

# Changes in federal welfare policy embedded in the 2005 Budget Reconciliation Bill

## The federal 2005 Budget Reconciliation Bill:

- I. Sets **new formulas** for calculating state performance in the welfare to work programs that bank on states failing to meet the targets. That will allow the federal government to save money by penalizing state block grants.
- II. **Curtails the state flexibility** that drove the success and innovation in welfare to work programs for the last 15 years by giving the federal administration the authority to write rules that will direct key frontline services.
- III. **Underfunds child care assistance** leaving assistance to families whose low wages cannot cover their child care bills far below the level at which is needed.
- IV. **Diverts money** from work-related services to marriage promotion grants.

## The impact on Minnesota:

**The wrong goal:** A poorly designed process measure for welfare to work programs (the “Work Participation Rate”) diverts our attention from:

- Real outcomes -- measuring whether parents on welfare are getting jobs that can move their families out of poverty.
- The reality of a small but vulnerable population on MFIP: parents with multiple and serious undertreated disabilities preventing them from sustaining work.

**Supports to working families continue to erode:** Currently almost 5000 working families are on the waiting list for help paying their child care costs.(MN DHS). Since 2003 Minnesota has taken \$200 million out of the funds to cover the costs of child care for parents on MFIP and low paid working parents not on MFIP.

**Economic opportunity is the most effective public marriage promotion tool:** Independent national researchers documented that the pilot of our state’s welfare to work program, the Minnesota Family Investment Program, increased marriage rates and decreased divorce and domestic violence rates by ensuring that work actually moved families out of poverty. (MDRC, Reforming Welfare and Rewarding Work, 2000.)

**Minnesota’s struggling state budget will lose money:** Minnesota could lose up to \$13 million in 2009, the first year in which penalties for failing the performance targets are administered. The State will have to replace those federal funds with state funds.

**Federal rules directing frontline services robs Minnesota of the chance to use the full expertise of experienced agencies successful at helping people get and keep jobs.** The 87 counties in Minnesota have turned to public and private agencies with experience and track records in successful employment services. Rigid federal rules prevent the staff at those agencies from fully deploying what they know about the families seeking services, the local labor market and successful employment development services.

# The Details

## I. Setting performance targets for states that anticipate failure

The federal government re-structured the formula for measuring state performance, gambling that states cannot reach the targets and that the penalties to state block grants will save the federal government money. The new formula goes into effect in Federal Fiscal year 2006 and could cost Minnesota up to \$13 million in 2009 when the first penalties are administered.

### What is the Work Participation Rate?

The federal government measures state performance not on how many people can get jobs that take them off welfare or out of poverty but by how many people who are still on welfare are in federally recognized work activities.

### What activities count in the work participation rate?

- Paid work *if* the person is still on welfare
- Subsidized work in the private or public sector
- Unpaid work
- On-the-job training
- Job search and job readiness assistance – for only six weeks in a year
- Community service programs
- Vocational educational training for up to 12 months for any individual (*and only 30% of the adults counted in the work participation rate can be counted for education activities*)
- Providing child care services for another parent on welfare who is doing community service activities

### How many parents on welfare are states supposed to get in those countable activities?

- 50% of the single parents on welfare
- 90% of the two-parent families on welfare

### How it will be harder for states to reach the Work Participation Rate targets:

The formula for calculating the rate makes it harder for states to get credit for reducing the number of families who are on the welfare to work program and by counting families who had never been counted in the rate before.

### *The Caseload reduction credit*

In the original 1996 bill authorizing TANF, for every 1% a state reduced the number of families on welfare, the state could lower its work participation target by 1%. This was called the *caseload reduction credit*. The caseload reduction credit still exists, but now the base year instead of 1994 – as originally set – is 2005. With the big changes in welfare policy now history and in the midst of a jobless economic recovery, states are not expected to reduce the number of families on welfare by any significant amount.

*Changing who is counted:* The new formula counts families who are on welfare-to-work programs funded only with state funds and receiving no federal funds. As states realized, for instance, that the very high targets set for two parents families were not within reach because of the high level of disability in those families, many states created separate state-funded programs for two parent families – with the same rules and expectations as the federally funded program. The federal government will now count those programs if the state funds are identified as the matching funds states must spend to earn their federal block grant.

The Congressional Budget Office estimates that these changes will result in 47 out of the 50 states failing to meet their work participation targets in coming years.

#### What happens if states fail to meet the work participation rate?

- The state's block grant is penalized: up to 5% the first year, growing by 2% a year, up to 21% maximum.
- If the state has its block grant cut for penalties, the state must make up the lost federal funds with additional state funds.
- If the State fails to meet both the single parent and two-parent rates, the State's match to the federal funds must increase from 75% to 80%.

#### What are options the state can consider?

It can consider policy options that would help families and options that would harm families.

Options that would help families get jobs that take them out of poverty:

- *Increase the income level at which families leave welfare:* Families could stabilize their financial situation through earnings before losing all their cash assistance and the state could count more working families in its work participation rate. This is what was at the heart of the state's pilot model, which provided minimal cash assistance to families until they reached 140% of poverty. Under the Pawlenty administration, the assistance only has fallen back to very close to the poverty line itself: a family of 3 loses cash assistance at about \$18,000 a year (less than \$9 an hour) (DHS, Amount of Earnings Needed to Exit MFIP, 2006)
- *Increase the options for education and training:* Since the Pawlenty administration introduced policies in 2003 restricting access to education and training for parents on welfare, Minnesota's policies are stingier than the federal government's. Allowing parents to pursue a year of post-secondary education with only minimal hours of work would increase the number of parents actually able to increase their work skills and Minnesota could count their time in education in its work participation rate.
- *Offer more paid transitional work experience programs* that give people a supported but real work environment for up to six months in order to allow them to develop skills and work history to move into the competitive labor market.

Options that could hurt families:

- *Make "sanctions" harsher* (Sanctions are partial or complete cuts to the cash assistance grant if parents do not comply with welfare expectations.) State and national data show that the parents most likely to get sanctioned are those with significant impairments – mental illness, limited literacy, disabilities, domestic violence, etc. Nor is it clear that sanctions result in more people participating, just more people being cut off from assistance. "Programs with the highest level of sanctioning are no more successful at increasing participation than those with moderate sanctioning levels." MDRC, *Promoting Participation*, 1999.
- *Remove families who cannot meet the work requirements:* Find ways to keep families from coming on welfare or ways to get families unable to work moved off welfare. Minnesota introduced the Diversionary Work Program in 2004. The state is expected to release data soon about how many families not getting jobs through the diversionary work program also did not apply for MFIP when eligible. The state did not fund any tracking or studies of the fate of those families.

Options that are neutral:

- *SSI advocacy:* Establish well-run services helping disabled parents on welfare apply for and move through the complicated process of being determined eligible for federal Supplemental Security Income.

## **II. New rules for state welfare to work programs:**

The Department of Health and Human Services will be writing new rules that:

- Define the allowed work activities
- Direct how to count and verify the hours in those activities
- Identify the situations in which parents not on welfare (but whose minor children receive cash assistance) have to be counted in the work participation rate.

These rules will be released in June 2006 to be effective immediately. Because they are being promulgated initially as “interim” rules, there is no requirement for a public comment period.

## **III. Underfunding child care assistance**

The Budget Reconciliation Bill provides \$200 million a year in new child care assistance funding.

BUT:

- Congress and the Bush Administration are expecting the states to significantly increase the number of families in work-related activities. The child care funding available amounts to less than \$69 per newly active family per month.

In Minnesota families on MFIP are guaranteed child care subsidies if they participate in welfare to work activities. Low wage working families not on welfare, however, must wait in line for a first-come first-served program, the Basic Sliding Fee Child Care Program. Underfunding child care assistance means that as the state succeeds in increasing the number of parents on MFIP enrolled in formal service activities, the State must divert funding away from parents already working and struggling to stay off assistance. In 2002, before Minnesota began making deep cuts into the child care assistance program, an average of almost 12,000 low wage working families a month were getting help from Basic Sliding Fee child care assistance: in 2007 that number is just about 8,200 families a month. (MN DHS)

### Facts about Minnesota’s current child care assistance system:

- Minnesota – once a leader in the nation in making it possible for low wage families to get help paying for child care – is now among the bottom 10 states for its eligibility standards
- About 5000 families are on the waiting list for child care assistance in Minnesota. In some counties, like Hennepin County, this means a two to three year rate for families.
- Child care providers who are willing to care for children whose families rely on child care assistance have not seen their payment rate increase since 2001. A small adjustment of less than 2% was made at the beginning of 2006.

## **IV. Diverting money from work programs to marriage promotion programs**

The bill allocates \$150 million of welfare to work funds a year to healthy marriage promotion and responsible fatherhood grants.

## **Background**

In 1996 Congress ended the 65-year-old federal Aid to Families with Dependent Children (AFDC) program, which had begun in the Depression and provided small amounts of cash assistance to very poor families with children. In its place Congress created the Temporary Assistance to Needy Families (TANF) block grant and told states to create their own assistance programs. The programs had to require work and most families were now limited to no more than five years of TANF-funded assistance in a lifetime.

Minnesota used its TANF block grant to launch the Minnesota Family Investment Program. The state's goals were to move families out of poverty as they moved off welfare. The program supplemented earnings with cash assistance until families reached 120% of the poverty limit and promised families health care and child care coverage as well as employment services to make work possible.

In 2003 the Pawlenty administration curtailed that program significantly: moving families off at lower income levels, slashing funds for child care assistance, cutting grants to families with disabled family members, introducing more punitive grant cuts and denying an increase in grants to families when new babies are born.

The original TANF block grant was authorized for 5 years and in 2001 Congress was expected to reauthorize the funding. But policy changes proposed by the Bush administration created a stalemate in Congress: the House quickly passed a bill hewing closely to the Bush proposals, but the Senate – even when in the control of the President's party – could not get a bill out of committee. The debates centered on how much to fund child care assistance and whether to cut off the state flexibility, re-creating more of a federally-run program.

That debate was unexpectedly ended in the middle of the night on Dec. 18, 2005, when the House Leadership inserted language for new federal welfare policy that had never been voted considered or voted on in either the House or the Senate. When the Budget Reconciliation Bill passed the House of Representatives by 2 votes on Feb. 1, 2006, along with it came the new federal welfare policies outlined earlier.