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Taking the High Road: How States Should Meet TANF's New Participation Standards

By Shawn Fremstad and Jason Walsh[1]

On February 8, 2006, the President signed budget legislation that extends TANF through 2010 and will require most states to substantially increase the number of parents receiving TANF who have jobs or are in training.[2] These changes provide an impetus for states to upgrade their programs in ways that, as the U.S. Department of Health and Human Services (HHS) Secretary Mike Leavitt recently recommended in a press release about the legislation, help parents "climb the job ladder by creating more opportunities for education and job training."[3] At the same time, some states may be tempted to comply with the changes by relying on a "low-road" strategy that involves reducing the number of families who are helped through TANF.

> ***"… now we want to go the next step and help them climb the job ladder by creating more opportunities [in TANF] for education and job training."***
>
> **HHS Secretary Mike Leavitt, February 8, 2006**

Under the new standards, the number of families receiving TANF who have jobs or are in training for 30 hours per week (20 hours if they have children under 6) will need to increase by around 170,000 to 240,000 on a nationwide basis.[4] States should meet this new standard by taking the "high road" and extending more opportunities to families. A high-road strategy has three major elements: 1) extending TANF income supplements to more working-poor parents, 2) providing substantially more parents with opportunities for education and job training to help them move ahead, and 3) creating wage-paying transitional jobs for parents who are otherwise unable to obtain work.

A "High-Road" Strategy to Meet Higher TANF Participation Rates by Promoting Security, Opportunity, and Advancement

1. Allow more working families to receive TANF: In most states, working parents lose TANF when they have earnings at or below 2/3rds of the poverty line. At a minimum, working families should remain eligible for TANF until they are above the poverty line.

2. Expand opportunities for education and job training for advancement: States could meet a substantial portion of the higher standard by "creating more opportunities for education and job training" as HHS Secretary Leavitt recently suggested.

3. Create transitional jobs for parents who are unable to obtain stable employment in the private sector: Transitional jobs are wage-paying, community service jobs, and are typically combined with skills training and intensive supports.

A significant portion of the increase in participation needed to meet the higher standard could be met by providing more parents with access to full-time vocational education that leads to better-paying jobs. States are currently placing far fewer parents into full-time vocational education than allowed by federal law. At a minimum, states could increase the number of parents enrolled in full-time vocational education programs by about 80,000 nationwide in an average month. All of these parents could then be counted toward the 50-percent participation standard. Unfortunately, reauthorization did not repeal the anachronistic rule that limits the share of TANF beneficiaries in *full-time* vocational education that can be counted toward participation rates. But states can continue to provide education and training opportunities without limitation to parents who are working at least 20 hours a week.

The legislation also requires HHS to issue new rules by June 30, 2006 related to the new participation standard. To encourage states to expand advancement opportunities—and to make Secretary Leavitt's recommendation of increased opportunities for education and training a reality—HHS should set a goal of tripling the number of parents who receive education and job training for career advancement through TANF, much as the U.S. Department of Labor (DOL) has set a goal of tripling the number of adults trained (to 800,000) within the nation's much smaller job training system.[5]

This memo provides a brief summary of the changes to TANF and our initial recommendations on how states should meet higher standards by pursing a "high-road" strategy.[6]

Summary of Changes

The changes made to TANF by the new legislation are few in number, but major in effect. The legislation retains the current participation-rate standards for TANF: 50 percent of "all families" (families that include an adult receiving TANF income supplements) and 90 percent of two-parent families must be participating in activities. Also unchanged are current rules for the minimum hours needed for a family to count toward these participation standards—20 for lone parents of children under age 6, 30 for other lone parents, and 35 to 55 hours for two-parent families—and the current list of activities that are creditable for participation.

The legislation makes the following changes:

- The caseload reduction credit is revised, so that participation standards are reduced only for caseload reductions that occur from FY2005 into the future. Thus, absent further caseload declines, a state would face a 50-percent participation standard in contrast to the much lower standard most have faced until now.

- Families in "Separate State Programs" (SSPs)—TANF-like programs funded solely with state funds that are counted toward the TANF state-spending (or "maintenance-of-effort") requirement—will be included in the participation-rate calculation.

These changes are effective in October 2006 (FY2007). In addition, the legislation directs HHS to issue regulations by June 30, 2006, that include standards to guide states in their definition of work activities and to verify hours of participation.

The legislation maintains funding for the TANF block grant at its current level of $16.5 billion annually and provides a very small increase ($200 million a year) in funding for child-care assistance. In addition, the "high performance" and the "non-marital birth reduction" bonuses for states (which together provided $300 million a year to states) are eliminated.

The legislation also provides $150 million a year for two new programs: a "marriage-promotion" program and a "responsible fatherhood" program. Under the fatherhood program, HHS may award up to $50 million a year of these funds on a competitive basis to states, public and nonprofit community entities, and Indian tribes and tribal organizations for activities promoting responsible fatherhood, including job training and various other services that foster "economic stability."

Implications for State Implementation

The primary implication of these changes is that states will need to meet a "hard" 50-percent participation rate starting in FY2007. States will also need to meet a "hard" 90-percent participation rate for two-parent families. Some 12 states met a 50-percent standard in 2004 (federal data isn't available yet for 2005). That same year, five states had participation rates between 40 and 50 percent and 33 states had rates below 40 percent.[7] However, states that met a 50-percent standard in 2004 will not necessarily meet it in 2007 and subsequently. The requirement to include families in SSPs will have the effect of lowering rates in some states (unless they stop counting assistance provided to these families toward TANF's maintenance-of-effort requirement).[8] And, the rules that HHS issues in June could have the effect of lowering (but also of increasing) rates from what they would be under current rules.

These changes provide an impetus for states to upgrade their programs in ways that increase access to training and extend assistance to more working-poor families. However, some states may be tempted to comply with the changes by relying on a "low-road" strategy that involves reducing the number of families who are helped through TANF. This "low-road" strategy is possible because the recent changes would leave a loophole in place that would continue to allow states to avoid higher participation standards by actually helping *fewer* families overall than they currently do. This loophole—"the caseload reduction credit"—reduces the participation standard a state must meet if it reduces the overall number of families receiving TANF income supplements below 2005 levels. Thus, a state that needed to increase its participation rate by five percentage points to meet the current standard could do so either by increasing the number of families placed in work or training by five percentage points, or by reducing the overall number of families who receive TANF income supplements by five percent.

TANF is currently helping *fewer than 1 in 5 parents who have incomes below the poverty level*. A low-road strategy that aims at getting around higher standards by helping even fewer parents who remain below the poverty level would be profoundly misguided. Instead, as we outline below, states should take the high road and meet the higher standards by providing more opportunities for education, training, and advancement. Our initial thoughts on the elements of a high-road strategy and the arguments that can be made in support of such a strategy—as well as some arguments against a low-road one—are provided below.

The High Road: More Opportunities for Advancement

The TANF reauthorization debate inside the beltway over the last few years seemed stuck, as authors of one op-ed in a Kansas newspaper put it, in a "time warp" with much of the debate sounding like a "conversation from the early 1990s."[9] In support of a high-road strategy, we need to reframe the tired debate about TANF that has endured to date. The problem that TANF was originally set up to battle—"welfare dependency"—is largely a thing of the past. About 70 percent of families with incomes below the poverty line now include one or more workers.[10] By comparison, fewer than 20 percent of parents with incomes below the poverty line receive TANF income supplements, and many of these parents are working or in between jobs.[11] In fact, some four out of every five adults who receive TANF income supplements have worked more than half their adult years.[12]

Today's problem is poverty despite work. TANF needs to be reformed to make it work as part of a larger wage subsidy and career advancement system designed to tackle this economic problem. Under such a system, cash assistance should be thought of as a "work support" for parents with unstable, low-wage jobs, and also as a supplemental form of "financial aid" for low-income parents who are trying to better themselves through education and training. While federal reauthorization retains participation rates as the sole measure of success in TANF, states should look beyond this kind of antiquated process measure, and concentrate on producing *outcomes* meaningful to workers and employers, including career advancement, wage gains, and job retention.[13]

States won't achieve better outcomes for TANF beneficiaries if they only focus on job placement. Moreover, such a limited focus is unlikely to lead to a 50-percent participation rate. States could attempt to meet higher rates by establishing large numbers of "workfare" jobs, but such "make-work" jobs do little to help families get real jobs or move ahead in life.

A better approach is a "high-road" strategy made up of three core elements that promote security, opportunity, and advancement for families: 1) extending TANF income supplements to more working-poor parents, 2) providing substantially more parents with opportunities for education and job training that make it possible for them to move ahead, and 3) providing wage-paying transitional jobs to parents who are otherwise unable to obtain work.

Some may argue that a high-road strategy for meeting higher TANF participation standards is ruled out because of limited resources. We disagree with this argument for three reasons. First, states are currently spending far less on TANF than they did on AFDC in the mid-1990s, even though the number of poor families with children is about the same in 2004 as it was in 1995.[14] States can afford to increase their state investment in TANF. Second, many states have TANF reserves that they can use to meet the higher participation standards.[15] Third, states are currently spending a substantial portion of TANF funds on services and activities that most observers (including most members of Congress) would consider tangential to the core work and advancement mission of TANF. States that currently divert TANF funds in this way will need to "get back to basics" on welfare reform. In other words, they should focus their TANF and MOE spending on the core components of the program: wage subsidies and other income supplements, education and training for advancement, and supportive services such as child-care and transportation assistance.

1. Extending TANF Income Supplements to More Working-Poor Parents

States should make it easier for working parents in low-wage jobs to get wage subsidies through TANF. In most states, working parents lose eligibility for TANF before they reach 2/3rds of the poverty line. For example, a single parent with two children who works full-time at the minimum wage—which amounts to less than 2/3rds of the poverty line—is ineligible for TANF in 34 states.[16] At a minimum, working parents should remain eligible for TANF until they reach the poverty line or higher.

In addition, families receiving TANF assistance as a wage subsidy should not have that assistance count toward TANF time limits. In Illinois, for example, TANF-funded wage subsidies for parents working at least 30 hours a week are paid for with state MOE funds so that they don't count toward the 60-month time limit.[17] In 2004, the Illinois work participation rate was 46 percent; more than half of the families that counted toward the rate were employed.

A more explicit focus on TANF's role as a wage-subsidy program is also a productive and descriptive way to frame the policy conversation without using esoteric and technical terms like "earned income disregards"—the percent and/or amount of a participant's earned income that is not counted in determining their TANF eligibility and benefit level. A policy that denies TANF benefits to families who are working full-time at the minimum wage is a "work penalty" that should be reduced as much as possible. Reducing such work penalties helps parents in low-wage jobs by providing them with an income supplement while also helping the state meet the higher participation standard by increasing the number of working parents in the TANF program.

2. Providing More Opportunities for Education and Job Training for Advancement

The number of TANF beneficiaries participating in many of the activities that relate to education and training for advancement—such as vocational education, on-the-job training, and job skills training—is quite low in most states. Thus, a key element of a high-road strategy to meet the new participation standards should involve taking fuller advantage of countable activities like these that help families move ahead in the labor market.

- "Vocational educational training" is countable as a stand-alone activity for up to 12 months. States should maximize the use of full-time vocational education as an activity. They can do this by making full use of their "allowance" for vocational education (and teen parent school attendance), which permits them to place 30 percent of all families that are counted toward the 50 percent rate in full-time vocational education and, if they are teen parents, high school or GED classes. According to the most recent data (from FY2004), only about 65,000 families—approximately 21 percent—that count toward the rate are enrolled in these activities monthly. (About 47,000 families counted as participating nationwide were in vocational education, and about 18,500 families were attending high school or classes to obtain a GED, although it isn't clear how many of the families in this second category are headed by teen parents who would count toward the 30 percent allowance.)

  Under the new standards, the number of families receiving TANF who have jobs or are in training for 30 hours per week (20 hours if they have children under age 6) will need to increase by around 170,000 to 240,000 on a nationwide basis. At a minimum, some 30 percent of these families could be provided with opportunities for full-time vocational education. And, because states are not even utilizing their current allowance for full-time vocational education, the actual number that could be placed is even larger. (A state-by-state list of the average monthly percentage of participating adults counted in vocational education by states in 2004 can be found at: www.acf.hhs.gov/programs/ofa/particip/2004/table04b.htm).

  In doing so, states should focus on parents with potential to succeed in vocational education and connect them to programs that train graduates for career-ladder jobs that meet local labor market demand in targeted industry sectors. In addition, as we discuss below, states should use "bridge programs" to link vocational and basic education for parents with relatively low levels of basic skills.

  Finally, states should remove any barriers that limit participation in vocational education. These include requirements in some states that prohibit parents from pursuing vocational education on a full-time basis—such as limiting vocational education to parents who are already working 20 hours or more—and rules that limit education to less than the full 12 months countable under federal law.

- On-the-Job Training (OJT)—a countable TANF activity with no cap on participation—is dramatically underutilized by states.[18] Typically, OJT involves reimbursement to an employer for up to 50 percent of workers' wages while they are training on the job. OJT is also an allowable use of WIA funds, and TANF beneficiaries who are co-enrolled in WIA can take advantage of the resources and services of both programs. A serious effort by a state to do such co-enrollment can also push toward better integration of TANF and WIA, and thereby tilt a state's TANF program toward the employment-focused outcome measures of WIA. A constraint to doing so, however, will be the cuts to WIA funding experienced by many states and local areas in recent years, particularly in big cities where TANF caseloads are highest.

- Adult Basic Education and ESL are not explicitly listed as separate countable activities, but states have the discretion to include them in their definitions of those activities. A number of states count participation in these programs toward core activities such as vocational education or community service. There is a danger that HHS may try to restrict such flexibility when it issues the new TANF rules required by June 2006. But we believe it will be harder to do so with more "facts on the ground"—that is, with more states explicitly making use of those activities and including them in their definitions of various activities.

  States also can increase the number of parents enrolled in "jobs skills training" or "education directly related to employment." Both activities are countable if a parent is working at least part-time (20 hours) or engaged in certain other activities for 20 hours a week, such as community service or work experience.

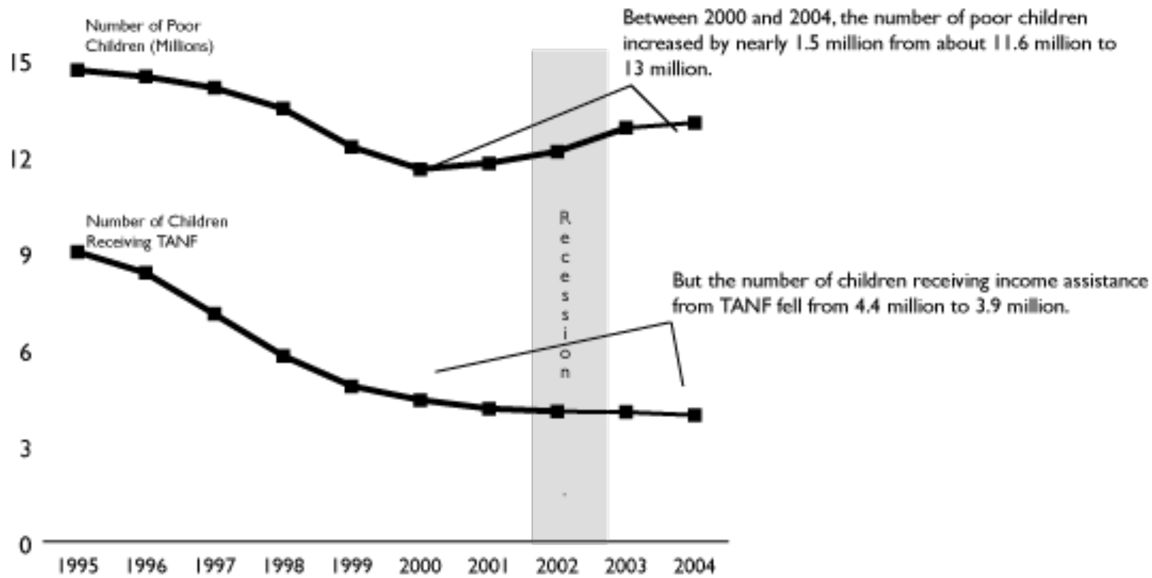
  Finally, from a programmatic standpoint, states will need to respond to the significant proportion of TANF participants who lack the basic reading, writing, and computational skills they need just to succeed in many vocational training programs, let alone in most decent jobs in today's labor market. The challenge for states is to design and support programs that link basic education to career pathways delineated by stages of occupational training that eventually lead to living-wage jobs. Fortunately, states can look to models provided by a new generation of such "bridge programs" in states like Arkansas, which uses TANF funds to support the Career Pathway Initiative, a program sited at half the state's community colleges that redesigns curriculum to integrate the teaching of basic skills with vocational training that prepares graduates for career pathway jobs in demand occupations.

3. Wage-paying Transitional Jobs

Transitional jobs (TJ) are wage-paying, community-service jobs, typically combined with intensive supports and skill development, for unemployed adults who have not been hired after a job search in the regular labor market. Workers in these jobs obtain experience and employer references that improve their chances of success in the job market.

More Poor Children Since 2000,
But Fewer Get Help from TANF

Between 1996 and 2000, both the number of children in poverty and the number receiving TANF income assistance declined. After 2000, the number of children in poverty started to rise, but the number of children receiving help from TANF continued to decline.



Sources: U.S. Department of Health and Human Services; U.S. Census Bureau.

Transitional jobs can be counted as a number of different activities (e.g., subsidized employment and work experience). States should create or bring to scale TJ programs targeted to parents unable to find a job, especially in places with a high proportion of the state's long-term cash assistance caseload. Transitional jobs are an especially promising policy response to the needs of hard-pressed urban and rural communities, and unemployed people facing barriers to work.[19]

Playing Defense: Keeping States from Going Down the Low Road

The danger with respect to higher participation standards—particularly since the "caseload-reduction-credit" loophole remains in place with a new base year of 2005—is that some ideological advocates of a "low-road" strategy will argue that states should further reduce the number of families overall who are helped in state TANF programs and further scale back on allowable activities, particularly those that cannot be counted toward participation rates, such as full-time vocational education beyond twelve months.

There are a number of ways in which advocates of a high-road TANF strategy can respond to this kind of reactive, backward-looking policy stance. Perhaps the most powerful argument to use in "playing defense" is to point to the growing evidence that TANF is drastically ***under-serving*** families who need help and are eligible for assistance.

- Fewer than 1 in 5 parents living ***under the poverty line*** receive TANF assistance.

- In many states, eligibility for TANF ends before the poverty line, but according to HHS, ***fewer than half of families*** who are eligible for TANF under the rules of the states they live in actually receive assistance.[20]

- Child ***poverty increased*** as TANF ***caseloads declined*** between 2000 and 2004. During this period the number of kids living in poverty increased by 1.5 million while the number of kids receiving TANF assistance declined by 0.5 million. This is a particularly important argument to use in states where this kind of divergent trend can be shown using state-level data.[21]

Finally, advocates of a low-road strategy may argue that if states do not take a low-road strategy they will be subject to large federal penalties, despite good faith efforts to meet the higher standards by engaging more families. While it is true that states can be penalized if they fail to meet higher standards, it may be useful to point out that HHS has considerable authority to ease penalties.

Moreover, the Congressional Budget Office (CBO) has estimated that no significant work rate penalties will be levied on states in fiscal years 2006 to 2008, and only modest penalties will be levied in subsequent years. This is, in part, because CBO assumes HHS will try to minimize penalties by allowing states to enter into “corrective compliance” plans and using other available mechanisms to ease penalties as long as states are making progress toward the 50 percent standard.[22] In summary, states shouldn’t make rash changes to proven strategies based on the threat of federal penalties that are likely to be modest relative to the size of the TANF block grant and slow in coming.

[1] We welcome comments on this piece. Shawn Fremstad can be reached at fremstad@mac.com and Jason Walsh at jasonw@workforcealliance.org.

[2] The text of the TANF and related provisions of the legislation is available at: http://inclusionist.org/files/TANF%20Provisions.pdf.

[3] HHS, Welfare Reform Reauthorized, News Release, February 8, 2006, accessed on February 10, 2006 at http://www.hhs.gov/news/press/2006pres/20060208.html.

[4] The low-end estimate (170,000) is based on the number of families included in the "all-families" participation rate by states in 2004 and does not include families in "separate state programs." The high-end estimate (236,000), made by the Congressional Research Service, is based on 2003 participation data and includes families in "separate state programs." The high-end estimate also assumes that states maximize their ability to exempt from participation, and disregard from the participation calculation, nonparticipating, single parent families with an infant. See the CRS memorandum "TANF Work Participation Rate Standards: Revising the Caseload Reduction Credit" at http://inclusionist.org/files/cdrebasedcrc.pdf.

[5] While DOL's *goal* of tripling the number of individuals trained is a sound one, the *means* by which they propose to accomplish this goal are not. Career Advancement Accounts would be funded by block-granting, voucherizing, and cutting overall funding for employment and training programs, effectively dismantling the nation's WIA and Employment Service infrastructure. Further details can be found at: http://www.workforcealliance.org/policy/TWA_FY2007_Budget_Analysis_2-06.pdf.

[6] Some of this discussion draws on an earlier memo Shawn Fremstad wrote with Margy Waller and Rachel Gragg of the Center for Community Change, available at: http://inclusionist.org/files/TANF%20state%20implementation-1-9-06.pdf.

[7] State-by-state data on participation rates and the number of families engaged in various work activities through FY2004 is available at: www.acf.hhs.gov/programs/ofa/particip/indexparticip.htm).

[8] Gene Falk of the Congressional Research Service has calculated estimated baseline participation rates for FY2003 that include families receiving assistance from SSPs and assume that states will maximize their ability to exempt from work, and disregard from participation rate calculation, nonparticipating, single parent families with an infant. According to Falk's estimate, six states that met a 50 percent standard in FY2003 would have estimated baseline rates that fall below 50 percent in FY2003. See the CRS memorandum "TANF Work Participation Rate Standards: Revising the Caseload Reduction Credit" at http://inclusionist.org/files/cdrebasedcrc.pdf.

[9] David Callahan and Tamara Draut, "Welfare Time Warp," Dodge City Daily Globe, June 2002, available at: http://www.demos.org/pub12.cfm.

[10] Census Bureau, Current Population Survey, *Table POV007: Families with Related Children Under 18 by Number of Working Family Members and Family Structure, 2004*, http://pubdb3.census.gov/macro/032005/pov/new07_100_01.htm.

[11] In 2004, some 7.6 million parents lived below the poverty line, but only 1.4 million received TANF. According to HHS data, on an average monthly basis, 60 percent of individuals who

received TANF in 2002 lived in a family with at least one person in the labor force. Some 34 percent of the individuals who received TANF lived in a family with a full-time worker. Department of Health and Human Services, *Indicators of Welfare Dependence: Annual Report to Congress 2005*, page II-18.

[12] Susan Hauan and Sarah Douglas, *Potential Employment Liabilities Among TANF Recipients: A Synthesis of Data from Six State TANF Caseload Studies* (2004).

[13] As a starting point, TANF's anachronistic "participation rates" should be scrapped and replaced with a modern performance-measurement system that is based on meaningful outcomes such as successful completion of a certified training or education program, placement in "opportunity jobs"—jobs that pay a living wage or at least offer some clear prospects of advancement—and earnings gains over time. WIA's performance-measurement system provides a starting point for such a system.

[14] Some 5.85 million families with children were poor in 2004 compared with 5.98 million families with children in 1995. Census Bureau, Historical Poverty Table 4, available at: http://www.census.gov/hhes/www/poverty/histpov/hstpov4.html.

[15] State-level data on the size of TANF reserves at the end of 2004 is available at http://www.acf.hhs.gov/programs/ofs/data/2004/tableA_spending_2004.html.

[16] Table 7-14 in TANF section of 2004 "Green Book." Available on the internet at: http://www.inclusionist.org/files/2004%20TANF%20Greenbook.pdf.

[17] For more on the Illinois policy, see John M. Bouman, Margaret Stapleton, and Deb McKee, "Time Limits, Employment, and State Flexibility in TANF Programming," Clearinghouse Review, September-October 2003, available on the internet at: http://www.povertylaw.org/legalresearch/articles/free/500978.PDF.

[18] Fewer than 1,000 TANF beneficiaries were counted as participating in OJT in 2004.

[19] For more information on transitional jobs and their record of success, see http://www.transitionaljobs.net.

[20] Department of Health and Human Services, *Indicators of Welfare Dependence: Annual Report to Congress 2005*, Figure IND 4.

[21] For state-level trends in child poverty see, Low-Income Children in the United States, National and State Trend Data, 1994-2004, National Center for Children in Poverty, January 2006, http://www.nccp.org/media/nst06_text.pdf.

[22] CBO, Cost Estimate of S. 1932, January 2006. The TANF section of the estimate is available on the internet at: http://inclusionist.org/files/CBO%20Estimate%20TANF.pdf.