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# **Welfare Reform**

## **Briefing Book**

March 21, 1994  
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EXECUTIVE OFFICE OF THE PRESIDENT

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TO: Kathryn J. Way  
FROM: Bruce N. Reed  
Domestic Policy Council  
CC: Carol H. Rasco  
SUBJECT: RE: welfare reform

Carol had it right:

Carol ... Overview  
Bruce ... Process/Politics and a word about timing  
David ... Policy  
Leon ... Financing  
POTUS ... Fire the Working Group!

<i>1</i>	Overview
<i>2</i>	Major Policy Issues
<i>3</i>	Cost and Financing
<i>4</i>	Detailed Description of a Preliminary Welfare Reform Proposal
<i>5</i>	
<i>6</i>	
<i>7</i>	
<i>8</i>	
<i>9</i>	
<i>10</i>	
<i>11</i>	
<i>12</i>	



March 21, 1994

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## OVERVIEW

Our current system seems at odds with the core values Americans share: work, family, opportunity, responsibility. While we believe that work is central to the strength, independence and pride of American families, the present reality is that people who go to work are often worse off than those on welfare. Instead of giving people access to needed education, training and employment, the welfare system is driven by numbingly complex eligibility rules, and staff resources are spent overwhelmingly on eligibility determination, benefit calculation and writing checks. The culture of welfare offices seems to create an expectation of dependence rather than independence. Noncustodial parents often provide little or no economic or social support to the children they parented, and single-parent families sometimes get welfare benefits and other services that are unavailable to equally poor two-parent families. One wonders what messages this system sends to our children about the value of hard work and the importance of personal and family responsibility.

This welfare reform plan is designed to give people back the dignity and control that comes from work and independence. It is about reinforcing the values of work, family, opportunity and responsibility. The current system pays cash when people lack adequate means to provide for their families. We propose a new vision aimed at helping people regain the means of supporting themselves and at holding people responsible for themselves and their families. The proposal emphasizes that work is valued by making work pay. It signals that people should not have children until they are ready to support them. It stresses that parents—*both parents*—have responsibilities to support their children. It gives people access to the skills they need, but also expects work in return. It limits cash assistance to two years and then requires work, preferably in the private sector, but in community service jobs if necessary. Most important, it requires changing the culture of welfare offices, getting them out of the business of writing checks and into the business of finding people jobs and giving them the skills and support to keep those jobs.

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

### MAJOR ELEMENTS

#### Parental Responsibility

If we are going to end long-term welfare dependency, we must do everything we can to prevent people from going onto welfare in the first place. Families and communities need to work together to ensure that real opportunities are available for young people, and they must teach young people that men and women who parent children have responsibilities and should not become parents until they are able to nurture and support their children. We also need to make it clear that both parents have responsibilities to support their children. Our proposal calls for:

## Prevention.

*A national campaign against teen pregnancy, which sets clear goals of opportunity and responsibility for youth, and draws on all segments of society and government.*

*Responsibilities of school-age families receiving assistance. Teen parents will be required to finish school.*

*Learning from prevention approaches that promote responsibility.*

*Responsible family planning. Expanded resources and support for family planning.*

*Requiring minor mothers to live at home, with their parents or a responsible adult—not receive a separate check for setting up a separate household.*

*State option to limit additional benefits for additional children conceived by parents on welfare.*

## Supporting two-parent families.

*End rules which discriminate against two-parent families. The 100-hour rule and quarters-of-work rule which apply only to two-parent families would be repealed.*

## Child support enforcement.

*Universal paternity establishment, preferably in the hospital. Strict penalties for women seeking AFDC who do not cooperate in identifying and finding the father. Serious financial incentives to States that do not establish paternity once the mother has cooperated.*

*Central child support registries in every State, to track payments and take prompt action when money isn't paid.*

*A national registry of child support awards and a national registry of new hires based on W-4 reporting so that delinquent noncustodial parents can be tracked quickly and easily across State lines.*

*Regular updating of awards.*

*New measures to penalize those who refuse to pay—from license suspension to IRS enforcement.*

*A new program of required work and training for men who owe child support and fail to pay.*

*Demonstrations of parenting and access programs and child support assurance.*

## **Support for Working Families**

One of the greatest perversities of the current system is that people on welfare often have higher incomes, better health protection, and greater access to child care than working poor families. This plan is designed to help families support themselves by going to work--not staying on welfare. The key elements are:

Earned Income Tax Credit (EITC). The expanded EITC makes it possible for low-wage workers to support their families above poverty. Efforts will be made to help families receive the EITC on a regular basis.

Health care reform. Too many people go on welfare and stay there because they cannot find work that provides health coverage for their families. An essential part of moving people from welfare to work is ensuring that working persons get health protection.

Child care for the working poor. In addition to ensuring child care for participants in the transitional assistance program and for those who transition off welfare, child care subsidies will be made available to low-income working families who have never been on welfare but for whom assistance is essential to enable them to remain in the workforce and off welfare.

## **Replacing Welfare with Transitional Assistance and Work**

We do not need a welfare program built around writing welfare checks--we need a program built around helping people get paychecks. We need to transform the culture of the welfare bureaucracy to convey the message that everyone is expected to move toward work and independence. We envision a system whereby people would be asked to start on a track toward work and independence immediately, with limited exemptions and extensions. Each adult would sign a personal responsibility contract that spells out their obligations, as well as what the government will do in return. Our proposal calls for:

Full participation. Every able-bodied individual who receives cash support is expected to do something to help themselves and their community. The requirement applies to those who are preparing themselves for work and to those who are currently not ready to work. Those who are unable to work due to disability or other reasons will be expected to do something for themselves or their community but will not be subject to time limits until they are ready to engage in training, education, job search or job placement.

A reformed JOBS program. The focus of the welfare system must be changed from a system focused on writing checks and verifying circumstance to one geared toward helping people move rapidly to work. The Family Support Act offered the first clear vision for converting welfare into a transitional system. But the vision was not realized, in part due to insufficient resources. A reformed JOBS program would include:

*Personal Responsibility Contract.* In order to receive assistance, people will have to sign a personal responsibility contract that spells out their responsibilities and opportunities, and develop an employability plan to move them into work as quickly as possible.

*Job Search First.* Most recipients will go through supervised job search as the first step of their employability plan. Anyone taking part in the JOBS program will be required to take a private sector job if offered.

*A clear focus on employment.* Too many programs seem to worry little about whether people actually get jobs and keep them. The plan will attempt to build bridges between the welfare office and the private sector.

*Integration with mainstream education and training programs.* We should not have a separate system for welfare recipients; it ought to be integrated with new and existing programs in the community.

*Emphasis on worker support once a person is placed in a job.* The most effective programs do more than try to find someone a job, they offer help so that person can keep the job.

Time limits. Individuals who are able to work will be limited to two years of cash assistance. Most people will be expected to enter employment well before the two years are up. Mothers with infants, people with disabilities that limit work, and those who care for a disabled child will be placed in a JOBS-Prep program, and not be immediately subject to the time limit. Extensions would be granted in a limited number of cases such as those who need to complete high school, or people who need more time because of language barriers.

A WORK program. Those people who are still unable to find work at the end of two years will be required to work in a private sector, community service or public sector job. Instead of welfare, States would be expected to provide jobs for those who have exhausted their time limit and cannot find unsubsidized private sector work. Key elements of the WORK program include:

*Work, not welfare.* States would be expected to place persons in subsidized jobs which pay a paycheck. Recipients would have the dignity and responsibility that comes from a real job.

*Flexible, community-based program.* States would be able to use money which would have been spent on welfare and an additional amount for administration to place people instead in subsidized private jobs, with local community organizations, or in public service employment. The program will have close links to the local community.

*Strong private sector emphasis.* The strong emphasis will be on placing people in subsidized private sector placements that will lead to unsubsidized work.

*Non-displacing jobs.* These jobs will be designed to avoid displacing existing workers.

*Keeping stays in the WORK program short.* To discourage long-term stays in the WORK program, the plan includes limits on the duration of any one placement, frequent job search requirements, no EITC for those in subsidized work slots, and a comprehensive reassessment for people after two placements.

*Special rules for places with high unemployment.* Places with very high unemployment may be granted special exemptions and given added financial support.

*Dollar caps on the JOBS and WORK programs.* To control costs, these programs will be capped entitlements, with fixed dollar amounts designed to meet the projected caseload.

### **Reinventing Government Assistance**

A major problem with the current welfare system is its enormous complexity and inefficiency. It consists of multiple programs with different rules and requirements that are poorly coordinated and confuse and frustrate recipients and caseworkers alike. Waste, fraud and abuse can more easily arise in such an environment.

The real work of encouraging work and responsibility will happen at the State and local levels. The Federal government must be clearer about stating broad goals and give more flexibility over implementation to States and localities. Our proposal calls for:

Coordination, simplification and improved incentives in income support programs. The administrative and regulatory program structures of AFDC and food stamps will be redesigned to simplify and coordinate rules and to encourage work, family formation and asset accumulation. Changes include:

*Allow families to own a reliable automobile.* Current rules prevent those on AFDC from owning a car with an equity value of more than \$1,500. That will be changed to \$4,500 for both AFDC and Food Stamps.

*Allow States to reward work.* Current law requires States to reduce benefits by \$1 for each \$1 earned. The proposal would give States the flexibility to reward work.

*Allow families to accumulate savings.* The proposal would allow families to set up Individual Development Accounts which could be used for specific purposes without losing eligibility.

A performance-based system. In addition to incentives for clients, incentives will be designed to bring about change in the culture of welfare offices with an emphasis on work and performance.

Accountability, efficiency and reducing fraud. The plan calls for significant expansions in the use of technology and tracking systems to ensure accountability, efficiency and fraud reduction. Among the advancements would be:

*A nationwide public assistance clearinghouse,* which tracks people whenever and wherever they use welfare. Such a system is essential for keeping the clock in a time-limited welfare system. Persons will not be able to escape their responsibilities by moving or by trying to collect benefits in two jurisdictions simultaneously.

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

## The Impact of Reforms

Making all these changes overnight would severely strain the ability of Federal and State governments to implement the new system. We recommend phasing in the plan by starting with young people, to send a clear message that we are ending welfare for the next generation. The attached tables are based on starting with the youngest third of the projected caseload--persons born after 1971, who will be age 25 and under in 1996 when the new system is implemented.

Starting with that cohort of people, the system will be transformed. Anyone born after 1971 who is on welfare today, and anyone born after 1971 who enters it subsequently, will face new opportunities and responsibilities. By the year 2004, this group will represent over 60 percent of the projected caseload, as older cohorts leave and new persons born after 1971 enter. States wanting to move faster would have the option of doing so.

Table 1 indicates the number of persons in various parts of the program by year, assuming this phase-in. Note that because the States will need up to two years to pass legislation and implement their systems, the program would not begin fully until late 1996. Thus, FY 1997 is the first full year of implementation. The initial JOBS program starts up rapidly and grows somewhat over time as more and more people are phased in. The WORK program grows over time starting with roughly 170,000 jobs in the first year when people begin to hit the limit (FY 1999), rising to roughly 540,000 by FY 2004.

TABLE 1

<b>PROJECTED CASELOADS UNDER A HYPOTHETICAL PROPOSAL, ASSUMING IMPLEMENTATION FOR PERSONS BORN AFTER 1971</b>			
	<b>FY 1997</b>	<b>FY 1999</b>	<b>FY 2004</b>
<b>Projected Adult Cases With Parent Born After 1971 Without Reform</b>	<b>1.43 million</b>	<b>1.93 million</b>	<b>3.34 million</b>
Off welfare with Reform (Health reform after 1999, EITC, Child Care, JOBS, WORK, etc.)	.04 million	.08 million	.81 million
<b>Program Participants</b>	<b>1.39 million</b>	<b>1.85 million</b>	<b>2.53 million</b>
Working While on Welfare	.12 million	.17 million	.21 million
JOBS Participants	.74 million	.89 million	.92 million
WORK Participants	.00 million	.17 million	.54 million
JOBS-Prep--disability/age limits work	.24 million	.31 million	.44 million
JOBS-Prep--severely disabled child	.06 million	.06 million	.08 million
JOBS-Prep--caring for child under one	.24 million	.25 million	.35 million

## Notes:

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

The hypothetical proposal assumes the policy will be implemented in all States by Federal law by October 1996. In addition, the estimates assume that for 20 percent of the caseload, States will implement the policy by October 1995. This follows the pattern of State implementation under the Family Support Act.

Table 2 shows the impact of these changes for the phased-in caseload over the next 10 years, compared with what we project would be the caseload without welfare reform and health reform.

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

TABLE 2

Projected Welfare and Work Status for Persons Born after 1971 Who Would Have Been on Welfare Without Reforms		
	FY 2004 -- Without Reforms	FY 2004 -- With Health and Welfare Reforms
Working with Subsidy; In Mandatory Education, Training or Placement; or Off Welfare with Reforms	23%	74%
Not Working; nor In mandatory Education, Training or Placement	77%	26%
TOTAL	100%	100%

Transforming the social welfare system to one focused on work and responsibility will not be easy. There will be setbacks. We must guard against unrealistic expectations. A welfare system which evolved over 50 years will not be transformed overnight. We must admit that we do not have all the answers. But we must not be deterred from making the bold and decisive actions needed to create a system that reinforces basic values.



2



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## MAJOR POLICY ISSUES

The plan as described previously reflects tentative decisions on a number of relatively controversial policy issues. This section identifies the key decisions and discusses alternative approaches. These issues can be considered in the context of two overriding questions:

- Does the plan succeed in "ending welfare as a way of life?" Are the notions of "success" that the plan assumes consistent with expectations for dramatic reform?
- Does the plan achieve an appropriate balance between responsibility and opportunity, and between high expectations for parents and protection of children?

In each of these areas, alternative policy decisions could be made that would shift the balance of the plan in one direction or the other.

### What Is Success?

An important challenge for the plan is to embody a definition of success that reflects the several dimensions of "ending welfare as a way of life." It must also recognize the difficulty of the task, the constrained capacity of the system to achieve it, and the need to protect vulnerable children and families.

The plan assumes that success has several dimensions:

- Ending welfare as a way of life, by expecting everyone to work or prepare for work, changing the culture of the welfare system from an emphasis on income maintenance to an emphasis on work and the responsibilities of both parents, and imposing serious time limits.
- Improving the well being of children and their families through increased earnings and child support, and providing protections for the most vulnerable children.
- Reducing the number of people who come onto welfare in the first place by making work pay, discouraging teen pregnancy and births outside marriage, and enforcing the obligations of both parents.
- Achieving some caseload and cost reductions over time after a reasonable period for investment and implementation.

### Key Decision: Phase-In

A key decision to be made about whether the plan fulfills its promise of transforming welfare has to do with the scale and speed of implementation of the reformed welfare system. Should we seek to

bring everyone on the caseload into the new system quickly, or should we initially target new resources on sub-groups such as new applicants or young families?

Immediate implementation of the new program would severely strain the ability of Federal and State governments to implement the new system successfully. There is almost no disagreement that phasing-in is necessary.

A phase-in strategy could start with new applicants, with selected States, with families with older children, or with young applicants and recipients. A focus on new applicants raises serious equity concerns between people who came onto welfare very young and those who managed to stay off for a longer period of time. A State-by-State strategy raises serious capacity issues at the State level and questions about whether we have achieved truly national reform. The primary arguments for a focus on families with older children have to do with parental care of children and the cost of day care, but such a focus raises questions about whether the culture of welfare can be changed if families are on welfare for several years until their children reach an age where the parents face time limits and training.

A focus on young families, which the plan recommends, recognizes that it is the younger generation of actual and potential welfare recipients that are the source of greatest concern. They are also the group for which there is probably the greatest hope of making a profound change, and of sending the message that welfare can no longer be a way of life. Under this approach, we would devote energy and new resources to ending welfare for the next generation, rather than spreading efforts so thin that little real help is provided to anyone.

#### Key Decision: Benefit Supplements for Part-Time and Low-Wage Work

Everyone agrees that independence from welfare should be the goal of the new system. But there may be situations in which welfare benefits to supplement work are desirable. Two related issues arise in thinking about work expectations, and about whether supplementary welfare benefits and exemptions from the time limit should be provided for workers.

The first issue is under what conditions someone who is working can continue to receive supplementary welfare benefits outside the constraint of the two year time limit. The issue arises because even full-time work at the minimum wage leaves a family below the income eligibility level for welfare in a few States. In about half the States, half-time work at the minimum wage leaves a family of three below the welfare eligibility levels. Larger families are eligible in more States. The question is whether the clock should stop for people working 20 or 30 hours. Proponents of allowing part-time work to stop the clock argue that getting someone to work even part time is a big success and should be rewarded. Opponents argue that allowing AFDC to continue as a work supplement for long periods of time is counter to the basic philosophy of ending welfare dependency.

The Working Group and Cabinet had difficult and somewhat inconclusive discussions of this issue. There was general agreement that supplementary welfare benefits should be provided irrespective of the time limit for anyone working at least 30 hours. There was also general support for allowing a State option to 20 hours. An alternative proposal, which also had considerable support, was to stop the clock for 20-hour workers who had pre-school children.

A related issue arises around the number of hours of work that States would be required to provide, after the time limit, through subsidized or community service jobs, and around whether supplemental welfare benefits should be paid if the hours of work the State provided did not generate pay at least as high as the welfare benefits received by non-working welfare recipients in the State. Because of wide variations in State welfare benefit levels, the number of hours of work at the minimum wage required to earn the equivalent of the welfare benefit level for a family of three ranges from about 7 to about 47. For larger families, work hours would have to be higher to reach the welfare benefit levels. It is obviously hard to structure a real job of eight or ten hours per week. At the other extreme, it is unreasonable to require more than the conventional definition of full-time work. When work hours fall short of the welfare benefit level, it seems reasonable to supplement the incomes of WORK program participants so that they are at least as high as those of welfare recipients who do not work.

The general sense of the Working Group and the Cabinet on this issue is that States should not be permitted to define hours of work at a level so low that a significant portion of income comes from benefit supplements. With this caveat, there was general agreement on providing some State flexibility within the range of 15 to 30 hours of work per week, and for benefit supplementation to insure that participants in the WORK program were as well off as welfare recipients who did not work.

### **The Balance of Responsibilities and Protections**

A second important challenge for the plan is to achieve an appropriate balance of responsibility and opportunity, and of expectations for parents and protection of children. The dilemma arises because AFDC recipients are both workers and parents, and because we are concerned about the well-being of children at the same time we require work and work preparation by their parents. The balancing act has to take place in two arenas: that of time limits and work requirements; and that of parental responsibility and prevention.

### **Key Decisions: Time Limits and Work Requirements**

A number of key policy decisions on time limits and work requirements affect the balance of responsibilities and protections. The most difficult decisions are around extensions to and exemptions from the time limit, around various means for discouraging long-term participation in the WORK program, and around protections for children when parents do not meet the requirements of the program.

**Extensions to and exemptions from the time limit.** Should any groups of recipients have the time limit extended? Should any be exempted from the requirements of the time limit?

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

The Working Group and Cabinet generally agreed that a limited number of extensions for such purposes as completing high school or a job training program were appropriate. They generally agreed that extensions should not routinely be granted for the purpose of completing a four-year college program, but that higher education combined with part time work was appropriate.

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

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

There was considerable discussion of the issue of whether exemptions for mothers of infants should be for one year (i.e., until the baby's first birthday) or for twelve weeks (twelve weeks is the mandated leave time in the Parental Leave Act.) The plan currently assumes a one-year exemption for infants who were not conceived on welfare and a twelve-week exemption for those conceived on welfare.

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

Subsidized job shots would last for no more than a year, after which the person would again be expected to look for unsubsidized work.

Federal reimbursement to States could reflect the amount of time people were on the rolls, in order to provide the States with serious incentives to move people into employment.

Refusal to accept a private sector job will result in termination of benefits.

An issue arises around what we hope will be a small number of people who continue to be unable to find unsubsidized employment after placement in a job slot and private sector job search. Some argue that they should be placed in community service slots for as long as they need them. Others argue that this policy would lead to permanent guaranteed jobs that might be expensive and perceived as simply another welfare program. Instead, people who continue to be unable to find employment might return to a deferred status, might have their welfare benefits reduced or might be cut off entirely.

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

A second issue arises around whether the EITC should be available to WORK program participants. There was general agreement that denying the EITC to participants in subsidized jobs would provide a powerful incentive to move into unsubsidized work. Some expressed concern about the administrative feasibility of this recommendation, and about its equity implications for workers doing similar jobs.

Sanctions and protections. If the welfare reform plan is to be serious about ending welfare as a way of life and about changing the basic values and culture of the welfare system, it must embody serious consequences for recipients who do not meet the requirements. The plan basically continues current law sanctions for non-participation in the JOBS program, which remove the adult from the grant for increasing periods of time for each sanction. It adds a severe sanction—benefit termination—for refusal to accept a private sector job. After the time limit, non-participation in the WORK program carries the same sanction as for ordinary workers: wages are not paid for hours not worked. Notice and hearings protections are continued. In addition, the State must keep its end of the bargain: services must be provided.

Families whose benefits are terminated for refusal to take a job or to participate in the WORK program continue to be eligible for food stamps and medical assistance. There is, however, the danger that in rare circumstances families will find themselves homeless or unable to care for their children. For these families, the shelter system and the child welfare system provide the safety net of last resort. If the welfare system is working properly, these failures will be extremely rare. Nonetheless, the fact that they may occur must be faced, since there is no apparent alternative if the system is to be serious about expectations.

#### Key Decisions: Parental Responsibility and Prevention

In the area of parental responsibility and prevention, the plan attempts to balance responsibility and opportunity for both mothers and fathers. Rather than simply focusing on the work obligations of custodial parents, it proposes a strengthened approach to child support enforcement that makes clear to fathers as well as mothers that parenthood brings with it clear obligations, and that these obligations will be enforced with serious and predictable consequences. To complement its emphasis on child support obligations, it proposes a set of demonstrations focused on work opportunities and expectations for noncustodial parents. It also proposes a set of requirements on and services for minor and school-age parents, and a comprehensive approach to teen pregnancy prevention. Finally, it proposes to extend eligibility for benefits to two-parent families, to remove the current bias in the system toward one-parent families.

A number of the key policy decisions have to do with the relative priority to be given to various spending proposals; the section on costs and financing outlines the tradeoffs. In addition, there are three other decisions that have philosophical as well as cost implications: the size and scope of child support assurance demonstrations; the living-at-home requirement; and the family cap option.

Child support assurance demonstrations. The proposed child support assurance demonstrations are controversial not only because of cost, but also because of the idea itself. Child support assurance speaks to the circumstance when little or no money is collected from the noncustodial parent, either because the system is ineffective or because the absent parent has very low earnings. Child support assurance guarantees that single parents with a child support award in place could count on a minimum level of support which they could use to supplement their earnings. Some see child support enforcement and assurance as a crucial way to "make work pay" and to ease the transition from

welfare to work for single parents. Opponents see it as close to simply being welfare by another name, that might also provide an incentive for fathers to escape their obligations.

Living-at-home requirements. The plan proposes to require minor mothers to live at home or with a responsible adult. Though there is general agreement that very young mothers need care and supervision from adults, there are some questions about whether we can ensure adequate protections for minors in abusive or otherwise unsuitable homes.

Family cap option. The plan also proposes an option for States to adopt "family caps" that limit benefit increases when additional children are conceived by parents already on AFDC. Proponents of family caps, some of whom believe they should be a requirement and not just a State option, argue that they reinforce a message of parental responsibility and help achieve equity between welfare recipients and working families, who do not receive a pay raise for additional children. Opponents of family caps argue that there is no evidence that they deter births, and that they deny benefits to needy children. In addition, opponents argue that the average value of the benefit increase is not much greater than the value of the tax deduction and the EITC increase for a working family that has an additional child.

TABLE 1 -- PRELIMINARY SUMMARY COST ESTIMATES (FEDERAL AND STATE)  
 FOR A HYPOTHETICAL WELFARE REFORM PROPOSAL  
 (By fiscal year, in millions of dollars)  
 (24 month WORK program followed by Assessment.)  
 (Welfare and Nonwelfare Impacts)

	5 Year Total	5 Year Federal	10 Year Total	10 Year Federal
<b>PARENTAL RESPONSIBILITY</b>				
Minor Mothers	(55)	(30)	(210)	(65)
Comprehensive Demonstration Grants	200	200	350	350
No Additional Benefits for Additional Children	(560)	(220)	(2,150)	(610)
Remove Two Parent (UP) Restrictions	2,210	1,160	8,260	4,355
<b>Child Support Enforcement</b>				
Paternity Establishment (Net)	(535)	(90)	(2,050)	(400)
Enforcement (Net)	(405)	(150)	(4,700)	(1,555)
Computer Costs	455	420	1,085	875
Non-Custodial Parent JOBS/WORK	370	335	1,855	1,870
Access Grants and Parenting Demonstrations	135	120	285	253
Child Support Assurance Demonstrations	550	465	1,500	1,350
<b>SUBTOTAL, PARENTAL RESPONSIBILITY</b>	<b>2,245</b>	<b>2,230</b>	<b>4,185</b>	<b>6,105</b>
<b>TRANSITIONAL ASSISTANCE FOLLOWED BY WORK</b>				
JOBS-Prep	305	275	1,225	1,105
Additional JOBS Spending	2,580	2,320	7,140	6,425
Additional Child Care for JOBS	1,805	1,625	4,900	4,410
WORK Program	790	710	10,150	8,135
Additional Child Care for WORK	365	330	4,585	4,125
Savings from Child Care and Other Expansion	(90)	(50)	(1,275)	(700)
Transitional Child Care	560	505	2,580	2,320
Enhanced Teen Case Management	210	190	595	535
Savings - Caseload Reduction	(520)	(285)	(5,090)	(2,600)
ADP Federal and State Systems/Admin Efficiency	680	665	825	900
<b>SUBTOTAL, JOBS/WORK</b>	<b>6,665</b>	<b>6,285</b>	<b>25,835</b>	<b>25,455</b>
<b>MAKING WORK PAY</b>				
Working Poor Child Care (Capped at \$2h in net spending).	5,000	4,500	16,270	14,845
<b>REINVENTING GOVERNMENT ASSISTANCE</b>				
IDA and Microenterprise Demonstrations	300	270	700	630
State Flexibility on Earned Income and and Child Support Disregards	1,720	608	4,885	2,685
Generally Conform Assets to Food Stamps on Limit, Burial Insurance, Real Property, Transfers	265	100	855	240
Set Auto Exclusions to \$4500 Equity Value	955	955	2,785	2,785
Double Territories' Caps/Adjust for Inflation	370	275	1,060	790
All Others	905	555	2,265	1,375
<b>SUBTOTAL RGA</b>	<b>4,515</b>	<b>3,100</b>	<b>12,360</b>	<b>6,515</b>
<b>GRAND TOTAL</b>	<b>18,445</b>	<b>15,775</b>	<b>56,460</b>	<b>54,720</b>

Note 1: Parentheses denote savings.

Note 2: Five Year and Ten Year Federal estimates represent 90% of all expenditures except for the following: benefits are at current match rates; child support is matched at rates specified in the hypothetical plan; and comprehensive demonstration grants are matched at 100%.

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

SEE APPENDIX FOR ENDNOTES TO TABLE

TABLE - PRELIMINARY REVENUE ESTIMATES (FEDERAL AND STATE)  
 (By fiscal year, in billions of dollars)

	5 Year Total	5 Year Federal	10 Year Total	10 Year Federal
Cap Emergency Assistance	2.12	2.12	5.66	5.66
Target Child Care Food Program	0.57	0.57	2.29	2.29
Conform AFDC to Food Stamps 130% of Poverty	6.99	3.84	19.18	8.49
Reduce by 1/2	3.50	1.92	9.59	5.28
Reduce by 1/3	4.66	2.56	12.78	7.03
Tighten Sponsorship and Eligibility Rules for Allens:				
Make current 5-year SSI deeming rules permanent and extend to AFDC and Food Stamps and limit assistance to PRUCOLS	2.74	1.85	9.10	6.11
Extend deeming period to 7 years	3.45	2.32	11.99	7.99
Extend deeming period to citizenship	6.80	4.67	23.95	16.29
EITC: Denial to non-resident aliens Info reporting for DOD personnel	0.32	0.32	0.90	0.90
Gambling				
Increase withholding on gambling winnings > \$50,000 to 36%	0.52	0.52	0.81	0.81
Withholding rate of 28% on keno, slots, and bingo winners > \$7,500	0.25	0.25	0.31	0.31
Require information reporting on winnings of \$10,000+ from gambling regardless of odds (except State lotteries)	0.22	0.22	0.64	0.64
5% excise tax on net receipts of gambling establishments (except State lotteries)	3.95	3.95	9.14	9.14
Other:				
Phase down dependent care tax credit 10% for AGI over \$70,000	0.78	0.78	1.67	1.67
OPTION 1 (5 Yr Deeming, No 130% Income Test)	11.47	10.58	30.52	27.53
OPTION 2 (7 Yr Deeming, 1/3rd 130% Income Test)	16.84	13.61	46.19	36.44
OPTION 3 (Deem to Citizenship, 1/2 130% Test)	19.03	15.32	54.96	42.99
OPTION 4 (Deem to Citizenship, Full 130% Test)	22.52	17.24	64.55	46.20





# PRELIMINARY WELFARE REFORM PROPOSAL

## TABLE OF CONTENTS

A NEW VISION .....	1
PREVENTING TEEN PREGNANCY AND PROMOTING PARENTAL RESPONSIBILITY . . .	9
PREVENTION AND REDUCING TEEN PREGNANCY .....	11
CHILD SUPPORT ENFORCEMENT .....	14
MAKING WORK PAY/CHILD CARE .....	22
IMPORTANCE OF EITC, HEALTH CARE REFORM AND CHILD CARE .....	22
TRANSITIONAL ASSISTANCE FOLLOWED BY WORK .....	26
FULL PARTICIPATION .....	29
TRAINING, EDUCATION, AND PLACEMENT - THE JOBS PROGRAM .....	30
TIME LIMITS .....	35
WORK .....	37
REINVENTING GOVERNMENT ASSISTANCE .....	42
COORDINATION, SIMPLIFICATION AND IMPROVED INCENTIVES IN INCOME SUPPORT PROGRAMS .....	42
PERFORMANCE BASED SYSTEM .....	47
ACCOUNTABILITY, EFFICIENCY AND REDUCING FRAUD .....	48
CONCLUSION .....	50
GLOSSARY .....	51
BACKGROUND INFORMATION ON THE AFDC PROGRAM .....	53

March 21, 1994

# PRELIMINARY WELFARE REFORM PROPOSAL

## A NEW VISION

Our current system seems at odds with the core values Americans share: work, family, opportunity, responsibility. While we believe that work is central to the strength, independence and pride of American families, the present reality is that people who go to work are often worse off than those on welfare. Instead of giving people access to needed education, training and employment, the welfare system is driven by numbingly complex eligibility rules, and staff resources are spent overwhelmingly on eligibility determination, benefit calculation and writing checks. The culture of welfare offices seems to create an expectation of dependence rather than independence. Noncustodial parents often provide little or no economic or social support to the children they parented, and single-parent families sometimes get welfare benefits and other services that are unavailable to equally poor two-parent families. One wonders what messages this system sends to our children about the value of hard work and the importance of personal and family responsibility.

This welfare reform plan is designed to give people back the dignity and control that comes from work and independence. It is about reinforcing the values of work, family, opportunity and responsibility. The current system pays cash when people lack adequate means to provide for their families. We propose a new vision aimed at helping people regain the means of supporting themselves and at holding people responsible for themselves and their families. The proposal emphasizes that work is valued by making work pay. It signals that people should not have children until they are ready to support them. It stresses that parents--*both parents*--have responsibilities to support their children. It gives people access to the skills they need, but also expects work in return. It limits cash assistance to two years and then requires work, preferably in the private sector, but in community service jobs if necessary. Most important, it requires changing the culture of welfare offices, getting them out of the business of writing checks and into the business of finding people jobs and giving them the skills and support to keep those jobs.

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

### MAJOR ELEMENTS

#### Parental Responsibility

If we are going to end long-term welfare dependency, we must do everything we can to prevent people from going onto welfare in the first place. Families and communities need to work together to ensure that real opportunities are available for young people, and they must teach young people that men and women who parent children have responsibilities and should not become parents until they are able to nurture and support their children. We also need to make it clear that both parents have responsibilities to support their children. Our proposal calls for:

## Prevention.

*A national campaign against teen pregnancy, which sets clear goals of opportunity and responsibility for youth, and draws on all segments of society and government.*

*Responsibilities of school-age families receiving assistance. Teen parents will be required to finish school.*

*Learning from prevention approaches that promote responsibility.*

*Responsible family planning. Expanded resources and support for family planning.*

*Requiring minor mothers to live at home, with their parents or a responsible adult--not receive a separate check for setting up a separate household.*

*State option to limit additional benefits for additional children conceived by parents on welfare.*

## Supporting two-parent families.

*End rules which discriminate against two-parent families. The 100-hour rule and quarters-of-work rule which apply only to two-parent families would be repealed.*

## Child support enforcement.

*Universal paternity establishment, preferably in the hospital. Strict penalties for women seeking AFDC who do not cooperate in identifying and finding the father. Serious financial incentives to States that do not establish paternity once the mother has cooperated.*

*Central child support registries in every State, to track payments and take prompt action when money isn't paid.*

*A national registry of child support awards and a national registry of new hires based on W-4 reporting so that delinquent noncustodial parents can be tracked quickly and easily across State lines.*

*Regular updating of awards.*

*New measures to penalize those who refuse to pay--from license suspension to IRS enforcement.*

*A new program of required work and training for men who owe child support and fail to pay.*

*Demonstrations of parenting and access programs and child support assurance.*

## Support for Working Families

One of the greatest perversities of the current system is that people on welfare often have higher incomes, better health protection, and greater access to child care than working poor families. This plan is designed to help families support themselves by going to work—not staying on welfare. The key elements are:

Earned Income Tax Credit (EITC). The expanded EITC makes it possible for low-wage workers to support their families above poverty. Efforts will be made to help families receive the EITC on a regular basis.

Health care reform. Too many people go on welfare and stay there because they cannot find work that provides health coverage for their families. An essential part of moving people from welfare to work is ensuring that working persons get health protection.

Child care for the working poor. In addition to ensuring child care for participants in the transitional assistance program and for those who transition off welfare, child care subsidies will be made available to low-income working families who have never been on welfare but for whom assistance is essential to enable them to remain in the workforce and off welfare.

## Replacing Welfare with Transitional Assistance and Work

We do not need a welfare program built around writing welfare checks—we need a program built around helping people get paychecks. We need to transform the culture of the welfare bureaucracy to convey the message that everyone is expected to move toward work and independence. We envision a system whereby people would be asked to start on a track toward work and independence immediately, with limited exemptions and extensions. Each adult would sign a personal responsibility contract that spells out their obligations, as well as what the government will do in return. Our proposal calls for:

Full participation. Every able-bodied individual who receives cash support is expected to do something to help themselves and their community. The requirement applies to those who are preparing themselves for work and to those who are currently not ready to work. Those who are unable to work due to disability or other reasons will be expected to do something for themselves or their community but will not be subject to time limits until they are ready to engage in training, education, job search or job placement.

A reformed JOBS program. The focus of the welfare system must be changed from a system focused on writing checks and verifying circumstance to one geared toward helping people move rapidly to work. The Family Support Act offered the first clear vision for converting welfare into a transitional system. But the vision was not realized, in part due to insufficient resources. A reformed JOBS program would include:

*Personal Responsibility Contract.* In order to receive assistance, people will have to sign a personal responsibility contract that spells out their responsibilities and opportunities, and develop an employability plan to move them into work as quickly as possible.

*Job Search First.* Most recipients will go through supervised job search as the first step of their employability plan. Anyone taking part in the JOBS program will be required to take a private sector job if offered.

*A clear focus on employment.* Too many programs seem to worry little about whether people actually get jobs and keep them. The plan will attempt to build bridges between the welfare office and the private sector.

*Integration with mainstream education and training programs.* We should not have a separate system for welfare recipients; it ought to be integrated with new and existing programs in the community.

*Emphasis on worker support once a person is placed in a job.* The most effective programs do more than try to find someone a job, they offer help so that person can keep the job.

Time limits. Individuals who are able to work will be limited to two years of cash assistance. Most people will be expected to enter employment well before the two years are up. Mothers with infants, people with disabilities that limit work, and those who care for a disabled child will be placed in a JOBS-Prep program, and not be immediately subject to the time limit. Extensions would be granted in a limited number of cases such as those who need to complete high school, or people who need more time because of language barriers.

A WORK program. Those people who are still unable to find work at the end of two years will be required to work in a private sector, community service or public sector job. Instead of welfare, States would be expected to provide jobs for those who have exhausted their time limit and cannot find unsubsidized private sector work. Key elements of the WORK program include:

*Work, not welfare.* States would be expected to place persons in subsidized jobs which pay a paycheck. Recipients would have the dignity and responsibility that comes from a real job.

*Flexible, community-based program.* States would be able to use money which would have been spent on welfare and an additional amount for administration to place people instead in subsidized private jobs, with local community organizations, or in public service employment. The program will have close links to the local community.

*Strong private sector emphasis.* The strong emphasis will be on placing people in subsidized private sector placements that will lead to unsubsidized work.

*Non-displacing jobs.* These jobs will be designed to avoid displacing existing workers.

*Keeping stays in the WORK program short.* To discourage long-term stays in the WORK program, the plan includes limits on the duration of any one placement, frequent job search requirements, no EITC for those in subsidized work slots, and a comprehensive reassessment for people after two placements.

*Special rules for places with high unemployment.* Places with very high unemployment may be granted special exemptions and given added financial support.

*Dollar caps on the JOBS and WORK programs.* To control costs, these programs will be capped entitlements, with fixed dollar amounts designed to meet the projected caseload.

### **Reinventing Government Assistance**

A major problem with the current welfare system is its enormous complexity and inefficiency. It consists of multiple programs with different rules and requirements that are poorly coordinated and confuse and frustrate recipients and caseworkers alike. Waste, fraud and abuse can more easily arise in such an environment.

The real work of encouraging work and responsibility will happen at the State and local levels. The Federal government must be clearer about stating broad goals and give more flexibility over implementation to States and localities. Our proposal calls for:

Coordination, simplification and improved incentives in income support programs. The administrative and regulatory program structures of AFDC and food stamps will be redesigned to simplify and coordinate rules and to encourage work, family formation and asset accumulation. Changes include:

*Allow families to own a reliable automobile.* Current rules prevent those on AFDC from owning a car with an equity value of more than \$1,500. That will be changed to \$4,500 for both AFDC and Food Stamps.

*Allow States to reward work.* Current law requires States to reduce benefits by \$1 for each \$1 earned. The proposal would give States the flexibility to reward work.

*Allow families to accumulate savings.* The proposal would allow families to set up Individual Development Accounts which could be used for specific purposes without losing eligibility.

A performance-based system. In addition to incentives for clients, incentives will be designed to bring about change in the culture of welfare offices with an emphasis on work and performance.

Accountability, efficiency and reducing fraud. The plan calls for significant expansions in the use of technology and tracking systems to ensure accountability, efficiency and fraud reduction. Among the advancements would be:

*A nationwide public assistance clearinghouse,* which tracks people whenever and wherever they use welfare. Such a system is essential for keeping the clock in a time-limited welfare system. Persons will not be able to escape their responsibilities by moving or by trying to collect benefits in two jurisdictions simultaneously.

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

## The Impact of Reforms

Making all these changes overnight would severely strain the ability of Federal and State governments to implement the new system. We recommend phasing in the plan by starting with young people, to send a clear message that we are ending welfare for the next generation. The attached tables are based on starting with the youngest third of the projected caseload--persons born after 1971, who will be age 25 and under in 1996 when the new system is implemented.

Starting with that cohort of people, the system will be transformed. Anyone born after 1971 who is on welfare today, and anyone born after 1971 who enters it subsequently, will face new opportunities and responsibilities. By the year 2004, this group will represent over 60 percent of the projected caseload, as older cohorts leave and new persons born after 1971 enter. States wanting to move faster would have the option of doing so.

Table 1 indicates the number of persons in various parts of the program by year, assuming this phase-in. Note that because the States will need up to two years to pass legislation and implement their systems, the program would not begin fully until late 1996. Thus, FY 1997 is the first full year of implementation. The initial JOBS program starts up rapidly and grows somewhat over time as more and more people are phased in. The WORK program grows over time starting with roughly 170,000 jobs in the first year when people begin to hit the limit (FY 1999), rising to roughly 540,000 by FY 2004.

TABLE 1

<b>PROJECTED CASELOADS UNDER A HYPOTHETICAL PROPOSAL, ASSUMING IMPLEMENTATION FOR PERSONS BORN AFTER 1971</b>			
	<b>FY 1997</b>	<b>FY 1999</b>	<b>FY 2004</b>
<b>Projected Adult Cases With Parent Born After 1971 Without Reform</b>	<b>1.43 million</b>	<b>1.93 million</b>	<b>3.34 million</b>
Off welfare with Reform (Health reform after 1999, EITC, Child Care, JOBS, WORK, etc.)	.04 million	.08 million	.81 million
<b>Program Participants</b>	<b>1.39 million</b>	<b>1.85 million</b>	<b>2.53 million</b>
Working While on Welfare	.12 million	.17 million	.21 million
JOBS Participants	.74 million	.89 million	.92 million
WORK Participants	.00 million	.17 million	.54 million
JOBS-Prep--disability/age limits work	.24 million	.31 million	.44 million
JOBS-Prep--severely disabled child	.06 million	.06 million	.08 million
JOBS-Prep--caring for child under one	.24 million	.25 million	.35 million

## Notes:

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

The hypothetical proposal assumes the policy will be implemented in all States by Federal law by October 1996. In addition, the estimates assume that for 20 percent of the caseload, States will implement the policy by October 1995. This follows the pattern of State implementation under the Family Support Act.

Table 2 shows the impact of these changes for the phased-in caseload over the next 10 years, compared with what we project would be the caseload without welfare reform and health reform.

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

TABLE 2

<b>Projected Welfare and Work Status for Persons Born after 1971                      Who Would Have Been on Welfare Without Reforms</b>		
	FY 2004 – Without Reforms	FY 2004 – With Health and Welfare Reforms
Working with Subsidy; In Mandatory Education, Training or Placement; or Off Welfare with Reforms	23%	74%
Not Working; nor In mandatory Education, Training or Placement	77%	26%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>

Transforming the social welfare system to one focused on work and responsibility will not be easy. There will be setbacks. We must guard against unrealistic expectations. A welfare system which evolved over 50 years will not be transformed overnight. We must admit that we do not have all the answers. But we must not be deterred from making the bold and decisive actions needed to create a system that reinforces basic values.

## **PREVENTING TEEN PREGNANCY AND PROMOTING PARENTAL RESPONSIBILITY**

Poverty, especially long-term poverty, and welfare dependency are often associated with growing up in a one-parent family. Although most single parents do a heroic job of raising their children, the fact remains that welfare dependency could be significantly reduced if more young people delayed childbearing until both parents were ready to assume the responsibility of raising children. Cases headed by unwed mothers accounted for about four-fifths of the growth of 1.1 million in the welfare rolls over the past ten years, from 3.86 million families in 1983 to 4.97 million families in 1993. Beginning in 1990, the rate of children on AFDC born to never-married mothers accelerated dramatically.

Teenage pregnancy is a particularly troubling aspect of this problem. Teenage birth rates have been rising since 1986 because the trend toward earlier sexual activity has resulted in more pregnancies. According to the Annie E. Casey Foundation, almost 80 percent of the children of teenagers who had that child before they graduated from high school and married live in poverty. In contrast, less than 8 percent of the children of young people who deferred childbearing until they graduated from high school, were twenty years old, and married are living in poverty. Teenage childbearing often leads to school drop-out, which results in the failure to acquire the education and skills that are needed for success in the labor market. The majority of these teenagers end up on welfare, and according to the Center for Population Options the cost to taxpayers is about \$34 billion to assist such families begun by a teenager.

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

For those who do become parents, we must send an equally clear message that there will be responsibility, even if they do not live with the child. In spite of the concerted efforts of Federal, State and local governments to establish and enforce child support orders, the current system fails to ensure that children receive adequate support from both parents. Recent analysis by the Urban Institute suggest that the potential for child support collections exceeds \$47 billion per year. Yet only \$20 billion in awards are currently in place, and only \$13 billion is actually paid. Thus, we have a potential collection gap of over \$34 billion.

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

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

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

The ethic of parental responsibility is fundamental. No one should bring a child into the world until he or she is prepared to support and nurture that child. We need to implement approaches that both require parental responsibility and help individuals to exercise it. To this end, we propose a multi-part strategy. We propose a number of changes to the welfare and child support enforcement systems to promote two-parent families and to encourage parental responsibility. Next, we seek to send a clear message of responsibility and opportunities and to engage other public and private sector leaders and institutions in this effort. We need to encourage responsible family planning. Government has a role to play, but the massive changes in family life that have occurred over the past few decades cannot be dealt with by government alone. We must not only emphasize responsibility; we must break the cycle of poverty and provide a more hopeful future to our communities.

## **PROPOSAL**

We need a welfare reform strategy that goes beyond trying to move those already on welfare into employment or some work preparation activity. The best way to end welfare dependency is to eliminate the need for welfare in the first place. Our proposal to promote parental responsibility and prevent adolescent pregnancy has two major components:

### **Prevention and Reducing Teen Pregnancy**

- National mobilization for youth opportunity and responsibility
- Responsibilities of school-age parents receiving cash assistance
- Encouragements for responsible family planning
- Learning from prevention approaches that promote responsibility

### **Child Support Enforcement**

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

### **PREVENTION AND REDUCING TEEN PREGNANCY**

#### **National Mobilization for Youth Opportunity and Responsibility**

It is critical that we help all youth understand the rewards of staying in school, playing by the rules, and deferring childbearing until they are married, able to support themselves and nurture their offspring. The President will lead a National Mobilization for Youth Opportunity and Responsibility utilizing broad-based private support. This will bring together the broader themes of economic opportunity and personal responsibility to every family in every community. It will include a persuasive media campaign as well as a series of dramatic Presidential events.

Establish Individual and National Goals. Establish a not-for-profit, non-partisan entity--the Partnership for Youth Opportunity and Responsibility--to establish national goals and to assume responsibility for a national, State, and local mobilization in the media, schools, churches, communities, and homes. The goals established would focus on measurable aspects of the broader opportunity and responsibility message for teen pregnancy prevention, such as graduate from high school; defer pregnancy until finished with high school, married, and working; go to college or work; and accept responsibility for the support of your children.

Funds to support such a group would be raised privately. Its membership would be broad-based, including youth; elected officials at all levels of government; and members of the religious, sports and entertainment communities. In addition, a Federal interagency group would ensure that responsive information such as model programs is provided and serve as a focal point for coordinating the range of federal programs across program and departmental lines.

Challenge Grants to Middle and High Schools in High Poverty Neighborhoods. Provide challenge grants to approximately 1000 middle and high schools located in high poverty areas to develop a national network of school-linked, community-based teen resource and responsibility centers and establish "Be the BEST (Building Essential Skills for Tomorrow) You Can Be Partnerships for Disadvantaged Youth." First, the centers would focus on teen pregnancy prevention by funding family planning, including abstinence education, and other activities to develop mutual respect of peers of the opposite sex and parenting skills.

Second, "Be the BEST (Building Essential Skills for Tomorrow) You Can Be Partnerships for Disadvantaged Youth" would provide federal "glue" money to form long-term, institutional partnerships between these targeted schools and broad-based consortia of employers, community-based organizations, churches, colleges and universities. It would encourage the development of targeted schools as broader community centers; establish long-term mentoring, tutoring, coaching and other youth-adult relationships; provide education, training and support to youth to take responsibility for their own lives; and provide information about educational, training, entrepreneurial and work opportunities.

These challenge grants can be used to leverage meaningful partnerships for targeted schools and community consortia across the country. In all of these targeted efforts, older teens and young adults who are succeeding in school, on the job or in business can be major participants and important role models for their younger peers.

### **Responsibilities of School-Age Parents Receiving Cash Assistance**

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

Minor mothers live at home. We propose requiring that minor parents live in a household with a responsible adult, preferably a parent (with certain exceptions, such as when the minor parent is married or if there is a danger of abuse to the minor parent). Current AFDC rules permit minor mothers to be "adult caretakers" of their own children. We believe that having a child does not change the fact that minor mothers need nurturing and supervision themselves, and they would be considered children—not as heads of household. Under current law, States do have the option of requiring minor mothers to reside in their parents' household (with certain exceptions), but only five have included this in their State plans. This proposal would make that option a requirement for all States.

Mentoring by older welfare mothers. We propose to allow States to utilize older welfare mothers to mentor at-risk school-age parents as part of their community service assignment. This model could be especially effective in reaching younger recipients because of the credibility, relevance and personal experience of older welfare recipients who were once teen mothers themselves. Training and support would be offered to the most promising candidates for mentoring.

Targeting school-age parents. We would ensure that every school-age parent or pregnant teenager who is on or applies for welfare enrolls in the JOBS program, continues their education, and is put on a track to self-sufficiency. Every school-age parent (male or female, case head or not) would be required to participate in JOBS from the moment the pregnancy or paternity is established. All JOBS rules pertaining to personal responsibility contracts, employability plans, and participation would apply to teen parents. We propose to require case management and special services, including family planning counseling, for these teens.

State options for behavioral incentives. We propose to give States the option to use monetary incentives combined with sanctions as inducements to remain in school or GED class. They may also use incentives and sanctions to encourage participation in appropriate parenting activities.

## **Encouragements for Responsible Family Planning**

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

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

Family Caps. We would give 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. Non-welfare working families do not receive a pay raise when they have an additional child, even though the tax deduction and the EITC may increase. However, families on welfare receive additional support because their AFDC benefits increase automatically to include the needs of an additional child.

Some States have requested waivers to implement this policy, arguing that they would reinforce parental responsibility by keeping AFDC (but not food stamps) benefits constant when a child is conceived while the parent is on welfare. The message of responsibility would be further strengthened by permitting the family to earn more or receive more in child support without penalty as a substitute for the automatic AFDC benefit increase under current law. Others argue that there is no evidence that they deter births, and that they deny benefits to needy children. The value of the benefit increase could be viewed as similar to the value of the tax deductions and EITC increase for a working family that has an additional child. (The tax deduction and EITC increase for the second child is worth \$1,241 at the \$20,000 income level; the tax deduction is worth \$686 at \$60,000. AFDC benefits increase \$684 per year for the second child in the median State; including food stamps increases benefits by \$1,584.)

## **Learning from Prevention Approaches that Promote Responsibility**

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

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

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

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

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

### Rationale

We believe that very clear and consistent messages about parenthood, and the ensuing responsibilities which will be enforced, hold the best chance of encouraging young people to think about the consequences of their actions and defer parenthood. A boy who sees his brother required to pay 17 percent of his income in child support for 18 years may think twice about becoming a father. A girl who knows that young motherhood will not relieve her of obligations to live at home and go to school may prefer other choices.

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

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

## **CHILD SUPPORT ENFORCEMENT**

### **Establish Awards in Every Case**

Universal Approach. Outreach efforts would be conducted at the State and Federal levels to promote the importance of paternity establishment both as a parental responsibility and as a right of the child to know both parents. States would be offered new performance based incentives for all paternities

established, whether or not the mother is currently on welfare. Voluntary acknowledgement procedures would be expanded and simplified.

Clear Responsibility. The responsibility to establish paternity for out-of-wedlock births would be clearly defined. Mothers will be required to cooperate in establishing paternity prior to receipt of welfare. A new stricter cooperation requirement will require the mother to provide both the name of the father and information sufficient to verify the identity of the person named. Good cause exceptions would be granted under only very limited circumstances. In turn, the States will have a clear responsibility to establish paternity when the mother has fully cooperated. We propose that the States be held fully responsible for the cost of benefits paid to mothers who have cooperated fully but for whom paternity has not been established within a strictly defined time frame.

Streamline the Paternity Establishment Process. The legal process for establishing paternity in contested paternity cases will be streamlined so that States can establish paternities more quickly and efficiently.

### Rationale

Paternity establishment is the first crucial step toward securing an emotional and financial connection between the father and the child. Recognizing the critical importance of establishing paternity for every child, the Administration has already launched a major initiative in this direction by the passage of in-hospital paternity establishment programs as part of OBRA 1993. Research suggests that the number of paternities established can increase dramatically if the process begins at birth or shortly thereafter.

The proposal includes two important steps to further this effort. One is to reward States for paternity establishment in all cases, regardless of welfare status, through performance based incentives. In order to do so, we will implement a paternity measure that is based on the number of paternities established for all cases where children are born to an unmarried mother. Second, outreach and public education programs aimed at voluntary paternity establishment will be greatly expanded in order to begin changing the attitude of young fathers and mothers. Parenting a child must be seen as an important responsibility that has real consequences. For young fathers, this means that parenting a child will have real financial consequences for the support of that child.

There are many different points of view about why paternity establishment rates are low. Agencies sometimes point to mothers and say they are not cooperating. Mothers point to agencies and claim they often want to get paternity established but the system thwarts their efforts.

We have enough information to know that cooperation is not the biggest reason that paternity establishment rates are so low. Some States are able to do very well in establishing paternity, while other States with similar caseloads are doing very poorly. Several paternity establishment projects have showed a remarkably high percentage of cases where the name and other identifying information is provided by the mothers. But, while cooperation may not be the biggest problem, we do know that cooperation is a problem in some cases.

One of the reasons that cooperation can be a problem is that "cooperation" can be hard to define. If the mother says that she doesn't know who the father is or "I think the father is John Doe. I think he moved to Chicago", it is difficult to assess whether or not she is telling the truth.

The responsibility for paternity establishment should be made clearer for both the parents and the agencies. In order to do so, we intend to hold mothers to a stricter standard of cooperation which requires that the mother provide a name and other verifiable information that could be used to locate the father. The process for determining cooperation will also be changed. "Cooperation" will be determined by the child support worker, rather than the welfare caseworker, through an expedited process that makes a determination of cooperation before an applicant is allowed to receive welfare benefits.

In turn, we also expect more of State child support enforcement offices. If the mothers provide verifiable information about the father, it is reasonable to require State agencies to establish paternity within strict timelines. If the State does not, it will face a loss of federal money for funding benefits paid.

Finally, if we are going to expect States to establish paternity in more cases, they need to have the necessary tools -- in the form of streamlined legal processes -- that are used by the most successful States. Scientific testing for paternity has now become extremely accurate, yet the legal process in many States fails to take full advantage of this scientific advancement. We believe agencies ought to be able to order paternity tests and process routine cases without having to resort to the courts at each step in the process.

#### **Ensure Fair Award Levels**

National Guidelines Commission. A National Guidelines Commission will be established to study and report to Congress on the adequacy of award levels, the variability of award levels, and the desirability of national guidelines.

Updating of Awards. Universal, periodic updating of awards will be required so that all awards closely reflect the current ability of the noncustodial parent to pay support. States need to establish simplified administrative, as opposed to legal, procedures to update the awards.

Child Support Distribution. Rules governing the distribution child support payments will be changed so that they strengthen families and assist families making the transition from welfare to work.

#### **Rationale**

Much of the gap between what is currently paid in child support in this country and what could potentially be collected can be traced to awards that were either set very low initially or are never adjusted as incomes change. All States are required to have guidelines for setting award levels, but they vary considerably. There is also disagreement about the adequacy of the existing guideline award levels. This is an area that clearly needs more study. Under the proposal, a National Guidelines Commission will be established to make recommendations to the Administration and Congress.

The main problem with the adequacy of awards, however, is not the level at which they are initially set but rather the failure to update awards as the circumstances of the parties change. The noncustodial parent's income typically increases after the award is set, while inflation reduces the

value of awards. Updating would typically increase awards over time. There are also advantages to updating for the noncustodial parent who loses his job or experiences a legitimate drop in earnings. Their awards should also be adjusted so that they do not face an accumulation of arrearages that they cannot pay. This would lead to fewer enforcement problems because fewer people will be in arrears and it will increase the fairness and integrity of the system.

The Family Support Act of 1988 required that all AFDC child support orders be updated every three years and other IV-D cases at the request of the parties. This was a start, but it did not fully deal with the problem. First, many States find that updating awards is a strain because they are relying on a time consuming court-based system to deal with each case. The simple administrative process for adjusting awards included in the proposal would rectify this problem. Another problem with the law as it now exists is that modification of awards is not automatic, and thus some women fear intimidation, abuse, or unknown consequences of just "rocking-the-boat." Under the Administration's proposal, the burden for asking for an increase, if it is warranted, will be lifted from the mother and it would be done automatically.

Finally, present distribution rules often make it difficult to leave welfare because arrears payments first go to cover State costs before being available to the family. Changing the distribution and payment rules so that pre- and post-AFDC arrears will go to the family first if the family has left AFDC will assist people in making a successful transition from welfare to work. The other proposed change in this area will encourage family unification by allowing families who unite or reunite in marriage to have any child support arrearages owed to the State forgiven under certain circumstances.

#### Collect Awards that are Owed

Central Registries. A central registry and centralized collection and disbursement capability will be required in all States. States will be able to monitor support payments and take appropriate enforcement actions immediately when support payments are missed. Certain routine enforcement remedies will be imposed administratively at the State level, thus taking advantage of computers and automation to handle these measures using mass case-processing techniques. A higher Federal match rate will be provided to implement new technologies. Enhanced funding will also be used to encourage States to run fully centralized State programs.

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

Tough Enforcement Tools. States will be provided with the enforcement tools they need to crack down on those noncustodial parents who otherwise find ways to avoid payment of their support obligations. States will have the authority to revoke drivers and professional licenses for those who refuse to pay the support they owe. States will be able to make frequent and routine matches against appropriate data bases to find location, asset, and income information on those who try to hide in order to escape payment. The Federal funding and incentive structure will be changed in order to provide the necessary resources for States to run good programs, and performance-based incentives

will be utilized to reward States for good performance. Incentive payments must be reinvested back into the child support program.

### Rationale

Central Registries. Enforcement of support is handled by State and local IV-D agencies, with tremendous State variation in terms of structure and organization. Cases are too often handled on a complaint-driven basis with the IV-D agency only taking enforcement action when the custodial parent pressures the agency to do so. Many enforcement steps require court intervention, even when the case is a routine one. And even routine enforcement measures often require individual case processing rather than relying upon automation and mass case-processing.

When payments of support by noncustodial parents or their employers are made now, they go to a wide variety of agencies, institutions and individuals. As wage withholding becomes a requirement for a larger and larger segment of the noncustodial parent population, the need has grown for one central State location to collect and distribute payments in a timely manner. Also, the ability to maintain accurate records that can be centrally accessed is critical. Computers, automation and information technology, such as those used by business, are rarely used to the extent necessary.

States must move toward a child support system for the 21st century. With 13 million cases and a growing caseload, this will not occur by simply adding more caseworkers. Routine cases have to be handled in volume. The proposed central registry, centralized collection and disbursement system, increased use of administrative remedies, and overall increase in automation and mass case processing are all necessary for the operation of a high performing and effective child support enforcement system.

The State-based central registries of support orders and centralized collection and disbursement will enable States to make use of economies of scale and use modern technology, such as that used by business -- high speed check processing equipment, automated mail and postal procedures and automated billing and statement processing. Centralized collection will vastly simplify withholding for employers since they would only have to send payments to one source. As wage withholding becomes the norm for more and more cases, that concern is becoming more important and we want to ease the burden on businesses.

States will be able to impose enforcement remedies in routine cases through the use of administrative remedies handled on a mass case basis without having to go to court to take simple enforcement measures. For instance, States will be able to impose and redirect wage withholding orders, garnish bank accounts, and intercept State benefits -- such as unemployment compensation, workers compensation, and lottery winnings -- quickly and easily.

States will monitor payments so that the enforcement agency knows the minute that the support is not paid. State agencies will then take enforcement action immediately and automatically so that the custodial parent, usually the mother, does not bear the burden of enforcing the obligation. She will not have to be "the enforcer," as in the present system where she often has to push the child support office to get any action on her case at all.

All cases will receive equal services regardless of welfare status. Currently, welfare and non-welfare cases are often handled differently with often little help for poor and middle class women outside the welfare system. The incentives built into the system also mean that non-welfare cases often receive

second-hand services. The Administration's proposal will help to move people from welfare to work and to make work pay outside the welfare system by insuring that the non-welfare population is served equally well. States will also be encouraged through financial incentives to centralize their operations and rely less on county based systems which often add to the problem of fragmentation and inefficiencies.

Interstate Enforcement. The fragmented system of State support enforcement has caused tremendous problems in collecting support across State lines. Given the fact that 30 percent of the current caseload involves interstate cases, and the fact that we live in an increasingly mobile society, the need for a stronger federal role in interstate location and enforcement has grown.

The Administration's proposal takes two major steps toward improving interstate enforcement. The National Child Support Enforcement Clearinghouse, consisting of three registries -- a National Locate Registry, a National Child Support Registry (containing only enough minimal information to match cases), and the National Directory of New Hires -- would act as a hub for the exchange and matching of information.

The Directory of New Hires would be modeled after State new hire reporting systems except it could also match cases against the national registry to catch people who move from State to State and avoid payment. It will improve enforcement tremendously because delinquent obligors who are employed anywhere in the country can then be forced to pay through wage withholding from the first paycheck. The IRS role will also be expanded through expanding and improving the IRS full collections and tax refund offsets programs, and providing easier access to IRS income and asset information.

Second, the Administration's proposal adopts many of the recommendations of the U.S. Commission on Interstate Child Support to improve the handling of interstate cases, such as the mandatory adoption of the Uniform Interstate Family Support Act (UIFSA) and other measures to make the handling of interstate cases more uniform.

Tough Enforcement Tools. The proposal makes the enforcement of support much tougher so that we collect on awards that are owed. The perception on the street is that the system can be beat -- that if you really don't want to pay support, you can avoid it. This perception has to change; child support has to be seen as inescapable as death or taxes. States are often not equipped with the necessary enforcement tools -- tools that have proven successful in other States -- to insure that people do not escape their legal and moral obligation to support their children.

Under the proposal, States will be given the enforcement tools they need, especially to reach the self employed and other individuals who have often been able to beat the system in the past. For instance, State agencies will have easier access to other data bases they can be used to locate those who refuse to meet their obligations. Driver's and professional license revocations will also be used as a last resort for those who otherwise refuse to pay.

These enforcement tools can only be used effectively if States have the necessary funding and incentives to run good programs. There is almost universal agreement that the current funding and incentive structure fails to achieve the right objectives. The Administration's funding proposal will institute a new funding and incentive structure that uses performance based incentives to reward States that run good programs.

## **Child Support Enforcement and Assurance Demonstrations**

Child Support Assurance demonstrations would test providing a minimum insured child support payment to the custodial parent even when the noncustodial parent was unable to pay. With such a program, a combination of work and child support could support a family out of welfare and provide some real financial security. Unlike traditional welfare, Child Support Assurance would encourage work because it allows single parents to combine earnings with the child support payment without penalty. Child Support Assurance could also provide an incentive to a mother to establish an award and focus attention on the noncustodial parent as a source of support. The proposal provides for six demonstration projects of Child Support Enforcement and Assurance (CSEA).

### **Rationale**

Child support enforcement and assurance would significantly ease the difficult task of moving people from welfare to work. If single parents can count on some child support, usually from the noncustodial parent, but from the assured child support payment if the noncustodial parent fails to pay, then they can build a reliable combination of their own earnings plus child support. This approach would offer single parents real economic security.

CSEA is not unlike unemployment insurance for intact families. When an absent parent becomes unemployed or cannot pay child support, the child still has some protection. And since CSEA is not income-tested, there are no reporting requirements, no welfare offices, no benefit offsets and no welfare stigma. CSEA benefits could be subtracted dollar for dollar from welfare payments. Thus, a woman on welfare is no better off with CSEA. But if she goes to work, she can count on her child support payments; thus, the rewards from working rise considerably. Essentially, all of the net new costs of a CSEA protection program would go for supporting custodial parents who are off welfare and working.

If CSEA protection is provided only to people who have a child support award in place, women will have much more incentive to cooperate in the identification and location of the noncustodial father, since they can count on receiving benefits.

The program would focus more attention on the importance of noncustodial parents providing economic support to their children. States might also experiment with tying the assured payment to work or to participation in a training program by the noncustodial parent, and with other incentives to encourage noncustodial parents to pay child support.

### **Enhanced Responsibility and Opportunity for Noncustodial Parents**

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

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

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

### Rationale

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

## MAKING WORK PAY/CHILD CARE

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

A crucial component of welfare reform that promotes work and independence is making work pay. Even full-time work can leave a family poor, and the situation has worsened as real wages have declined significantly over the past two decades. In 1974, some 12 percent of full-time, full-year workers earned too little to keep a family of four out of poverty. By 1990, the figure was 18 percent. Simultaneously, the welfare system sets up a devastating array of barriers for people who receive assistance but want to work. It penalizes those who work by taking away benefits dollar for dollar; it imposes arduous reporting requirements for those with earnings but still on welfare, and; it prevents saving for the future with a meager limit on assets. Moreover, working poor families often lack adequate medical protection and face sizeable child care costs. Too often, parents may choose welfare instead of work to ensure that their children have health insurance and receive child care. If our goals are to encourage work and independence, to help families who are playing by the rules and to reduce both poverty and welfare use, then work must pay more than welfare.

Although they are not discussed in this paper, working family tax credits and health reform are clearly two of the three major components of making work pay. Last summer's \$21 billion expansion of the Earned Income Tax Credit (EITC) was a major step toward making it possible for low-wage workers to support themselves and their families above poverty. When fully implemented, it will have the effect of making a \$4.25 per hour job pay nearly \$6.00 per hour for a parent with two or more children. Full utilization and periodic distribution will maximize the effect of this pay raise for the working poor.

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

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

The Federal Government currently subsidizes child care for low-income families primarily through the title IV-A open-ended entitlement programs (JOBS Child Care and Transitional Child Care), a capped entitlement program (At-Risk Child Care), and a discretionary program (the Child Care and Development Block Grant). The dependent care tax credit is seldom available for low-income families because it is not refundable; even if it were, it would be of little help to low-income families because it is paid at the end of the year and is based on money already spent on child care.

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

## PROPOSAL

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

Maintaining IV-A Child Care. We propose to continue the current IV-A entitlement programs for cash assistance recipients. These programs (both JOBS Child Care and Transitional Child Care) would automatically expand to accommodate the increased demand created by required participation in education, training and work.

Expanding Child Care for Low-Income Working Families. We also propose significant new funding for low-income, working families. The At-Risk Child Care Program, currently a capped entitlement available to serve the working poor, is capped at a very low level and States have difficulty using it because of the required State match. We propose to expand this program and to reduce the barriers which impede States' use of it.

Maintaining the Child Care and Development Block Grant. We would maintain and gradually increase funding for the Block Grant. These funds support both services and quality improvements. However, no families receiving cash assistance would be eligible for services under this program.

Addressing Quality and Supply. We would provide some funding in the At-Risk program to address quality improvements and supply issues. Quality improvements would include a range of activities such as resource and referral programs, grants or loans to assist in meeting State and local standards, and monitoring for compliance with licensing and regulatory requirements. Supply issues would include a special focus on the development and expansion of infant and toddler care in low-income communities.

Coordinating Rules Across All Child Care Programs. We would require States to use Federal programs to ensure seamless coverage for persons who leave welfare for work. Health and safety requirements would be made consistent across these programs and would conform to standards in the Block Grant program. States would be required to establish sliding fee scales consistently across programs, as well as unified reporting for all programs. Efforts will be made to facilitate linkages between Head Start and child care funding streams to enhance quality and comprehensive services.

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

There is a particular problem with the AFDC income disregard for child care, since it is based on an unreasonably low maximum monthly payment of \$175 per child (\$200 for infant care), and because the disregard is effective only after families incur child care expenses, resulting in a cash-flow problem for families. Simply raising the disregard inadvertently makes a number of families ineligible for AFDC (while equivalent families receiving direct child care support would remain on the rolls). Therefore, to deal with this problem, we propose requiring States either to supplement payments and provide for the disregard to be prospective (as are all other payment mechanisms), or to provide at least two options for payment of child care costs (the disregard and one other payment mechanism).

### Rationale

There are three categories of low-income families with child care needs that must be considered to ensure that the two goals--helping low-income parents enter and stay in the workforce and making work pay--are addressed:

- Families in JOBS, working part-time, or in WORK;
- Families in a transition period, having just worked their way off assistance or the WORK program; and
- Families working without having ever been on welfare or working beyond a transition period.

All three categories have legitimate claims on child care subsidies. Families who are required to participate in JOBS are currently guaranteed child care, and rightly so. People who are working but still on welfare have their child care subsidized through disregards in their AFDC and food stamp benefits, and sometimes through subsidies.

We propose to continue current guarantees of child care subsidies for these categories of recipients. People in the WORK program are like welfare recipients in that they are working as a condition of receiving continued support, they are working at the minimum wage, and they are not receiving the EITC. The proposal would guarantee their child care, just as it is guaranteed for JOBS and AFDC participants. Under current law, people who move off welfare and are working are guaranteed subsidized child care for a year in order to ease the transition from welfare to work. We propose to continue that guarantee for participants in the transitional assistance program who move into private sector work.

It is hard to argue, however, that low-income working families who have never been, or are no longer, on welfare are less needing or deserving of child care subsidies than people who are on welfare. It seems quite inequitable to provide child care subsidies to one family and to deny them to another whose circumstances are identical except for the fact that the first family is or has recently been on welfare. As a result, this proposal provides a significant increase in support for all three types of low-income families with child care needs.

The goal of our child care proposal is to attain a careful balance between the need to provide child care support to as many low-income families as possible and the need to ensure the safety and healthy development of children. Therefore, in addition to direct funding for child care slots, we have

included some funding to address quality and supply issues. Clearly decisions about child care quality in the context of welfare reform have direct effects on the cost and potential supply of care available as well as on the well-being of children and families. Paying higher rates to increase quality can limit the ability to increase the number of child care slots, but rates that are too low can also limit supply and parental choice, and endanger children. We are also concerned that there are specific child care supply problems in some geographic areas and for some children—especially infants and toddlers.

We propose a number of lower-cost strategies to address quality and supply. These include: improvements in the linkages between programs, including the various child care programs and Head Start; minimal but consistent health and safety standards (such as requirements related to immunizations, toxic substances, and weapons); some direct funding toward the quality and supply improvements; and some action to define a slightly higher floor of payment. There is agreement that child care programs and funding streams should be designed in ways that are easy to administer and appear "seamless" to parents. This can be achieved largely through coordination of rules, procedures and automated system. Because of fiscal and political difficulties, full consolidation is very difficult to achieve. Nevertheless, coordination to the greatest extent possible is an important principle guiding the child care proposal and is reflected in our proposal to coordinate rules across all Federal child care programs.

## TRANSITIONAL ASSISTANCE FOLLOWED BY WORK

Perhaps the most critical and difficult goal of welfare reform is to reshape the very mission of the current support system from one focused on writing checks to one focused on work, opportunity, and responsibility. The Family Support Act of 1988 made major changes to the welfare system, including recognizing the need for investment in education, training and employment services for welfare recipients through creation of the JOBS program. Most importantly, it introduced the expectation that welfare reciprocity is a transitional period of preparation for self-sufficiency. Most able-bodied recipients were mandated to participate in the JOBS program as a means towards self-sufficiency.

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

This proposal calls for replacing the AFDC program with a transitional assistance program, to be followed by work. The new program includes four key elements: full participation, education and training, time limits, and work.

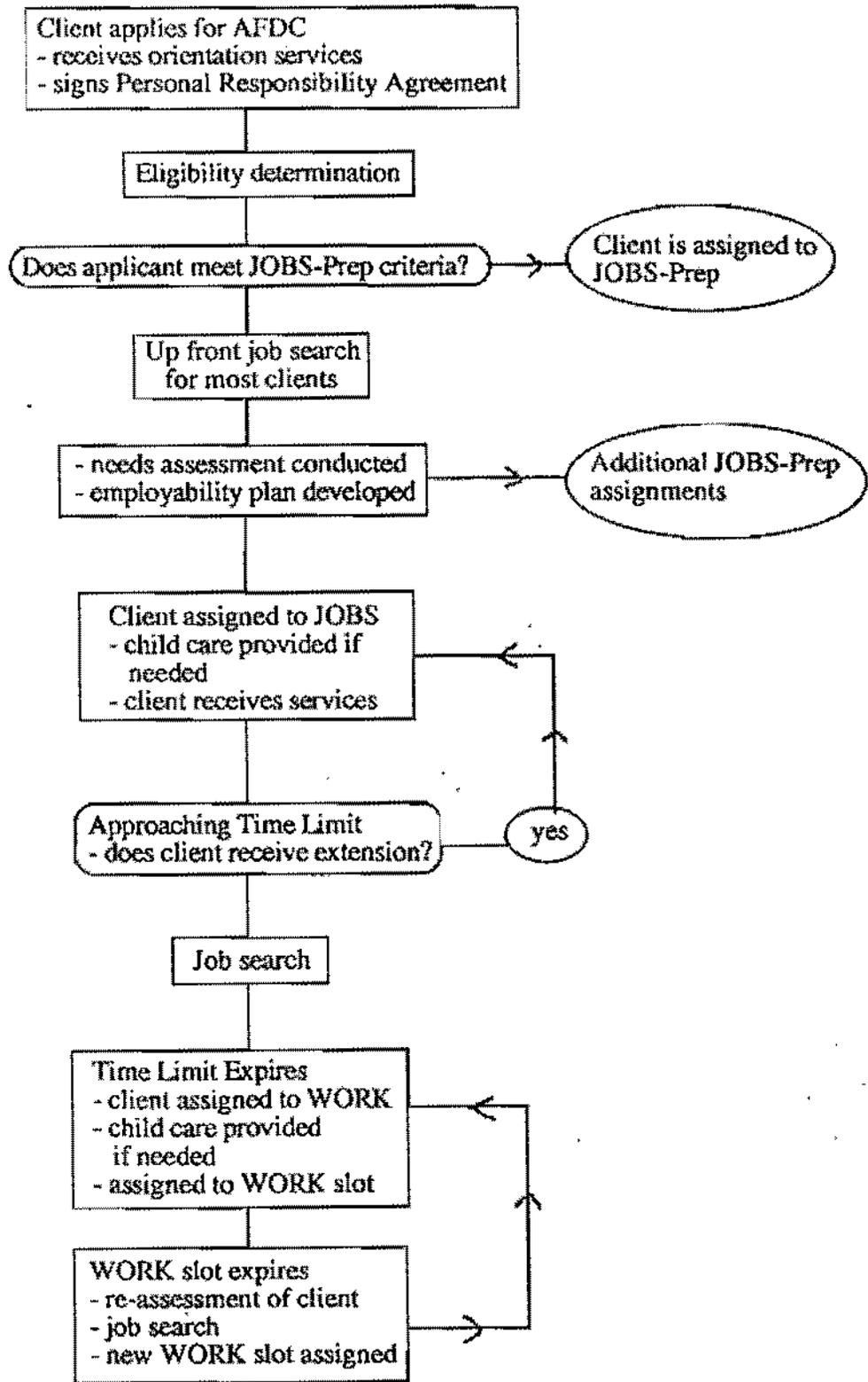
### PROPOSAL

- **Full Participation.** Everyone who wishes to receive cash support would be expected to do something to help themselves and their community. Recipients would sign a personal responsibility contract indicating exactly what was expected of them and the government. Most would go immediately into the JOBS program. A limited number of persons who are not yet in a position to work or train (because of disability or the need to care for an infant or disabled child) would be assigned to a JOBS-Prep program until they are ready for the time-limited JOBS program. Everyone has something to contribute. Everyone has a responsibility to move toward work and independence.
- **Training, Education, and Placement (the JOBS program).** The core of the transitional support program would be an expanded and improved JOBS program, which was established by the Family Support Act of 1988 and provides training, education, and job placement services to AFDC recipients. The JOBS program would be revamped. Every aspect of the new program would emphasize paid work. Recipients and agency workers will, as under current law, design an employability plan. One option would be to require all persons applying for assistance to engage in supervised job search from the date of application. For those who need it, the JOBS program will help recipients gain access to the education and training services they need to find an appropriate job. Recipients who willfully fail to comply with their JOBS program employability plan will be sanctioned. The new effort will seek close coordination with the JTPA program and other mainstream training programs and educational resources. Central to this welfare reform effort is recognition of the need to support workers who have recently left welfare to help them keep their jobs.

- **Time Limits.** Persons able to work would generally be limited to two years of cash assistance. While two years would be the maximum period for the receipt of cash aid by people able to work, the goal would be to place people in private sector jobs long before the end of the two-year period. In a very limited number of cases, extensions of the time limit would be granted for completion of an educational or training program or in unusual circumstances. The time limit would be a lifetime limit, but persons who leave welfare could potentially earn back time on assistance for time spent off welfare.
- **Work (the WORK program).** The new effort would be designed to help as many people as possible find employment before reaching the two-year time limit. Those persons who are not able to find employment within two years would be required to take a job in the WORK program. WORK program jobs would include subsidized private sector jobs, as well as positions with local not-for-profit organizations and public sector positions. The positions are intended to be short-term, last-resort jobs, designed neither to displace existing workers, nor to serve as substitutes for unsubsidized private sector employment. The primary emphasis of the WORK program will be on securing private sector employment.

Each of these elements is discussed below. A chart depicting the flow of typical recipients under the phased-in proposal follows on the next page.

# Proposed Client Flow for Phased-in AFDC Population (Over Age 18 with no Earnings)



## FULL PARTICIPATION

The goal of these proposals is to make the welfare system a much different world. The intake process will be changed to clearly communicate to recipients a culture with an expectation of achieving self-sufficiency through work. More importantly, the agency will also face a different set of expectations. In addition to determining eligibility, its role will be to help recipients obtain the services they need to achieve self-sufficiency. The underlying philosophy is one of mutual responsibility. The welfare agency will provide services to help recipients achieve self-sufficiency and will provide transitional cash assistance; in return, recipients will participate in JOBS activities and will make their best effort to take responsibility for their lives and the economic well-being of their children.

Personal Responsibility Agreement. Each applicant for assistance will be required to enter into a written agreement in which the applicant agrees to cooperate in good faith with the State in developing and following an employability plan leading to self-sufficiency, and the State agrees to provide the services called for in the employability plan. While this agreement is a statement of mutual obligations, it is not a legally binding contract.

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

JOBS-Prep. Those recipients who are for good reason unable to participate in JOBS activities effectively will be assigned to the JOBS-Prep category. For example, if an individual became seriously ill after entering the JOBS program, he or she would then be placed in JOBS-Prep status. Adult recipients can be assigned to the JOBS-Prep phase either prior to or after entry into the JOBS program. Under current law, exemptions from the JOBS program are specified in statute. However, once recipients are determined to be exempt from JOBS participation, no further steps are taken to encourage the recipient to take steps towards self-sufficiency.

Under this proposal, *all* recipients will be required to take steps, even if they are small ones, toward self-sufficiency. Just as in the JOBS program, participants in JOBS-Prep, when possible, will be required to complete employability plans and undertake some activities intended to prepare them for employment and/or the JOBS program. The employability plan for a recipient in JOBS-Prep status would detail the steps, such as obtaining medical care, needed to enable him or her to enter the JOBS program. Only 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.

Phase-in of Participants. The phase-in of the new JOBS rules will begin with recipients and applicants born *in 1973 or later*. This population will enter a vastly changed welfare system. As the other recipients *age-out*, the program will be gradually phased-in.

Increased Participation. With increased Federal resources available, it is reasonable to require increased participation in the JOBS program. Current law requires that States enroll 20 percent of the non-exempt AFDC caseload in the JOBS program during fiscal year 1995. The FY 1995 participation standard (20 percent) would be extended with respect to persons not phased-in. Through the phase-in strategy described above, higher participation standards would continue to be phased-in, and

the program would move toward a full-participation model. As discussed below, participation would be defined more broadly.

Expanded Definition of Participation. As soon as the employability plan is developed, the recipient will be expected to enroll in the JOBS program and to engage in the activities called for in the employability plan. The definition of satisfactory participation in the JOBS program would be broadened to include substance abuse treatment and possibly other activities such as parenting/life skills classes or domestic violence counseling if they are determined to be important preconditions for pursuing employment successfully. An individual enrolled full-time in an educational activity who was making suitable progress would be considered to be participating satisfactorily in JOBS, even if such a person were scheduled for fewer than 20 hours per week of the educational activity.

### Rationale

One of the fundamental goals of welfare reform is to change the welfare system into a program which promotes self-sufficiency. The mutual obligations of the State and the participant must be spelled out and enforced from the onset; implementing provisions which demonstrate this new culture at the point of intake will send important signals. The personal responsibility agreement will serve to outline these obligations while the orientation services will ensure that recipients understand what is at stake in order to maximize the opportunities available to them through the JOBS program.

## **TRAINING, EDUCATION, AND PLACEMENT – THE JOBS PROGRAM**

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

There have been many impediments to the success of the JOBS program, such as the unanticipated economic downturn, the surge in AFDC caseloads, and State budget shortfalls that hampered States' ability to draw down JOBS and other Federal matching funds. In addition, expectations regarding the speed and effectiveness of implementing such changes in the welfare system were unrealistic. For example, States are currently required to share the cost of the JOBS program with the Federal Government. Many States have, however, been suffering under fiscal constraints which were not anticipated at the time the Family Support Act was enacted. This shortage of State dollars has been a major obstacle to delivery of services through the JOBS program.

Many States were unable to draw down their entire allocation for JOBS because they could not provide the required State match. In 1992, States drew down only 69 percent of the \$1 billion in available Federal funds; only 12 States were able to draw down their full allocation. Fiscal problems have limited the number of individuals served under JOBS and, in many cases, limited the services States offer their JOBS participants. Overall, the JOBS experience indicates that a strong effort is needed to change the inertia of the existing system and fundamentally change the culture and mission of welfare programs.

In order to fully transform the welfare system into a system which helps families attain self-sufficiency, the entire culture of the welfare system must be changed. This must start by making the welfare system one which focuses on helping participants achieve self-sufficiency through the

provision of education, training and employment services rather than a system of determining eligibility and writing checks. To accomplish this, a major restructuring effort is needed which implements real changes for all participants. Strong Federal leadership in steering the welfare system in this new direction will be critical. To this end, we propose:

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

### **A Clear Focus on Work**

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

Up-Front Job Search. At State option, some new applicants may be required to engage in supervised job search from the date of application for benefits.

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

Teen Parents. In order to meet the special needs of teen parents, any JOBS participants under age 19 (or under age 20 if enrolled in a secondary school program) will be provided case management services. (For further provisions regarding teen parents, see section on Promoting Parental Responsibility).

Annual Assessment. In addition to the expectation that client progress would be monitored on a regular basis, States would be required to conduct an annual assessment of all adult recipients and minor parents, including both those in the JOBS-Prep phase and those in JOBS, to evaluate progress toward achieving the goals in the employability plan. This assessment could be integrated with the annual eligibility redetermination. Persons in JOBS-Prep status found to be ready for participation in employment and training would be assigned to the JOBS program following the assessment. Conversely, persons in the JOBS program discovered to be facing very serious obstacles to participation would be placed in the JOBS-Prep phase.

The assessment would entail an evaluation of the extent to which: (1) the State was providing the services called for in the employability plan and (2) clients were participating as required. 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.

Sanctions. Sanctions for failure to follow the employability plan would be the same as under current law. However, States will be encouraged to first use conciliatory methods to encourage active participation among recipients and resolve participation problems.

Increased Funding. This plan envisions a dramatic expansion in the overall level of participation in JOBS, which would clearly require additional funding. States currently receive Federal matching funds for JOBS up to an amount allocated to them under a national capped entitlement. Enhanced Federal funding will be provided to accommodate this dramatic expansion of the JOBS program.

Enhanced Federal Match. To address the scarcity of State JOBS dollars, the Federal match rate would be increased. The match rate could be further increased for a particular State if its unemployment rate exceeded a specified level. Additionally, the funding formulas will be simplified and organized around program outcomes to encourage ongoing program improvement.

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

### Rationale

The joint development of employability plans that adequately reflect the needs of recipients will help ensure that recipients have a stake in their success in the JOBS program.

Additionally, the provision that some applicants will be required to participate in up-front job search activities will accomplish several things. This will reinforce the emphasis on employment for people entering the program. The job search activities may lead to immediate employment for some recipients. For those who subsequently enter the JOBS program, they will have a realistic grasp of the job market; this will aid in the assessment and in the development of the employability plan, and may also help participants focus their energies.

In order to change the culture of welfare, it is necessary to stress the importance of full participation in the JOBS program. Elimination of exemptions sends a strong message that full participation in JOBS should be the normal flow of events, and not the exception; something is required of all recipients and no one will be left behind. The JOBS-Prep policy gives States the ability to consider differences in the ability to work and participate in education and training activities. Finally, provisions which require an assessment will help reinforce the message that the obligation is mutual; State will be required to serve the needs of recipients as well.

Finally, in order for the system to work, participants must see that the requirements are real. There must be a direct connection between a participant's behavior and the rewards and sanctions as a consequence. While current sanction law remains intact, States are encouraged to pursue other non-adversarial means to encourage participation. States argue that the availability of a tougher sanction process will enable case workers to reinforce the connection between non-participation and financial sanctions. This approach, however, is unworkable due in part to constitutional provisions and a desire to protect client interests. Thus, a non-adversarial administrative approach to conflicts between the agency and client should be developed which focuses on immediate dispute resolution.

### **Integrating JOBS and Mainstream Education and Training Initiatives**

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

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

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

Food Stamp Employment and Training. The Food Stamp Employment and Training Program will be modified to coordinate administrative and funding provisions with the JOBS program. This will allow for better program administration and will better serve E&T participants, most of whom do not receive AFDC and generally do not participate in JOBS.

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

- National Service. HHS will work with the Corporation for National and Community Service to ensure that JOBS participants are able to take full advantage of national service as a road to independence.

- School-to-Work. HHS will work to make participation requirements for School-to-Work and for the JOBS program compatible, in order to give JOBS participants the opportunity to access this new initiative.
- One-Stop Shopping. The Department of Labor will consider making some JOBS offices sites for the one-stop shopping demonstration.
- Pell Grants. The program will ensure that JOBS participants make full use of such existing programs as Pell grants, income-contingent student loans and Job Corps.

Waiver Board. This proposal will create a training and education waiver board, consisting of the Secretaries of Labor, HHS, Education and other interested Departments, to act as a mechanism for ongoing program improvement and coordination. The board may work 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 to facilitate improved service delivery among the principal Federal job training programs;
- explore and promote common definitions, administrative requirements, outcome measures, reporting systems, and eligibility determination among programs;
- 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.

### Rationale

In order to make the welfare system a program which promotes self-sufficiency rather than dependency, the program focus must be shifted from eligibility determination and income support to employment. Also, the culture must be changed to ensure that all recipients are engaged in activities which promote, albeit in small steps, self-sufficiency. This cannot be accomplished if the JOBS

program serves only a tiny fraction of recipients. A dramatic shift in emphasis and the gradual phase-in of a full-participation JOBS program is necessary.

In order to achieve the goals of a full-participation model, the capacity of the States must also be considered. Resources and efforts should be focused on the population which promises the greatest results; the decision to choose the proposed phase-in population reflects the desire to target younger recipients who are most at-risk for dependency. It is also important to ensure that all welfare recipients who are able to participate in JOBS have services made available to them by the States. The increase in Federal resources available to the States and the simplified and enhanced match rates will enable States to undertake the necessary expansion.

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

#### TIME LIMITS

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

While persons who remain on AFDC for long periods at a time represent only a modest percentage of all people who ever enter the system, they represent a high proportion of those on welfare at any given time. Although many face very serious barriers to employment, including physical disabilities, others are able to work but are not 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.

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

Two-Year Limit on Cash Benefits. We would establish a cumulative limit of 24 months of cash assistance for an adult before being subject to the work requirement (see below for treatment of custodial parents under 19).

Time limits would, in general, be linked to JOBS participation. Recipients required to participate in JOBS would be subject to the time limit. Months in which an individual was receiving assistance but was assigned to JOBS-Prep status rather than participating in JOBS would not count against the 24-month time limit.

In a two-parent family, both parents would be subject to the time limit. The family would continue to be eligible for benefits as long as at least one of the two parents had not reached the time limit for transitional assistance.

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

Part-Time Work. Months in which an individual worked part time would not be counted against the time limit. "Part time" would be defined as at least 20 hours per week for parents of a child under six and at least 30 hours per week for all others subject to the time limit. States would have the option to set the part-time work standard at 20 hours per week for all persons to whom the time limit applied.

Persons who had previously reached the two-year time limit but were working part-time (as defined above) would be eligible for supplemental cash benefits, provided they otherwise qualified for assistance (i.e., countable income below the need standard, resources below the State limit and so forth).

Minor Parents. As mentioned elsewhere, virtually all parents under 19 would be required to participate in JOBS. The 24-month time clock, however, would not begin to run until the parent turned 18. In other words, months of receipt as a parent before the age of 18 would not be counted against the two-year time limit.

Job Search. Persons who were within 45 days of reaching the time limit (up to 90 days at State option) would be required to engage in supervised job search for those final 45-90 days.

Extensions. States would be permitted, but not required, to grant extensions to the time limit in the following circumstances:

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

States would, in addition, be required to grant extensions to persons who had reached the time limit without having had access to the services specified in the employability plan.

The total number of extensions would be limited to 10 percent of adult recipients. In other words, a State could have no more than 10 percent of its adult caseload in extended status at any given time.

Earning-Back Eligibility for Assistance. Under the plan, the time limit would be renewable; persons who had left welfare for work would earn back one month of eligibility for future cash benefits for every four months spent working and not receiving assistance. For example, an individual with three months remaining on her 24-month clock leaves welfare for work but is laid off two years later and reapplies for cash benefits. She has earned back six months of eligibility for assistance, giving her a total of 9 months of eligibility remaining. Total months of eligibility, including months earned back, could never exceed 24 in one spell.

### Rationale

The time limit policy as currently structured is intended to encourage recipients to move toward employment and self-sufficiency as rapidly as possible, while at the same time giving persons time to complete education and training programs which will enhance their skills and employability. Under the proposal, as discussed above, persons who are ill, disabled, caring for a disabled child or otherwise unable to work would be placed in JOBS-Prep status and would not be subject to the time limit. The earn-back provision is designed to reward work by providing a cushion of additional assistance, in the event of temporary economic difficulties, to those who have left the welfare system for work.

## **WORK**

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

Each State would be required to operate a WORK program which would make paid work assignments (hereafter WORK assignments or WORK positions) available to recipients who have reached the time limit for cash assistance.

The overriding goal of the WORK program would be to help participants find lasting unsubsidized employment. States would have wide discretion in the operation of the WORK program in order to achieve this end. For example, a State could provide short-term subsidized private sector jobs (with the expectation that many of these positions would become permanent) or positions in public sector agencies, or both.

### **Administrative Structure of the WORK Program**

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

Funding. Federal funds for the cost of operating the WORK program would be capped and distributed to States by a method similar to the JOBS allocation mechanism. States would receive a set allotment of funds for generating WORK assignments and providing other services to WORK participants. In addition, the Federal government would reimburse States for wages to persons in WORK assignments at a specified match rate.

Flexibility. States would have considerable flexibility in operating the WORK program. For example, they would be permitted to:

- Subsidize not-for-profit or private sector jobs (for example, through expanded use of on-the-job training vouchers). For private sector positions, the employer would be required to pay at least a share of the wage.
- Give employers other financial incentives to hire JOBS graduates.
- Provide positions in public sector agencies.
- Encourage microenterprise and other economic development activities.
- Execute performance-based contracts with private firms or not-for-profit organizations to place JOBS graduates.
- Set up community service projects employing welfare recipients as, for example, health aides in clinics located in underserved communities.

Capacity. Each State would be required to create a minimum number of WORK assignments, with the number to be based on the level of Federal funding received.

Shortage of WORK Assignments. If the number of people needing WORK positions exceeded the supply, WORK assignments would be allocated on a first-come, first-served basis as they become available. Persons who were awaiting a WORK assignment, including both those who had just reached the time limit and those who were between WORK assignments, would be eligible for cash benefits in the interim. States might be required to absorb a greater share of the cost of cash benefits (in the form of a higher State match) for such persons.

Requiring Acceptance of any Private Sector Job Offer. Both JOBS and WORK program participants would be required to accept any offer of an unsubsidized job, provided the job met certain health and safety standards, or be denied assistance or a WORK job for several months. After two refusals, the person might be permanently denied access to a WORK assignment.

Job Search Between WORK Assignments: Persons who were in the WORK program but who were not in WORK assignments, including those who had just completed a WORK assignment, would be required to engage in supervised job search.

Oversight. States and localities would be required to establish a WORK advisory panel with balanced private sector, labor and community representation to provide oversight and guidance for the WORK program.

Length of Participation in the WORK Program. There would be no rigid limit on the length of time a person could participate in the WORK program. States would be required, however, to conduct a comprehensive reassessment, at the first available date, of any individual who had spent at least two years in the WORK program. As a result of the reassessment, persons could be placed in JOBS-Prep status, referred back to the JOBS program, assigned to another WORK position or excluded from the transitional assistance program altogether.

States could deny assistance, including both access to a WORK assignment and eligibility for cash benefits, to persons who had not participated in their WORK assignments and performed their assigned job search in good faith. Completion of two years in the WORK program would not, in and of itself, establish cooperation. Persons dropped from the program would have the right to a fair hearing.

If the State judged that further time in the WORK program would enhance an individual's employability, the State could assign him or her to another WORK position.

In instances in which the State determined that an individual had cooperated fully but was in need of specific education and training services in order to obtain unsubsidized employment, the State could refer him or her back to the JOBS program to obtain those services. Persons re-assigned to the JOBS program would be eligible for cash benefits while participating in these activities.

Persons who were found to have performed poorly in their WORK assignments due to a disability or other serious obstacle to employment could be placed in the JOBS-Prep status. Such persons would be eligible for cash benefits and would count against a State's cap on placements in JOBS-Prep.

Retention. States would be required to maintain records on the performance of private, for-profit employers in retaining WORK program participants (after the subsidy ended) and on the effectiveness of placement firms in placing WORK participants in unsubsidized employment. States would be expected to give preference for contracts with the WORK program to the employers and placement services with the best performance records. At a future date, the Secretary of HHS may impose stricter retention or placement requirements.

Anti-Displacement. Anti-displacement language, based on the non-displacement language in the National and Community Service Act, is under development.

Supportive Services. States would be required to provide child care, transportation or other supportive services if needed to enable an individual to participate in the WORK program.

### Characteristics of the WORK Assignments

Wages. Participants would typically be paid the minimum wage. WORK participants who were performing work equivalent to that done by others working for the same employer would receive similar compensation.

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

Treatment of Wages. Wages from WORK positions would be treated as earned income with respect to Worker's Compensation, FICA and other public assistance programs.

Earnings from WORK positions would not, however, count as earned income for the purpose of the Earned Income Tax Credit (EITC), in order to encourage movement into jobs outside the WORK program.

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

Sanctions. Wages would be paid for hours worked. Not working the set number of hours for the position would result in a corresponding reduction in wages.

Length of a WORK Assignment. A single WORK assignment would be limited to no more than 12 months, after which time the WORK participant would be required to perform supervised job search.

Type of Work. States would be encouraged to place as many WORK participants as possible in subsidized private sector positions. The majority of WORK assignments, whether private or public sector, are expected to be entry-level positions but should nonetheless be substantive work that enhances the participant's employability. Programs would be encouraged to focus their efforts on developing WORK positions in occupations which are currently in demand and/or which are expected to be in demand in the near future.

Work Place Rules. Employers would be required to treat WORK participants the same as other similarly situated workers in the firm or organization with respect to sick leave and absentee policy and other work place rules. States would set or negotiate such rules in cases in which a new organization or establishment were being formed to employ WORK participants. Workers compensation coverage would be provided for WORK participants, either through the employer or by another method. FICA taxes would also be paid, with the exact mechanism to be developed. Payments for unemployment compensation coverage, however, would not be required.

### Rationale

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

The purpose of the WORK program is to help persons move into, rather than serve as a substitute for, private sector employment. Community Work Experience Programs (CWEP) ("workfare" programs) are not consistent with placements in the private sector, due to the widely varying and uneven hours of required participation. By opting for a work-for-wages model, we hope to encourage States to adopt a private sector focus for the WORK program.

## **REINVENTING GOVERNMENT ASSISTANCE**

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

The proposals discussed below allow two-parent families to receive the same benefits that single parents receive, streamline administrative processes by conforming program rules between the AFDC and Food Stamp programs; modify some existing rules that tend to create unnecessary complexity and confusion for program administrators and recipients; and attempt to strike a reasonable balance between and among traditionally competing ends, e.g., targeting benefits on the needy to restrain costs while creating rational incentives to play by society's rules. Clearer Federal goals which allow greater State and local flexibility are critical. A central Federal role in information systems and interstate coordination would prevent waste, fraud and abuse and would also improve service delivery at State and local levels.

### **PROPOSAL**

Changes are proposed in the following areas: coordination of program rules; a performance based system to bring about cultural change; and accountability, efficiency, and reducing fraud.

#### **COORDINATION, SIMPLIFICATION AND IMPROVED INCENTIVES IN INCOME SUPPORT PROGRAMS**

The rationalization and simplification of income assistance programs can be achieved by making disparate Food Stamp and AFDC policy rules uniform or complementary for related policy provisions. Our proposals include:

##### **End Rules which Discriminate against Two-Parent Families**

In order to end rules which discriminate against two-parent families, we will remove the conditions on eligibility which require that the principal wage earner in a two-parent family have a recent work history and which deny eligibility if the wage earner works 100 hours or more in a month. By eliminating the arbitrary 100 hour rule, we would better motivate two-parent families toward more significant labor market attachment in keeping with a new transitional welfare program that emphasizes work. The current limits that some States place on the eligibility of two-parent families to participate for only 6 months in any 12 month period will also be eliminated. These provisions act as a "marriage penalty" because it makes AFDC eligibility for two-parent families much harder than eligibility for single-parent families.

Eliminating the additional eligibility requirements for two-parent families will increase caseloads and costs. However it will enhance the simplicity of the system, removing some administrative complexity; and it reflects and supports the wishes of a number of States who have sought waivers to existing policy in this area.

### Allow Families to Own a Reliable Automobile

For AFDC, the permitted equity value for one car is set at \$1,500 or a lower value set by the State. In the Food Stamp Program, the allowable market value of a car is \$4,500, although a car of any value can be excluded in limited circumstances. In both programs the automobile limitations can be a substantial barrier to independence. Current AFDC policy would prevent total exclusion of most cars less than eight to ten years old. We propose to allow AFDC and Food Stamp families to exclude the value of one or more autos up to an aggregate equity value of \$4,500. They could maintain vehicles of higher value if the net equity value when combined with other resources, does not exceed the family's resource limit.

Reliable transportation will be essential to achieving self-sufficiency for many recipients in a time-limited program. A dependable vehicle is important to individuals in finding and keeping a job, particularly for those in areas without adequate public transportation. Both the AFDC and the Food Stamp programs need a conforming automobile resource policy that supports acquiring reliable vehicles.

### Allow States to Reward Work

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

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

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

We propose to eliminate the current set of disregard rules and establish a much simpler minimum disregard policy at the federal level. We would then allow considerable state flexibility in establishing policies beyond the minimum. Our proposal includes the following three components:

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

- Allow States to apply a "fill-the-gap"<sup>1</sup> policy with income from earnings, child support or all forms of income. Currently, if States fill the gap, they must apply all forms of income.
- Give States the option to establish their own earned income disregard policies on income above these amounts. States can either apply a flat amount or a percentage up to 50%. The disregards cannot vary by months as they do now.
- Give States the option to pass through more than the current \$50 in child support.

This is a simpler system that is easier for recipients and welfare officials to understand. It maximizes State flexibility and makes work a more attractive, rational option. By allowing workers in low benefit States to keep more of their earnings, it would increase the economic well-being of those workers.

### Allow Families to Accumulate Savings

As part of the welfare reform effort, we will be exploring a range of strategies, above and beyond education and job training, to help recipients achieve self-sufficiency. One individual economic development demonstration program would involve testing the effect of Individual Development Accounts as an incentive for saving. An Individual Development Account (IDA) would be a special type of savings account, in which savings by recipients would be matched by Federal government dollars. Savings from an IDA, including both the individual's share and the matching dollars, could only be withdrawn for a limited number of purposes, including paying for education or training, starting a business or purchasing a home. The IDA demonstration will attempt, through a randomized evaluation, to determine the effect of such savings incentives on both asset accumulation and movement toward self-sufficiency. In addition, raising the asset limit for eligibility for cash benefits to \$10,000 for savings accounts designated for specific purposes such as purchase of a first home is also under consideration.

### Other Coordination and Simplification Proposals

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

Conform AFDC Eligibility Rules to 130 percent of Poverty Eligibility Rule of Food Stamps. Food Stamps and AFDC use somewhat different definitions of family. AFDC is a child centered program with the filing unit defined narrowly around the child. The child's parent and siblings are usually part of the unit, but other relatives generally are not. Indeed siblings and parents are not even part of the AFDC unit if they receive SSI. The Food Stamp Program uses a definition which is closer to a

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

household definition. Thus most relatives living together are usually in the food stamp unit. At one point we considered conforming AFDC and Food Stamp filing unit definitions, but backed away when we discovered that this would cut many people off the AFDC rolls in low-benefit States as the income and assets of other people in the household would push the family above the very low benefit levels in those States.

Food Stamp Program rules state that family units with gross income above 130 percent of poverty (i.e., roughly \$20,000 for a family of four) are not eligible to collect food stamps. One proposal would be to apply the Food Stamp 130 percent rule to AFDC units as well—effectively denying AFDC benefits to adults and children living in families with income above 130 percent of poverty. This would impose no new administrative burdens since the rule already applies to Food Stamps. Applying this rule to AFDC would reduce AFDC expenditures by roughly 6 percent or \$1.5 billion in State and Federal dollars in FY 1999 and \$7 billion over 5 years.

Two types of families would be affected by this plan. First, the number of *child only* cases would be reduced significantly. Child only cases are those where: no parent is present and the child is living with a relative who is not the legal guardian; the parent is present but the parent is an undocumented alien; or the parent is present but the parent is receiving SSI. These cases have grown dramatically in recent years, rising from roughly 400,000 in the mid to late 1980s to nearly 700,000 cases in 1992. In child only cases, relatively little income from other household members is counted in determining benefits and eligibility. Thus many have household incomes in excess of 130 percent of poverty. The argument for limiting AFDC in such cases is that money can be better targeted to poor families. The argument against it is that the limitation on benefits might discourage some relatives from taking in a child who might otherwise end up in foster care. One advantage is that it would be harder to game the time-limited welfare system by *placing* a child with a relative. Relative caretakers who are not the guardian of the child would not be subject to work requirements and time limits. The second type of family which could be affected are extended family settings. Most commonly, a parent and a child may be living with the grandparent. If the parent is over 18, the grandparent's income is not counted in determining eligibility regardless of the income of the grandparent. This proposal would not affect Medicaid eligibility of any persons.

Conforming AFDC and Food Stamp accounting periods. We propose conforming AFDC to the Food Stamp Program's more flexible requirements for reporting and budgeting. Under Food Stamp Program rules, States are given the option to use prospective or retrospective budgeting with or without monthly reporting. Currently, the Food Stamp program requires recipients to report all gross income changes above \$25 per month. To simplify the reporting process, this threshold would be raised to \$75. Recipients would still be required to report changes in other circumstances like source of income and household composition which may affect eligibility.

This proposal would significantly simplify benefit calculation procedures for joint AFDC/food stamp households. By conforming 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 proposal maintains a balance between assuring benefits are accurately determined by reducing the current complexities retaining the appropriate level of responsibilities on recipients to report information.

We also propose conforming and streamlining AFDC and Food Stamp policies regarding underpayments and verifications. Payment of underpayments would be limited to 12 months. The new verification policy would require States to verify income, identity, alien status and Social Security Numbers. At the same time, States would be given flexibility regarding verification systems, methods, and timeframes.

Resources and assets. The policies proposed under this category liberalize how assets and resources are treated for the purpose of determining eligibility for both AFDC and Food Stamps for the purpose of encouraging work and promoting self-sufficiency. The nominal effect is to increase the caseloads and costs in both programs. Yet the general arguments for the policies described below are persuasive. Currently, asset and resource rules are not consistent across programs, creating confusion and administrative complexity. In addition, the very restrictive asset rules across Federal assistance programs are perceived as significant barriers to families saving and investing in their futures. We propose to *develop uniform resource exclusion policies in AFDC and Food Stamps*. We propose to increase the AFDC resource limit (currently \$1,000) to \$2,000 (or \$3,000 for a household with a member age 60 or over) to conform to the Food Stamp resource limit. We would also generally conform AFDC to Food Stamp policy regarding burial plots, funeral agreements, real property, cash surrender value of life insurance and transfer of resources.

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

The proposal also includes an individual economic development demonstration program. This program will attempt to promote self-employment among welfare recipients by providing access to both microloan funds and to technical assistance in the areas of obtaining loans and starting businesses. The demonstration will explore the extent to which self-employment can serve as a route to self-sufficiency for recipients of cash assistance. on microenterprise development to encourage persons on assistance to start microenterprises (small businesses).

Treatment of income. Federal AFDC law requires that all income received by an AFDC recipient or applicant be counted against the AFDC grant except income that is explicitly excluded by definition or deduction. A number of changes are proposed to bring greater conformity between the AFDC and Food Stamp programs, to streamline both programs and/or to reintroduce positive incentives for recipients to work. Several provisions will meet these objectives. For example, we could *exclude non-recurring lump sum from income, disregard reimbursements and EITC as resources*. Lump sum payments, such as EITC or reimbursements, would be disregarded as resources for one year from the date of receipt allowing these families to conserve the payments to meet future living expenses. In addition, we will *disregard all education assistance and student income, and disregard JTPA stipends and allowances; count OJT and other earned income*.

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

**Territories.** The territories operate AFDC, AABD, JOBS, child care and Foster Care programs under the same eligibility and payment requirements as the States. Their funding, however, is capped and the Federal government matches 75 percent of costs. The caps are \$82 million for Puerto Rico, \$3.8 million for Guam, and \$2.8 million for the Virgin Islands. Between 1979 and the present, the caps were increased once, by roughly 13 percent.

We propose that the current caps be doubled and that we include a mechanism for making periodic adjustments based on the rate of inflation, caseload size, and new program requirements. Doubling the caps in the territories would essentially reflect the increase in AFDC expenditures that has occurred in the States since 1980. The proposal would create realistic funding levels for the territories that are reflective of the current economy and caseload. A mechanism that will provide occasional adjustments in funding levels would replace the current burdensome method of petitioning Congress for adjustments.

The number of public assistance programs funded under the current caps, coupled with only one adjustment to these caps in 15 years, has seriously limited the territories' abilities to provide, let alone increase benefits. Benefit payments above the cap are financed 100 percent by the territories, resulting in situations such as Guam's where the Federal share is roughly 40 percent. Puerto Rico reports that, since 1987, AFDC caseloads have nearly doubled from 98,000 units to 183,000 units. Further, beginning October, 1994, Puerto Rico will be required to extend eligibility to two-parent families. Puerto Rico estimates that an additional 40,000 families will be eligible for AFDC due to this provision.

Doubling the caps and providing a mechanism for efficient adjustments to those caps will not only continue to give territories the authority to operate public assistance programs but adequate means to do so as well.

#### **A PERFORMANCE-BASED SYSTEM**

An underlying philosophy of welfare reform is the goal of increasing State flexibility in achieving the program objectives of the new system and changing the culture of welfare administration. A crucial area where State flexibility can be achieved is quality assurance. Currently, many quality control rules create perverse incentives for States; program administration is designed to meet quality control requirements, not program improvement objectives. Additionally, States expend considerable resources and effort in meeting quality control needs. The result is a program monitoring system which does not serve the best interests of the recipients. A remedy for this is to alter the focus of quality control from payment accuracy to program outcomes.

This welfare reform proposal articulates clear objectives to aid States in policy development. Performance measures that reflect the degree to which policy intent is achieved will help shift the focus of effort from solely payment accuracy to program improvement. Performance measures in a transitional program of benefits should reflect the achievement of all program objectives and relate to the primary goal of helping families to become self-sufficient. Measures will be established for a broad range of program activities against which front-line workers, managers and policy makers can assess the efficiency and effectiveness of the program. To the extent possible, results--rather than inputs and processes--will be measured. Additionally, States and localities must have the flexibility and resources to achieve the programmatic goals that have been set.

The Federal Government will transition from a role which is largely prescriptive to one which establishes customer-driven performance measures in collaboration with States, local agencies, advocacy groups and clients. The exact methods for accomplishing program goals are difficult to prescribe from Washington, given the variation in local circumstances, capacities and philosophies. Therefore, substantial flexibility will be left for localities to decide how to meet these goals, facilitated by enhanced inter-agency waiver authority at the Federal level.

#### **Performance Measures**

For the purposes of monitoring State programs, a series of measures will be developed in conjunction with States, local agencies, advocacy groups, and other parties. These measures will be designed to measure such outcomes as the extent to which recipients achieve self-sufficiency, the well-being of families, childhood poverty, reduced welfare dependency, and other impacts on recipients.

#### **Process Measures**

For the purposes of monitoring State progress and administering technical assistance, measures will be implemented which provide feedback and information useful for program administration. Such measures will not be used to hold States accountable for performance but may be used to indicate that a State may require program improvement.

#### **Quality Assurance**

Although payment accuracy shall remain an important facet of Quality Control, the current system will be upgraded to capture more information and to become a more general quality assurance system. Much information and data collected will depend on the development of the performance measures described previously. Other indicators of program outcomes, such as client satisfaction shall also be included.

#### **Technical Assistance**

The Federal Government will provide technical assistance to States for achieving these standards by evaluating program innovations, identifying what is working and assisting in the transfer of effective strategies. This will be crucial in enabling States to successfully carry out the requirements of this program.

#### **ACCOUNTABILITY, EFFICIENCY, AND REDUCING FRAUD**

Multiple and uncoordinated programs and complex regulations invite waste, fraudulent behavior and simple error. Too often, individuals can present different information to various government agencies to claim benefits fraudulently with virtually no chance of detection.

The new program of transitional assistance, in and of itself, will go a long way toward preventing waste and fraud. During the period of transitional cash benefits, there will be enhanced tracking of a client's training activities and work opportunities, as well as the electronic exchange of tax, benefit and child support information. Also, the newly expanded EITC largely eliminates current incentives to "work off the books" and disincentives to report all employment. With the EITC, it is now advantageous to report every single dollar of earnings.

New technology and automation offer the chance to implement transitional programs which ensure quality service, fiscal accountability and program integrity. Program integrity activities will focus on ensuring overall payment accuracy, and detection and prevention of recipient, worker and vendor fraud. Such measures include the following:

- Coordinate more completely the collection and sharing of data among programs, especially wage, tax, child support and benefit information.
- Re-assess the Federal/State partnership in developing centralized data bases and information systems that improve interstate coordination, eliminate duplicate benefits and permit tracking. At a minimum, information must be shared across States to prevent the circumvention of time limits by recipients relocating to a different State.
- Fully utilize current and emerging technologies to offer better services at less cost, targeted more efficiently on those eligible.

Tightening up the definition of essential persons will also reduce abuse. Currently, 22 States have selected the option of including essential persons as part of the AFDC unit. These individuals are not eligible for AFDC in their own right, but they are included because they are considered essential to the well-being of an AFDC recipient in the family. This is a loophole that allows States to bring in relatives like adult siblings into the AFDC unit. We propose defining essential persons as only those who 1) provide care that would allow the caretaker to pursue work and education or 2) provide care for a disabled person.

### Rationale

Simplifying and coordinating filing units and rules within AFDC and food stamps is critical to the entire welfare reform effort. In many cases, the administrative processes that currently exist are nonsensical and serve to frustrate client and caseworker alike. Standardization among programs will enable caseworkers to spend less time on determining eligibility for various programs and more time on developing and implementing strategies to move clients from welfare to work.

Eliminating the current bias in the welfare system against two-parent families will prevent one parent from leaving the home in order that the other parent can receive welfare for the children. Many have criticized the welfare system because it imposes a "marriage penalty" to recipients who choose to wed by potentially making the married-couple family ineligible for assistance. By eliminating the disparity in the rules, parents will be encouraged to remain together and the inequity of treating different family types differently will be removed.

In order to encourage work, it is essential for recipients to experience economic return from their work effort. Changing the earnings disregards in AFDC would yield a simpler system that is easier for recipients and welfare officials to understand. It would maximize State flexibility and make work a more attractive, rational option for recipients. By allowing workers in low benefit States to keep more of their earnings, it would increase the economic well-being of those workers.

Restrictive asset rules often frustrate the efforts of recipients to save money and subsequently hamper their ability to attain self-sufficiency. Economic security is a vital step towards leaving welfare

permanently. Changing the asset rules to allow recipients attain savings, own a reliable car, or even start a business is an important step in the right direction. Increasing the amount of savings a recipient may maintain will help reduce the economic vulnerability that recipients face when they leave the welfare rolls. Demonstrations which test the use of starting small businesses as a means to self-sufficiency will help us explore that option more thoroughly. Finally, by allowing recipients to own at least one reliable car, we will help ensure that those who rely on automobiles for transportation will have a better chance of obtaining and maintaining employment.

## CONCLUSION

This welfare reform plan calls for fundamental changes in the current system of welfare. It seeks to replace a flawed system with a coherent set of policies that improve the lives of poor children and their families in ways that reaffirm and support basic values concerning work, family, opportunity and responsibility. Together, the policies in this hypothetical proposal are not just an end to welfare as it is known today. They represent a new vision for supporting America's children and families.

Transforming the social welfare system will not be an easy task. The social and economic forces that have contributed to our current situation go well beyond the welfare system and impact the poor and non-poor alike. While the obstacles are formidable, undertaking reform of the current welfare system is essential in order to improve the well-being of our children now and for the future.

## GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **BACKGROUND INFORMATION ON THE AFDC PROGRAM**

### **AFDC Program under Current Law**

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

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

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

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

### **Welfare Dynamics and Characteristics**

It is extremely common for women to leave the welfare rolls very soon after they begin a spell of welfare receipt. More than half of all welfare recipients leave the welfare rolls within their first year of welfare receipt; by the end of two years the percentage who have left increases to 70 percent. By the end of five years, about 90 percent have left the welfare rolls. However, many of those who have

left welfare cycle back on. Within the first year after leaving the welfare rolls, 45 percent return; almost two-thirds return by the end of three years. By the end of seven years, more than three-quarters of those who have left the welfare system have returned at some point. Almost half of all spells of welfare end when a recipient becomes employed; other reasons for leaving AFDC include marriage and children growing up. About 40 percent of women who ever use welfare are short-term users, about one-third are episodic users and one-quarter are long-term users. Using data from 1968 through 1989, the average time spent on welfare was 6.2 years.

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

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

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

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