 273(c)(3); 273(c)(4); 273.9(c)(5)(i)(D); and 373.9(c)(10)(xi).

Drafting Specs

Amend the Social Security Act and Food Stamp Act to totally disregard all educational assistance received by applicants and recipients.

Cost: \$5 million -- Food Stamps
Under \$1 million -- Federal AFDC share

(e) Earnings of Students

Current Law

For a dependent child receiving AFDC, the earned income of a full-time or part-time student (not employed full-time) attending a school, college, or university, or a course of vocational or technical training designed to fit him for gainful employment is disregarded (402(a)(8)(A) of the Social Security Act). At State option, the earned income of a dependent child applying for AFDC may also generally be disregarded. The earnings of minor parents attending school are not excluded.

Effective September, 1994, the Food Stamp program will exclude the earnings of elementary or high school students age 21 and under (FSA 5(d)(5); 7 CFR 273.9(c)(7).

Drafting Specs

ISSUE 1: With a new, more generous earned income disregard to encourage work, should student income also be disregarded to encourage school attendance?

ISSUE 2: If disregarded, should it apply to elementary and secondary school attendance or also college and vocational? To what age?

(f) Irregular Income

Current Law

No statutory provisions address irregular income for AFDC. Rules permit States to disregard small, nonrecurring gifts not to exceed \$30 per individual per quarter (233.20(a)(3)(iv)(F)).

The Food Stamp Act (Sec. 5(d)(2)) requires the exclusion of income of \$30 or less in a quarter per household received too infrequently or irregularly to be anticipated. The exclusion does not apply under retrospective budgeting.

Drafting Specs

Amend the Food Stamp Act to conform to AFDC rules to exclude inconsequential income not in excess \$30 per individual per quarter.

Cost: Inconsequential

(g) Treatment of JTPA Income

Current Law

For AFDC, the income of a dependent child which is derived from participation in a JTPA program may be disregarded. Earned income may be disregarded for a period up to six months per calendar year. Unearned income may be disregarded indefinitely (section 402(a)(8)(A)(v) of the SSA).

Under Food Stamps, training allowances from vocational and rehabilitation programs and JTPA earnings are excluded, except income from on-the-job training programs under section 204(5) of title II. All OJT income of individuals under age 19 and under parental control is excluded. (7 CFR 273.9(b)(1)(iii) and (v); 273.9(c)(10)(v)

Drafting Specs

(a) Amend the Social Security and the Food Stamp Acts to disregard as income all training stipends and allowances received by a child or adult from any program, including JTPA.

(b) Eliminate targeted earned income disregards so that the earned income from any on-the-job training programs or from a job will be counted after the general earned income disregards are deducted.

Cost: Savings to be determined.

(h) Treatment of Income from Complementary Programs

Current Law

Under AFDC regulations, States may disregard assistance from other agencies and organizations that are for a different purpose (complementary) than AFDC and do not duplicate needs already met in the need standard. (45 CFR 233.20(a)(3)(vii))

With specified exceptions, the Food Stamp program disregards cash donations based on need to the household not to exceed \$300 in any one quarter from one or more charitable organizations. (FSA 5(d), (k); 7 CFR 273.9(b), (c)(13).

Drafting Specs

Amend the Social Security Act to adopt the current Food Stamp policy.

Cost: AFDC savings to be determined

(i) Treatment of State or Private Energy Assistance

Current Law

In AFDC, Low Income Home Energy Assistance is totally disregarded. Support and maintenance assistance based on need, including energy assistance, may be disregarded as income. (SSA 402(a)(36); 45 CFR 233.20(a)(3)(xix))

Under Food Stamps, cash or in-kind energy assistance provided under any Federal law and under certain State and local programs is excluded as income. (FSA 5(d)(11); 7 CFR 273.9(c)(1) and (11))

Drafting Specs

Amend the Social Security Act to incorporate the current Food Stamp policy.

Cost: Undetermined

(j) Treatment of Governmental Subsidies

Current Law

Under Section 402(a)(7)(C)(ii) of the Social Security Act, States may count housing or rent subsidies as income. The amount that may be counted cannot exceed the amount for shelter/utilities included in the State's payment standard (233.20(a)(3)(xii)). Few States count the payments as income.

Under Food Stamp regulations (7 CFR 273.9(c)(1)), vendor payments to landlords are excluded as income. Payments to households and vendor payments to utility providers are counted as income. The amount the household owes the landlord, after HUD subsidies, is allowed as a rent expense. In the Third Circuit, the Court has held that HUD utility payments are excluded as energy assistance.

Drafting Specs

Amend the Social Security Act to require that States disregard all governmental housing/utilities subsidies.

ISSUE: Should the significant fiscal advantage afforded the few AFDC recipients who receive subsidized housing be continued?

Cost: Minimal

(k) Child Support \$50 Pass-Through

Current Law

In AFDC, the first \$50 of any child support collected and passed on to families is disregarded in determining the amount of AFDC assistance. (SSA 402(a)(8)(vi); 45 CFR 233.20(a)(3)(v))

Section 5(d)(13) of the Food Stamp Act permits States to disregard the first \$50, but if States opt to disregard such amounts, it must reimburse the Federal government its share of the Food Stamp benefit. (FSA 5(d)(13); 5(a); 7 CFR 276.2(e))

Drafting Specs

Amend the Food Stamp Act to require States to disregard the first \$50 of child support collections in determining needs and benefits.

Cost: \$181 million for Food Stamps

(l) Supplemental Payments

Current Law

Section 402(a)(28) of the Social Security Act requires those States that deduct income from the need rather than the payment standard (fill-the-gap) now and in July of 1975 to provide a supplemental payment to families who have less disposable income because child support is paid to the child support agency instead of directly to the family.

Food Stamps - No such provision exists in the Food Stamp program.

Drafting Specs

Amend the Social Security Act to remove this provision.

Cost: Savings to be determined.

(m) Treatment of In-kind Income

Current Law

AFDC rules require earned in-kind income to be counted. As a matter of policy, States may disregard any unearned in-kind income. If the State elects to count unearned in-kind income, the amount counted is limited to the value of the item in the State's need standard.

Under Food Stamps, in-kind benefits such as food, clothing, housing, produce are excluded. (FSA 5(d)(1); 7 CFR 273.9(c)(1))

Drafting Specs

Amend the Social Security Act to require States to disregard both earned and unearned in-kind income.

Cost: \$9 million for AFDC

6. Verification

Current Law and Policy

Food Stamp law and regulations include specific requirements for verification and documentation of information needed for eligibility and benefit determinations. Food Stamp regulations mandate verification of utility and medical expenses (when actual is claimed), identity, residency (address), disability and household composition. In the AFDC program, the Act and regulations do not address how verification is to occur but State procedures have generally conformed to the verification policy outlined in the Federal quality control manual.

Under the Food Stamp Act (FSA) (sections 11(e)(3),(9)) and Social Security Act (Act) (sections 402(a)(25) and 1137), income must be verified through the Income and Eligibility Verification System (IEVS). The State must request wage and benefit information for from the State Wage Information Collection Agency, the Social Security Administration, and the agency administering Unemployment Insurance Benefits. Unearned income information must be requested from the Internal Revenue Service. Both programs are also required by law to verify alien status through the Immigration and Naturalization Service's Systemic Alien Verification for Entitlement system.

Both programs review the accuracy of eligibility decisions and benefit amounts through quality control systems, with the intended result that much information is verified at application and at recertification to avoid errors. States may in both programs adopt other verification requirements.

Vision

Federal computer matching and verification requirements are often burdensome for both clients and eligibility staff. Even where States have flexibility, the emphasis on payment accuracy and the potential for fiscal quality control penalties have often resulted in unnecessary documentation, delays in benefits and improper denials and terminations. Yet, to assure the public that their taxes are being spent to serve only those in need, verification will continue to be a critical component of the new

system for delivering assistance to families. States must be afforded the flexibility to simplify verification procedures, while assuring program integrity through minimal standards.

Drafting Specs

- (a) Amend the Social Security Act and the Food Stamp Act, for the joint AFDC/Food Stamp population, to:
- require States to verify income, identity, alien status and the SSN;
 - States may choose the verification systems, methods and timeframes for action;
 - States may choose the computer matching activities that are most effective, including IEVS and SAVE; and
 - States may verify additional factors of eligibility.
- (b) Verification methods, systems, and time limits will be included in the State Plan.

Rationale

States will welcome the increased flexibility provided by this proposal and be able to streamline their verification activities, saving time and paperwork. At the same time, the State plan approval process will ensure adequate protection of client rights and program integrity without restricting State flexibility.

Cost: Savings of \$3 million in Food Stamps and less than \$1 million in AFDC.

7. UNDERPAYMENTS

Current Law and Policy

Section 402(a)(22) of the Social Security Act requires State agencies to promptly take all necessary steps to correct any underpayment. Regulations at 45 CFR 233.20(a)(13) limit the issuance of underpayments (both agency and client caused) to current recipients and former recipients who would be currently eligible if the error causing the underpayment had not occurred. As a result of litigation, program policy also permits States to issue underpayments to former recipients who would no longer be currently eligible. The amount of the underpayment is not limited by the number of eligible months covered.

Section 11(e)(11) of the Food Stamp Act provides that benefits are to be restored to a household requesting them if the benefits have been "wrongfully denied or terminated." The period for which benefits are restored is limited to one year prior to the date the State agency either receives a request for restoration from the household or otherwise learns that a loss to the household occurred. The Food Stamp rule (7 CFR 273.17) also prohibits the State agency from restoring benefits for a period longer than 12 months. The rule requires that benefits be restored even if the household is currently ineligible.

Vision

To provide clients with a rational and consistent policy in the processing of underpayments.

Drafting Specs

Amend section 402(a)(22) of the Social Security Act to conform to Food Stamp law by requiring the issuance of agency caused underpayments to current and former recipients for a period not in excess of 12 months from the date that the agency learns about the underpayment.

Rationale

Since clients are responsible for reporting changes in circumstances that affect eligibility and benefits, a 12-month limit on restoring lost benefits due to agency error reinforces positive behavior. The change also achieves consistency between the AFDC and Food Stamp underpayment policies. However, because the proposal represents a contraction of AFDC program policy (i.e., the prohibition on underpayments due to client error) client advocacy groups are likely to object.

Cost: \$6 million Federal AFDC savings

PROMOTE PARENTAL RESPONSIBILITY AND PREVENT TEEN PREGNANCY

A. CHANGING THE WELFARE AND CHILD SUPPORT SYSTEMS

1. Minor Mothers Live at Home

Under current law, States have the option of requiring minor mothers to reside in their parents' household (with certain exceptions). Delaware, Maine, Michigan, Virgin Islands, and Puerto Rico have included this in their State plan. This proposal would require all states to adopt a similar policy. States can have the option of assisting mothers in finding a responsible adult to reside with if a State believes that she should not live with her parents.

Drafting Specs

- a. All minor mothers would be required to reside in their parents' household, with certain exceptions.
- b. A minor parent is an individual who (i) is under the age of 18, (ii) has never been married, and (iii) is either the natural parent of a dependent child living in the same household or eligible for assistance paid under the State plan to a pregnant woman.
- c. The following exceptions (now in current law) to living with a parent or legal guardian will be maintained:
 - (i) individual has no parent or legal guardian of his or her own who is living and whose whereabouts are known;
 - (ii) no living parent or legal guardian of such individual allows the individual to live in the home of such parent or guardian;
 - (iii) the State agency determines that the physical or emotional health or safety of the individual or dependent child would be jeopardized if the individual and dependent child lived in the same residence with the individual's own parent or legal guardian;
 - (iv) individual lived apart from his or her own parent or legal guardian for a period of at least one year before either the birth of any dependent child or the individual having made application for aid to families with dependent children under the plan; or
 - (v) the State agency otherwise determines (in accordance with regulations issued by the Secretary) that there is good cause for waiving the requirement. (In those States that have this policy, the following are examples of what they determine to be good cause exceptions: the home is the scene of illegal activity; returning home would result in overcrowding, violation of the terms of the lease, or violation of local health and safety standards; the minor parent is

actively participating in a substance abuse program which would no longer be available if she returned home; no parent or legal guardian lives in the State.)

- d. At State option, if the State determines that a minor mother should live apart from her parents or legal guardian, the minor mother must be assisted in obtaining an appropriate supportive alternative to living independently. (The types of living arrangements that States now use or are considering include living with an adult relative, a licensed foster home, in a group home for pregnant and parenting teens, and in an approved congregate housing facility.) If the State and the minor mother cannot find an alternative arrangement or she has to move to another setting, the State may grant eligibility for a specified time if a good faith effort is being made to locate appropriate living arrangement and additional time is needed. If no appropriate setting is found the State may grant eligibility, but must provide some type of monitoring and case management of the minor mother.

2. Limiting Family Growth While on AFDC

Allow States the option to limit benefit increases when additional children are conceived by parents already on AFDC if the State ensures that parents have access to family planning services.

Currently, families on welfare receive additional support because their AFDC benefits increase automatically to include the needs of an additional child. This option would reinforce parental responsibility by keeping AFDC benefits constant when a child is conceived while the parent is on welfare. The message of responsibility would be further strengthened by providing the family an opportunity to earn back what they lost.

Drafting Specs

- a) Allow States the option of keeping AFDC benefits constant when a child is conceived while the parent is on welfare.
- b) States that take this option would be required to assure parents access to family planning services, including seeking family consultation within 30 days after delivery of their first child or their enrollment in AFDC.
- c) Under this option, if a parent has an additional child, the State must do at least one the following--
- permit the family to earn more or receive more in child support;
 - permit recipients who have gotten jobs to keep their earnings and their AFDC up to the benefits they would have gotten for an additional child; and/or
 - some other approach whereby a recipient can earn back the increase in benefits lost that the State develops and is approved by the Secretary.
- d) Require States to develop exceptions to the rule for difficult circumstances. These would be developed by the State and approved by the Secretary.

B. ENGAGING EVERY SECTOR OF SOCIETY IN PROMOTING RESPONSIBILITY

1. Comprehensive Services to High Risk Youth

Early child-bearing and other problem behaviors are interrelated and strongly influenced by the general life-experience associated with poverty. Changing the circumstances in which people live and consequently how they view themselves is needed to change the decisions young people make in regard to their lives.

For any effort which hopes to have results that are large enough to be meaningful, attention must be made to circumstances in which youth grow up in. It should address a wide spectrum of areas associated with youth living in a healthy community: economic opportunity, safety, health, education, among others.

Particular emphasis must be paid to the prevention of adolescent pregnancy, including sex education, abstinence education, life skills education, and contraceptive services. These show great promise, but those efforts that combine education and services show the most promise. If adolescent pregnancy is a symptom of deeper problems, sex education and contraceptive services alone will be inadequate. It must be part of this wide spectrum of areas needed to foster a healthy community.

Interventions need to enhance education, link education to health and other services, help stabilize communities and families in trouble. This would provide a sense of rationality and order in which youth can develop, make decisions, place trust in individuals and institutions serving them, and have a reasonable expectation of a long, safe and productive life.

Comprehensive demonstration grants are proposed that would seek to change the environment in which youth live. These grants must be of sufficient size or "critical mass" to significantly improve the day to day experiences, decisions and behaviors of youth. Services should be non-categorical, integrated and delivered with a personal dimension. It would seek to change neighborhoods as well as directly support youth and families, particularly adolescent pregnancy prevention.

Grant Specifications

- a. These grants could be initiated now under current authority.
- b. We would propose that grantees would develop comprehensive integrated innovative approaches to educating and supporting youth in high risk situations through comprehensive, social and health services, with an emphasis on pregnancy prevention.
- c. Health-related activities could include, but are not limited to, health education from K-12 (including age appropriate sexuality education), life skills, decision-making, ethics, substance abuse prevention, school health services (including, but going beyond, family planning), and family planning services. Family planning services should include the broad range of approaches currently available (e.g. abstinence counseling, male and female contraceptives, including the voluntary use of Norplant.)

- d. Education, job training and social services would include, but are not limited to, activities similar to a life options component (e.g., academic tutoring and counseling, mentoring, job skills training, employment counseling, jobs program), a parent education component (e.g., communication and parenting skills), and family and community stability activities (e.g., violence reduction and community policing, family counseling, and community outreach using community residents).
- e. Communities would be required to address the issue of access in regard to all services they provide. Efforts would be made on an individual and community-wide level. For example, efforts to remove barriers to access to family planning could include individual measures such as waiving cost-sharing or providing for home visitation, as well as broader measures such as more transportation services to and from family planning services, opening more family planning sites in accessible locations and keeping them open for more hours.
- f. An intensive evaluation component would be conducted.
- g. Eligibility criteria would be determined by the Secretary of Health and Human Services, in consultation with the Secretaries of Education, HUD, Justice, and Labor. Criteria would include:
 - i) Geographic and Population Requirements -- Communities would have to be of a specified size and have a population that falls within a specified range. Requirements about the distribution of this population may also be set.
 - ii) Poverty Requirements -- Communities must meet requirements that identify them as concentrated areas of high poverty levels.
 - iii) Comprehensive commitment and collaboration -- Community commitment, involvement and planning, and inclusion of most community institutions (e.g., government, schools, churches, businesses) would be required. One example of this is a secondary school(s) that has instituted, in conjunction with other community institutions, an innovative education program for youth at-risk of dropping out of school or unique programs that serve adolescents in non-traditional ways.
- h) The size, scope, and approach of the grants is limited by the availability of new dollars. With minimal new funding (e.g., \$1 million per site), these demonstrations could build on existing comprehensive service initiatives, such as Empowerment Zones, Enterprise Communities, Youth Fair Chance, or other non-federally funded comprehensive initiatives. Designed as an enhancement of these comprehensive initiatives, new dollars could be used to improve adolescent health and support services. Alternatively, if significant new resources were available (e.g., \$10 million per site), communities that have undertaken planning for comprehensive initiatives but lack resources could be provided the necessary funding to fill service gaps and ensure that services are developed in an integrated fashion.

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CHILD CARE AND WELFARE REFORM

Proposed Legislative Changes
February 2, 1994

Child care is critical to the success of welfare reform. It is essential to provide child care support for parents receiving assistance who will be required to participate in education, training and employment. Child care support for the working poor is also critical to "making work pay" and to enable parents to remain in the workforce.

The child care plan under welfare reform seeks to:

- o Increase funding so that low-income families have access to the care they need.
- o Ensure children safe and healthy environments that promote child development.
- o Create a more seamless child care system.

This paper includes three sections: options for the overall structure of child care assistance, building the supply and quality of child care, other related issues.

I. Options for the overall structure of child care assistance

Option A- Build on current structure of child care programs

- o Continue the individual entitlement (AFDC child care and TCC).
- o Significantly expand the At-Risk capped entitlement over a period of years, phasing in by income up to 130 percent of poverty.
- o Maintain and gradually expand the Child Care and Development Block Grant. States will have considerable flexibility in the use of CCDBG dollars for quality and supply building. CCDBG dollars would not be used for welfare recipients (with the possible exception of contracted care).
- o Efforts would be made to ensure greater consistency across programs

Option B- Consolidate child care programs

In this option, the overall approach would be to consolidate child care assistance into two funding streams: one for those parents receiving public assistance and one for those who have completed transitional assistance and/or who are at risk for receiving public assistance. There are at least two variations to such an approach which differ only on how child care is treated for those parents in the WORK program.

Variation 1

- o Establish a "JOBS" child care program which continues the IV-A child care guarantee for people in the transitional assistance program and for people who enter the WORK program.
- o Create a "WORKING FAMILY" child care program which continues the guarantee for up to 12 months of child care assistance when people leave AFDC for private sector jobs (now TCC) and creates a capped entitlement for the low-income working families (consolidating and expanding At-Risk and CCDBG).

Variation 2

- o Establish a "JOBS" child care program which continues the IVA guarantee for people in the transitional assistance program.
- o Create a "WORKING FAMILY" child care program which
 - Creates a new child care guarantee for WORK participants
 - Continues the guarantee for up to 12 months of child care assistance for people who leave AFDC for public sector jobs (now TCC)
 - Creates a capped entitlement for low-income working families (consolidating and expanding AT-Risk and CCDBG)

Discussion: Currently there are four child care funding streams: IV-A child care, TCC, At-Risk and CCDBG. Child care under the IV-A program is guaranteed to welfare recipients who are employed or who participate in State-approved education or training activities. Transitional Child Care (TCC) is guaranteed for a period of up to 12 months after leaving AFDC. Child care for the working poor is funded through the At-Risk Program (capped entitlement) and the Child Care and Development Block Grant.

To date the overall approach to child care under welfare reform has been to build on the current programs while attempting to provide more consistency and coordination. An alternative approach would attempt to consolidate programs and create a more simplified system that distinguishes between child care for those in transitional assistance and child care for working families, while maintaining consistency in administration and quality.

II. Building the Quality and Supply of Child Care

Given the anticipated demand on the child care system, and the critical need to improve the quality of care for at-risk children, the following issues have been raised in consultations with outside groups and during the last discussion of child care and welfare reform. Issues are presented as questions, followed by a recommendation and/or options and a brief discussion.

1. How should health and safety standards be addressed?

Recommendation: Make the requirements for health and safety standards consistent across all programs, using the CCDBG language.

Added option: Add some basic standards such as: 1- That all children in child care settings (or those settings serving more than 2 children) be immunized according to CDC standards. 2- That firearms, abusive substances and poisons be inaccessible to children, and 3- that the State conduct criminal record checks on all subsidized child care providers.

Discussion: Currently providers receiving CCDBG funds must meet standards set by the state for control of infectious diseases (including immunizations), building and physical premise safety and training. Most States use the same standards for CCDBG and IV-A - with the exception of exempt care. While this language requires States to impose limited health and safety standards on legally exempt providers under CCDBG, similar provisions are allowed but not required of exempt providers paid for under Title IV-A. This recommendation would address both the consistency of regulations and the basic quality protection for all children.

We could also add some basic health and safety standards either in the statute. Putting some items into the statute would make a statement regarding the quality of care and would highlight other Administration priorities. Immunizing very young children, for example, is a public health priority; in addition such a provision is included in the Republican plan. Assuring that firearms, abusive substances and poisons are inaccessible to

children is also consistent with other high priorities. Finally, an unpublished IG report indicates that criminal record checks are uncovering significant concerns with the backgrounds of some providers.

2. What are the best ways to direct additional funds towards quality and supply building ?

The approach used to direct additional funds to building supply and improving quality depends on the overall structure of the child care programs. Several options are provided below.

- o Allow states to use the Child Care and Development Block Grant to increase quality and supply for the entire child care system.
- o Reauthorize the Child Care Improvement Grants at \$50 million for first year and growing to \$75 million by the year 1999.
- o Create a set aside for quality and supply building in the capped At-Risk program (consistent with levels allowed in CCDBG).
- o Allow States federal match for administrative costs including for licensing, monitoring, staff training, and recruitment.
- o Set aside a portion of funds or a set amount for projects of national significance that would help stimulate new approaches to quality and supply building.

Discussion: The general recommendation at our last meeting was to allow much greater flexibility in CCDBG for quality and supply building. Consultations with outside groups raised several concerns with such an approach. Concerns were raised that we would be reducing funds for working poor and that the Block grant would eventually be eliminated if it did not provide a significant amount of direct services to children. There was consistent requests to re-establish the Child Care Improvement Funds we lost in 1992, develop a set aside in the at-Risk pool that would mirror CCDBG and allow states to receive FFP for administrative cost.

In a more consolidated system, a set aside could be established for quality and supply building activities. Such funds could address the quality and supply priorities established in CCDBG, would be administered by the state, and could address

the quality issues for the entire child care system. In addition, a one percent set aside could be established for projects of national significance to be administered from the federal level (At current level of funding for all 4 child care programs, one percent would come to \$17-20 million).

3. Should we require consumer education?

Recommendation: Yes, all applicants for federal child care assistance should receive appropriate counseling and information regarding all child care assistance programs and resources available.

Discussion: There is a growing consensus of opinion on the need for additional consumer education across programs. This will become increasingly important as parents enter the transitional assistance program and need to understand their rights, guarantees and options.

4. Should we include a provision which would give states greater flexibility to ensure children greater continuity in child care (regardless of the employment status on their parents)?

Recommendation: Allow States to include in their IV-A Claims, up to some specified limit, expenditures on contracted services and other payments which might not be allowable under current rules in order to ensure continuity of care for children.

Discussion: According to regulations, the State must assure that there are procedures in place to ensure that the care provided or claimed for reimbursement is reasonably related to the hours of participation or employment. Although States have the flexibility in determining whether care is "reasonably related", federal policy statements (and auditors) suggest to States that they are at some financial risk if the correlation between hours of care and hours of need is not close enough.

States also have the flexibility to provide up to one month of child care during job search, although this may not cover periods between programs sessions and other times when consistency is important for the child.

Testimony at the welfare hearing revealed that this issue poses serious problems to those struggling to work or participate in training programs and/ or jobs that may fluctuate. All too often children have to go in and out of programs and or parents cannot receive adequate coverage for study periods and other related issues.

5. What proposals should be considered to assure reasonable child care payments? There are at least two sub-questions related to this issue:

A. Should we eliminate or alter the statewide limit?

Recommendation: Include a provision that would require states to maintain their statewide limit and maintain their payment rates at a level not lower than the statewide limit(s) and payment rates established in their FY 94 IV-A state supportive services plan (unless the cost of care on the market goes down).

Discussion: According to the statute, the states must pay the actual cost of care, the local market rate (which is defined in regulations) or a limit set by the state at no lower than the Dependent Care Disregard.

Many outside groups have indicated a strong interest in eliminating the statewide limit in order to allow parents of at-risk children access to good care. However, there appeared to be little interest in such a proposal at our last meeting on child care.

We recommend an approach that would, at a minimum, hold rates harmless in order to avoid lower rates during the anticipated period of growth and demand on child care services.

B. Should we eliminate the dependent care disregard?

Options:

- o Continue the disregard at current levels.
- o Continue the disregard but raise the levels.
- o Eliminate application of the disregard for children eligible for IV-A paid child care (but retain for other dependents to which it applies).
- o Retain the disregard, but require that families be offered the option of receiving paid care for eligible IV-A children.
- o Require that States supplement the disregard to pay for care for eligible IV-A children so that parents have equal access to the same level of payment as parents using other methods of payment.

Discussion: Most states use the dependent care disregard to provide child care for AFDC families who have income from work. Many people from outside groups and some state officials believe that we should eliminate the use of the disregard as a mechanism for payment of child care for three reasons. First, the disregard is so low (\$200 a month for children under age 2, \$175 for children at least age 2) that it does not cover the cost of quality child care. Second, families must incur the child care costs "up front."

Third, since the disregard is applied for the purpose of determining a family's income in determining need for and amount of AFDC assistance, the benefits of the method rarely result in a dollar-for-dollar reimbursement for child care services. Rather, the "payment" for care is a factor in the family's AFDC check, which is computed based on the state's "standard of need." Families receiving child care through other IV-A methods of providing care may have access to more care choices due to higher levels of payment available through those methods. Currently, however, States by regulation have the option of supplementing the disregard to provide IV-A child care. Thirteen States use this option. Use of the disregard alone, however, is the most criticized characteristic of IV-A child care.

Continuing the disregard "as is" would continue inequities in providing child care to eligible AFDC children depending on whether the parent was working or in some other activity. Raising the disregard levels not only would potentially raise the number of eligible AFDC families, impacting on the size of the program, but might not resolve inequities in payment levels between groups of AFDC children who are eligible for IV-A child care.

Eliminating application of the disregard to a family with children eligible for IV-A paid child care could prevent the family from becoming eligible for AFDC or cause families now eligible to lose eligibility. Should the family still become eligible or remain eligible, loss of this disregard might lower their AFDC payment, because the family would have more countable income. While potentially assuring that families who do become eligible would have access to better care, this approach would also create an eligibility or payment inequity between those families and families with other dependents to whom the dependent care disregard applies. Also, a family who would lose AFDC as a result of this approach would, as "working poor," lose the benefit of the child care guarantee that is built into IV-A policy--since other child care subsidies such as CCDBG and At-Risk child care do not entail guarantees of services.

Giving an AFDC family the option of the disregard could create a dilemma for them of choosing between eligibility (or AFDC check size) and potentially receiving better and higher quality child care choices through IV-A paid care.

Requiring, rather than allowing, states to supplement the disregard for children who otherwise would be eligible for IV-A paid child care retains the benefit of the calculation in eligibility and size of benefit check. It also potentially offers the family access to more and higher quality child care choices. The approach may not increase Federal and state costs as much as fully paying for care for those children, but it would result in increased direct child care expenses. It would be more administratively difficult, since it requires coordination of AFDC and child care, which in many states are carried out in separate organizations.

III. Related Issues

1. Should we include a proposal to make the Dependent Care Tax Credit refundable?

Recommendation: This proposal should not be used in place of direct funding, only as an add-on if funding is available.

Discussion: The DCTC is not available to many low-income families at this time because it is not refundable. However, even if it is made refundable, it cannot be seen as a child care mechanism for most low-income families because: 1- a family must have the funds to spend for care before receiving the credit (therefore causing a cash flow problem), and 2- the credit is too low to support the cost of care (about 300,000 families gain between \$50 and \$249; about 500,000 gain between \$250 and 499; and about 700,000 gain more than \$500).

2. Should any changes be made to the State match to ensure that child care is provided?

(THIS QUESTION SHOULD BE DISCUSSED WITHIN THE OVERALL WELFARE REFORM PROPOSAL, RATHER THAN IN THE CONTEXT OF CHILD CARE ONLY- IT IS PRESENTED HERE ONLY TO RAISE THE ISSUES AND OPTIONS)

Options:

- o Raise the Federal match rate for child care to be consistent with other parts of the welfare reform proposal.

- o Provide a better match for child care (or eliminate the match in the capped entitlement).
- o Allow States to use State preschool funding and or private sector funds for the match.
- o Allow states to propose a plan for more comprehensive services linked to child care using state dollars and allow such funds to be used for the match.

Discussion: States are having significant problems drawing down AFDC child care TCC and At-Risk child care funds. Currently some 16 states are using CCDBG dollars to help pay for IV-A guaranteed child care. Furthermore, several states have not been able to access their full portion of At-Risk funds due to the match. There is already a proposal to increase the state match to FMAP plus eight percent as part of the overall welfare reform plan; however more relief may be needed for child care.

One proposal is to "liberalize" what States can use for the match. For example, it is estimated that there is some \$670 million being spent by States on preschool programs. Although states can currently use State Preschool dollars to match, few States have used this mechanism. We could simplify the process and be more explicit about the allowable use of such funds, although this would only help a limited number of states because not many states make substantial investments in preschool programs.

Encouraging States to provide comprehensive services to the children in care funded through IVA would increase the quality of care, however, it would be administratively difficult to track health and social service dollars. Furthermore, we would have to ensure that health funds are not double counted.

Eliminating the match for the capped entitlement is the easiest option, but it presents equity and consistency issues and naturally would put more pressure on federal resources. However, if little additional money is provided for the working poor, eliminating the match (making it consistent with CCDBG) and targeting the program on the working poor population, would provide some assistance.