The Potential Role of the Temporary Assistance for Needy Families (TANF) Block Grant in the Recession

Gene Falk
Specialist in Social Policy

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Summary

The recession that began in December 2007, and the loss of 3.6 million jobs since, has raised issues about policies to address the threats to the economic security of people and families from an economic downturn. The unemployment rate had already reached 7.6% in January 2009, with the Congressional Budget Office (CBO) forecasting that it will top out at over 9% in early 2010. Families that were economically disadvantaged before the recession are highly likely to face risks to their well-being—unemployment rates for women maintaining families, minorities, and those with less than a high school education are above the average for all workers.

The emphasis of public policy for low-income families with children with able-bodied parents is supporting and requiring work. The system of needs-based benefits underwent major changes over several decades, culminating in policy changes in the mid-1990s that included the major welfare reform law of 1996. This recession will likely be the first real test of how policies put in place in the mid-1990s affect the well-being of families with children during a steep economic downturn and high unemployment. Unemployment insurance (UI) is the major program to replace lost wages for unemployed workers. However, low-wage workers and those with intermittent employment are less likely to receive UI than higher-wage workers with stronger labor force attachment. In the past, the "safety net" for families with children included cash welfare. The 1996 welfare reform law created the Temporary Assistance for Needy Families (TANF) block grant with fixed funding and altered rules that apply to the cash welfare caseload. TANF is best known as a funding source for cash welfare for needy families with children, but it also funds a wide range of benefits and services that seek to address some of the root causes or ameliorate some of the effects of structural poverty on families with children. The cash welfare caseload declined by two-thirds from 1994 to 2008 and stood at 1.7 million families. The share of poor children receiving TANF plummeted from over 60% before welfare reform to 23% by 2007.

TANF poses both risk and opportunities for states to help disadvantaged families as they face a deep economic slump. The opportunities that TANF offers states is rooted in its flexibility—states can design new and innovative programs, either through cash welfare or outside of their cash welfare program, to meet the needs that arise because of the recession. However, fixed TANF funding combined with potential increases in families eligible for TANF cash welfare pose states the choice of either cutting back TANF funding for the nonwelfare benefits and services or curtailing cash welfare benefits or rolls in the midst of a recession. Additionally, the rules of TANF cash welfare—benefits that pay only a fraction of poverty-level income and a "work-first" orientation that seeks to move recipients quickly into a job—may limit its effectiveness to respond to a recession.

The American Recovery and Reinvestment Act (ARRA, P.L. 111-5) creates a new, temporary TANF fund to help pay for the increased costs of cash welfare, short-term aid, and subsidized employment for FY2009 and FY2010. ARRA temporarily modifies the caseload reduction credit states receive toward their TANF work participation. A state's credit will not be reduced for any caseload increases occurring in FY2008 through FY2010. ARRA also extends TANF supplemental grants through the end of FY2010. It further allows states to use their TANF reserves for any TANF benefit or services. Under prior law, reserves could be used only for TANF cash welfare programs. This report will be updated.

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Introduction

It is now generally acknowledged that the economy entered recession in December 2007, and has since lost 3.6 million jobs. In January 2009, the Congressional Budget Office (CBO) issued its economic outlook, forecasting that this recession will be the longest and, by some measure, deepest since the World War II, with unemployment rates topping 9% by early 2010.[1] This has raised the profile of economic insecurity among people and families caused by the recession. Those who were economically disadvantaged before the recession hit are particularly at-risk of economic insecurity. This report discusses the potential role that the block grant to states of Temporary Assistance for Needy Families (TANF) may play in mitigating the effects of the recession for poor families with children.

The Recession and the Economic Insecurity of Disadvantaged Families

Many children were in families that were already poor as the economy entered recession. The child poverty rate in 2007 (the last year of an economic expansion that dated back to 2001), stood at 17.6%—higher than the rate for the elderly (9.7%) or that for non-aged adults (10.9%). High poverty rates among families with children are correlated with certain characteristics.[2] Children in female-headed families are more likely to be poor than those in married couple families. Additionally, those in families with young parents, parents with low levels of educational attainment, and racial and ethnic minority children were more likely to be poor than their counterparts in other groups.

Public Policy Toward Low-Income Families with Children: Rewarding and Requiring Work

While some poor families lacked a wage earner, more than two-thirds of poor children were in families where the head or spouse worked at some point during 2007. Public policy toward low-income families has emphasized work, at least for those who are not disabled. A work-based approach toward economic disadvantage and poverty among children evolved over several decades, culminating in several legislative initiatives in the mid-1990s. The Earned Income Tax Credit (EITC), an earnings supplement usually received as a tax refund, was expanded and its amount increased by legislation in 1993.[3] Health care from Medicaid was gradually expanded to cover all poor children, followed by legislation in 1997 that established the State Children's Health Insurance Program (SCHIP).

The 1996 welfare reform law (P.L. 104-193) substantially altered the policy landscape for low-income families. It ended the New Deal program of Aid to Families with Dependent Children

[1] Congressional Budget Office, *The Economic and Budget Outlook 2009-20019*, January 2009, http://www.cbo.gov/ftpdocs/99xx/doc9957/01-07-Outlook.pdf.

[2] CRS Report RL32682, *Children in Poverty: Profile, Trends, and Issues*.

[3] CRS Report RL31768, *The Earned Income Tax Credit (EITC): An Overview*, by Christine Scott.

(AFDC) and with it the entitlement to needy families for cash assistance. AFDC was replaced by the TANF block grant, with work participation requirements and time limits for cash welfare recipients. The 1996 welfare reform also significantly increased federal funding to the states to subsidize child care, further supporting work among low-income families.

Partially as a result of the policies put into place in the mid-1990s, and partially as a result of the economic boom that followed, the welfare caseload plummeted and work among single mothers increased.[4] In September 2008, the cash welfare caseload had fallen to 66% below the September 1994 caseload figure. Child poverty declined from 1994 through 2000, but the welfare rolls declined faster. As a result, fewer poor children were in families receiving cash welfare, though a greater proportion of poor children were in families with earnings. The period after 2000 saw slower economic growth than in the late 1990s and child poverty rose, but the welfare rolls still declined. In 2007, the welfare recipiency rate among poor children stood at 23%—down from about 60% before welfare reform.

The Recession, Unemployment, and the Economically Disadvantaged

The current recession is the second one to test the work-based policies put into place in the mid-1990s and directed toward poor families with children. The first recession was the relatively mild one in 2001. The unemployment rate in this recession – standing at 7.6% in January 2009 – already far surpasses the peak unemployment rate of 6.3% reached in 2003 after the 2001 recession.[5]

Table 1 provides the unemployment rate for all workers, and then for some groups that are at risk of being economically disadvantaged. Over the past year, unemployment rates for all groups have increased as the economy slumped. As expected, those in groups at risk for being economically disadvantaged had higher unemployment rates than the overall population. Several groups—those with no high school diploma, African-Americans, and young adults had double-digit unemployment rates. Though not all unemployed workers in at-risk groups are in families with children, many are.

[4] For statistics on the prevalence of work and receipt of cash welfare over this period, see CRS Report RL30797, *Trends in Welfare, Work, and the Economic Well-Being of Female-Headed Families with Children: 1987-2006*, by Thomas Gabe.

[5] Unemployment rates, like other indicators of family economic distress, including the poverty rate, tend to be lagging indicators of economic activity. That is, they tend to peak some time after economic activity reaches its low point, which marks the end of a recession.

Table 1. Unemployment Rates for Selected Groups

(data seasonally adjusted unless otherwise noted)

Demographic Group	Unemployment Rate: Dec. 2007	Unemployment Rate: Dec. 2008	Unemployment Rate: Jan. 2009
All workers	4.9%	7.2%	7.6%
Women maintaining families (not seasonally adjusted)	6.9	9.5	10.3
No high school diploma (25 years and older)	7.5	10.9	12.0
African-American (20 years and older)	7.6	11.0	11.5
Hispanics (16 years and older)	6.2	9.2	9.7
Young adults (20 to 24 years old)	9.2	12.1	12.1

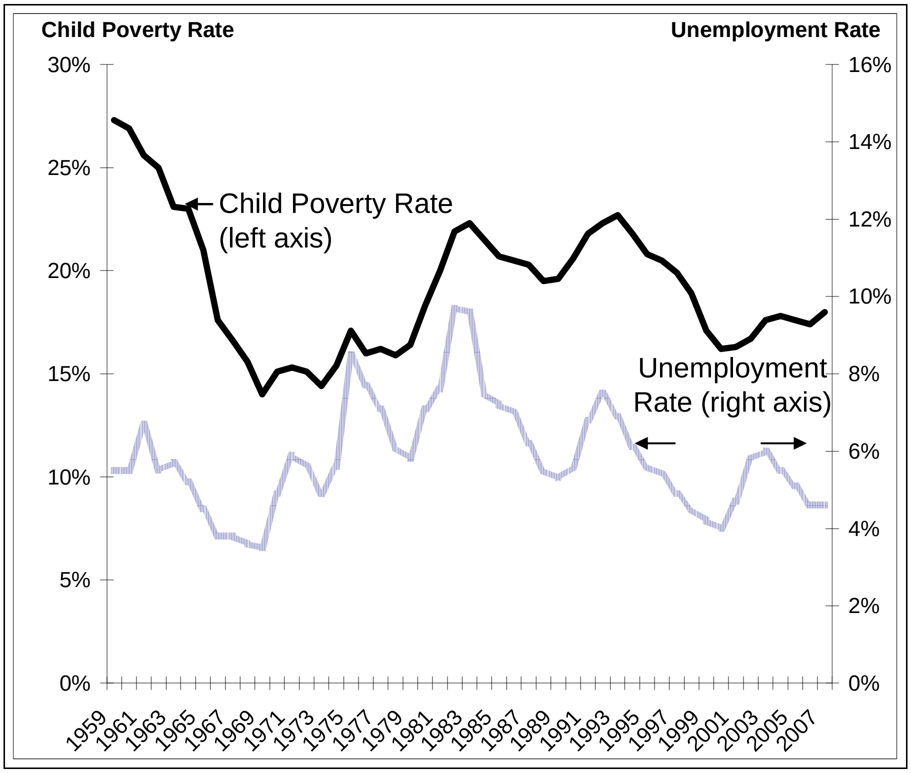
Source: Congressional Research Service (CRS) based on data from the U.S. Department of Labor, Bureau of Labor Statistics.

The most visible indicator of economic disadvantage is the poverty rate. Historically, child poverty rates have increased during recessions and fallen during periods of economic growth. The child poverty rate tends to peak soon after the low-point of the economic cycle. During the decade of the 1980s, the child poverty rate peaked in 1983, a year after the end of the back-to-back recessions of 1980 and 1981-82, and in the 1990s it peaked in 1993, two years after the 1990-91 recession.

Figure 1 shows the historical trend in the child poverty rate and compares it with the trend in the unemployment rate. While there is a clear association between the two indicators, the child poverty rate is affected by more than just the national economy. The child poverty rate remained high in the 1980s, as the percent of children living in female-headed families increased. After the 2001 recession, child poverty increased from its low point of 15.6% in 2000 to 17.3% in 2004, before falling for a couple of years, and then rising again to 17.6% in 2007.

Figure 1. Child Poverty and Unemployment Rates, 1959 to 2007

Poverty Rate is on the Left Axis, Unemployment Rate is on the Right Axis



Source: Congressional Research Service (CRS) based on data from the U.S. Department of Commerce, Bureau of the Census, and the U.S. Department of Labor, Bureau of Labor Statistics.

A Safety Net for Disadvantaged Families with Children?

There is cause for concern about the state of the "safety net" for workers and families who were economically disadvantaged before the recession. Unemployment insurance (UI) is the primary government program to help the involuntarily unemployed replace a portion of their lost earnings. However, UI was not designed to provide benefits to all unemployed persons. New entrants and those re-entering the workforce after prolonged absences are not eligible for UI. However, even among job losers, UI receipt is not universal. UI requires sufficient recent employment (and often a minimum amount of earnings in a recent period) to be eligible for benefits upon becoming unemployed. Additionally, some unemployed persons already have exhausted their weeks of unemployment benefits. In November 2008, the percent of the unemployed receiving unemployment benefits was 45%.[6]

Research shows that low-wage workers, part-time and contingent workers, and women, have lower rates of UI receipt when they become unemployed.[7] Additionally, policies to increase the

[6] This number reflects the UI from all programs: regular state UI, federal-state extended benefits, and emergency unemployment compensation (EUC) benefits.

[7] See U.S. Government Accountability Office. *Unemployment Insurance: Role as Safety Net for Low-Wage Workers is Limited*, GAO-01-181, December 2000. See also: U.S. Government Accountability Office, *Unemployment Insurance:* (continued...)

financial rewards from work and the welfare reforms of the 1990s (discussed in more detail, below) helped spur more single mothers into the workforce. Those who leave welfare for work often fail to stay employed. Studies of those who left welfare indicate that, among those who left welfare for work, only between 30% and 50% stayed employed all four quarters after leaving the rolls.[8] A recent study of welfare leavers in four large states (Florida, Ohio, Michigan, and Texas), showed that of all welfare leavers who became unemployed, only 13% drew UI.[9] Less than 25% of unemployed leavers applied for UI. Most of those who applied for UI were monetarily eligible (earned sufficient wages), but many failed to receive unemployment benefits for other reasons. Voluntarily quitting a job often disqualifies a person from receiving UI, and in many states a person who quits for "family" reasons (e.g. caring for a sick child, need to align hours to accommodate family responsibilities etc.) cannot receive UI. During a recession, those who left jobs for such reasons have to compete in a more difficult labor market along with others. Many states also bar unemployed persons available only for part-term work from receiving UI.

The second tier of the safety net for families with children are programs that provide benefits based on financial need. Before the economy entered recession, poor children were far more likely to be in families receiving benefits from the food stamp program (now renamed Supplemental Nutrition Assistance Program, or SNAP), and health care than cash welfare. **Figure 2** shows the number of children in families receiving cash welfare, compared with children in SNAP/Food Stamp households and children enrolled in Medicaid in both FY1995, before the enactment of welfare reform, and FY2007. The other two programs had more child recipients than cash welfare in both years. However, by FY2007 the number of children benefitting from SNAP/food stamps and Medicaid dwarfed the number of children in families receiving cash welfare. By FY2007 there were 3.1 million children in families receiving cash welfare, compared with the 12.7 million children in food stamp households and the 23.5 million children enrolled in Medicaid.

(...continued)

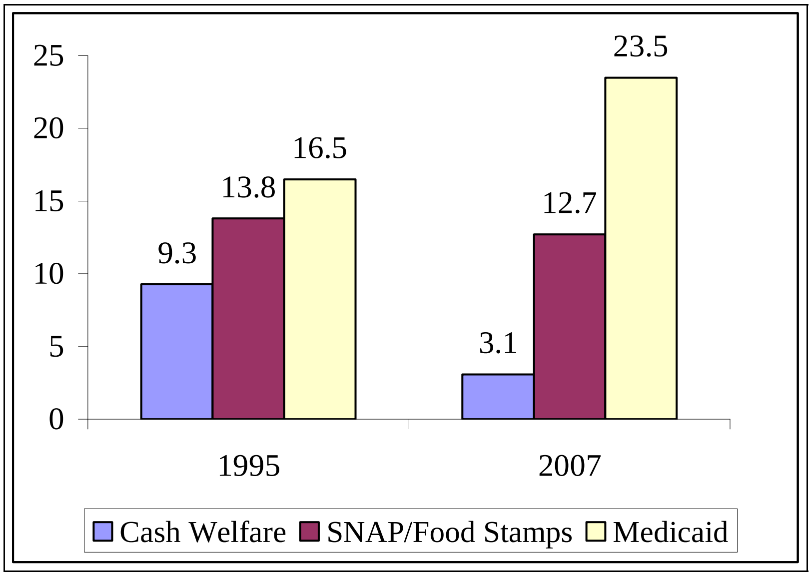
Receipt of Benefits Has Declined, with Continued Disparities for Low-Wage and Part-Time Workers, GAO-07-1243T, September 19, 2007.

8 U.S. Department of Health and Human Services, Office of the Secretary, Office of the Assistant Secretary for Planning and Evaluation, *Final Synthesis Report of Findings from ASPE's "Leavers" Grants*, December 2001, pp. 23-44.

9 See Christopher J. O'Leary and Kenneth J. Kline, *UI as a Safety Net for Former TANF Recipients*, W.E. Upjohn Institute for Employment Research, Kalamazoo, MI, March 2008, http://aspe.hhs.gov/hsp/08/UI-TANF/report.pdf.

Figure 2. Child Recipients of Cash Welfare, SNAP/Food Stamps, and Medicaid, FY1995 and FY2007

(monthly average number of children in millions)



Source: Congressional Research Service (CRS) based on data from the U.S. Department of Health and Human Services (HHS), Administration for Children and Families; HHS, Center for Medicare and Medicaid Services; and U.S. Department of Agriculture.

The TANF Block Grant

The TANF block grant is best known as a funding source for cash welfare. However, it also funds a wide range of benefits, services, and activities for disadvantaged families with children as well as programs to achieve the goals of reducing out-of-wedlock pregnancies and promoting two-parent families.

In creating TANF in the 1996 welfare law, open-ended matching grants (unlimited funding) for AFDC cash welfare, emergency assistance, and a capped matching grant for employment and training services for cash welfare recipients were converted into a single block grant to help needy families. The TANF block grant provides states with fixed funding but broad authority to use federal TANF funds (and associated state funds) on a wide range of benefits and services to aid needy families and to reduce out-of-wedlock pregnancies and promote two-parent families.

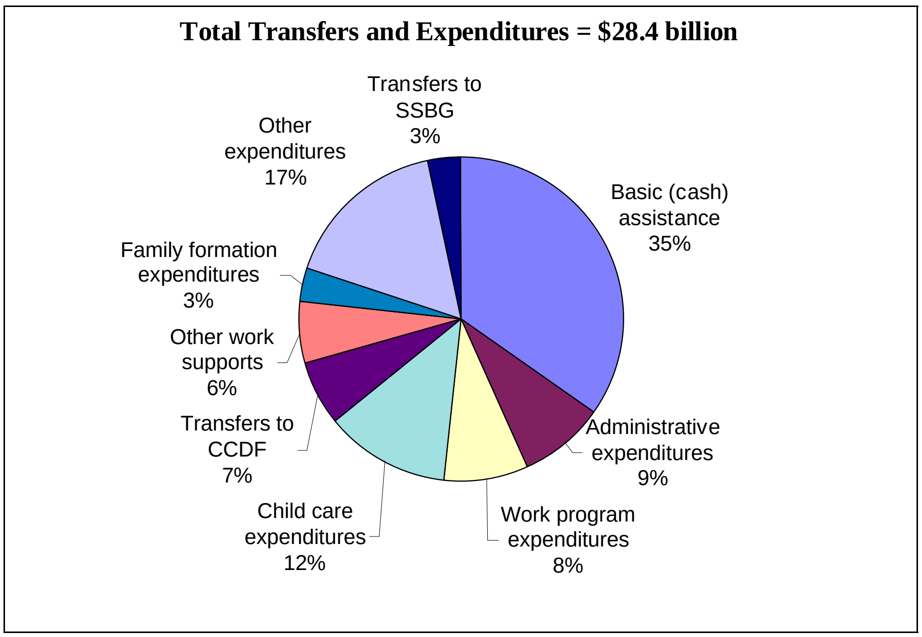
The 1996 welfare reform law set TANF's basic block grant at $16.5 billion, which together with a requirement that states maintain at least $10.4 billion in spending from their own funds, has not changed since TANF's inception. That basic block grant and the state maintenance of effort (MOE) requirement constitute the bulk of TANF funding to the states. TANF also includes some additional funding sources, including a limited contingency fund (discussed in detail below) and supplemental grants that have totaled $319 million and have been targeted to 17 states.

Figure 3 shows the use of TANF grants and MOE spending for FY2006. As shown on the figure, basic cash assistance (what most people call cash welfare) accounted for only 35% of all TANF and MOE funds in that year. Even when expenditures on administration and work activities, the other categories associated with traditional welfare programs, are added to cash, only a little more than half of all TANF and MOE funds are accounted for.

A second major category of TANF funding is work supports—particularly child care. Child care—either through expenditures or transfers to the Child Care and Development Fund—accounts for almost one-fifth (19%) of total TANF funds and MOE. Other work supports, such as expenditures for the refundable portion of tax credits for low wage workers and transportation aid, account for an additional 6% of all funds

Figure 3. FY2006 Use of TANF Funds and MOE Expenditures

(as a percent of total used TANF funds and MOE expenditures)



Source: Congressional Research Service (CRS) based on data from the U.S. Department of Health and Human Services (HHS).

The categories shown on the figure above are based on reports to HHS made by states on their TANF expenditures. However, the categories poorly capture some benefits, activities, and services provided under TANF. For example, TANF makes a substantial contribution to programs that deal with child abuse and neglect—but that is not captured in the reporting system. A survey by the Urban Institute for state FY2004 reported that TANF contributed at least $3 billion to those programs.[10] Also not captured in the expenditure reports and categories is the breadth of benefits and services funded, particularly in the categories labeled “family formation” and “other.” TANF is used on a wide range of human services programs that address issues faced by disadvantaged families or children: home visiting programs for new parents; youth services, such as grants to Boys and Girls Clubs; pre-Kindergarten education programs; after-school programs for teens;

[10] These programs are known as “child welfare” programs, and the Urban Institute survey figure reflects the TANF funds that are used by state and local child welfare agencies.

responsible fatherhood programs, such as employment services and training for noncustodial parents; and marriage education and counseling.

TANF and Its Potential Role in the Recession

Evaluating what potential role TANF can play in helping families deal with the recession is difficult because it is not a program, but a funding stream to the states for a myriad of economic supports, services, and activities. Additionally, each state is unique in its use of TANF funding. Generalizations about TANF made from nation-wide data imperfectly describe the situation in any given state.

Historically, cash welfare has been viewed as a part of the "safety net," albeit part of the second (low income assistance) tier of the safety net that addresses needs not met through the first (social insurance, UI) tier. Such needs may still exist, as UI may not be there for many disadvantaged families. Low-income families often receive food assistance from the SNAP program or have their children covered through Medicaid or SCHIP. However, the diminished role of cash welfare in the post-welfare reform era leads to a number of key policy questions:

- Where can low-income families with an unemployed parent who is ineligible for UI turn for cash to meet basic needs other than those provided by SNAP and medical coverage?
- Can TANF cash welfare programs provide a viable safety net for low-income, working parents when they lose a job?
- What role can TANF's "nonwelfare" benefits and services play in responding to the recession?
- Can TANF-funded services that are intended to address the root causes of structural poverty among families with children—or to ameliorate the effects of such poverty—survive funding battles in the states, particularly in states that experience recession-related costs within TANF?

Cash Welfare for Needy Families With Children

The TANF cash welfare system of today reflects a historical legacy of controversy. Federal involvement in funding cash welfare for needy families dates back to the Great Depression, and concern about risks to the economic security of families. At the time, the major risk addressed by policy was the loss of the earnings of one parent (the father) because of death. However, "welfare" issues were entwined with many of the social changes in second half of the 20th Century. The increase in women's labor force participation raised the expectation that mothers heading families work. Welfare raised racial issues, as an increasing share of the welfare caseload became nonwhite. Payments that went primarily to fatherless families also raised issues of personal responsibility and morality. Welfare increasingly became a program associated not with economic risks, but with the personal characteristics and behavior of its recipients.

Cash Welfare Benefit Amounts

TANF cash benefits represent only a fraction of poverty income. TANF cash welfare can help a family avoid total destitution, but is unlikely to allow a family to maintain its standard of living when even a low wage earner loses his or her job.

Under both TANF and its predecessor, AFDC, states set the benefit amounts. States generally have not raised cash benefits sufficiently to offset the effects of inflation. Therefore, the purchasing power of these benefits has continued to decline.

Table 2 provides TANF cash welfare benefits by state for 2008. In all states, the maximum TANF benefit pays only a fraction of poverty-level income. States are ranked by the maximum benefit as a percent of the 2008 poverty thresholds. Alaska is the state with the highest maximum benefit amount, providing $923 per month for a family of three, about half of the poverty-level income for that state. Among the 48 contiguous states and the District of Columbia, California has the highest maximum benefit, paying $723 per month for a family of three, just shy of half of the 2008 poverty threshold. The median state (ranked 26th among the 51 jurisdictions) is New Jersey, which paid $424 per month for a family of three, 29% of poverty-level income. Mississippi's $170 per month for a family of three is the lowest in the nation, representing 12% of poverty-level income.

Table 2. Monthly TANF Cash Welfare Maximum Benefit Amount for a Family of Three, 2008

State	Maximum Benefit	Maximum Benefit as a Percent of the 2008 Poverty Threshold
Alaska	$923	50.3%
California	723	49.3
Vermont	709	48.3
New York	691	47.1
New Hampshire	685	46.7
Connecticut	674	46.0
Massachusetts	618	42.1
Maryland	565	38.5
Washington	562	38.3
Rhode Island	554	37.8
Hawaii	636	37.7
South Dakota	539	36.8
Minnesota	532	36.3
Wyoming	506	34.5
Utah	498	34.0
Michigan	489	33.3
Maine	485	33.1
Oregon	485	33.1

State	**Maximum Benefit**	**Maximum Benefit as a Percent of the 2008 Poverty Threshold**
North Dakota	477	32.5
Montana	472	32.2
New Mexico	447	30.5
Illinois	434	29.6
Kansas	429	29.3
District of Columbia	428	29.2
Iowa	426	29.0
New Jersey	424	28.9
Pennsylvania	421	28.7
Ohio	410	28.0
Virginia	389	26.5
Nevada	383	26.1
Wisconsin	373	25.4
Nebraska	364	24.8
Colorado	356	24.3
Arizona	347	23.7
West Virginia	340	23.2
Delaware	338	23.0
Idaho	309	21.1
Florida	303	20.7
Missouri	292	19.9
Oklahoma	292	19.9
Indiana	288	19.6
Georgia	280	19.1
North Carolina	272	18.5
South Carolina	263	17.9
Kentucky	262	17.9
Texas	244	16.6
Louisiana	240	16.4
Alabama	215	14.7
Arkansas	204	13.9
Tennessee	185	12.6
Mississippi	170	11.6

Source: Center on Budget and Policy Priorities, *TANF Benefits are Low and Have Not Kept Pace With Inflation; But Most States Have Increased Benefits Above a Freeze Level in Recent Years,* by Liz Schott and Zachary Levinson, November 24, 2008.

Requirements to Receive Cash Welfare

The receipt of cash assistance for a family triggers a number of requirements on both the state and the family. The most visible of these are the work participation standards. This is technically a requirement for the states: they must have a sufficient number of families engaged in activities that count toward the work requirements. Though states have some flexibility in how they meet these standards, these requirements influence the design of state programs and the requirements and rules that ultimately apply to individuals.

The activities that count toward the work participation standards for adult (aged 20 and older) recipients reflect a "work-first" focus. Job search is a countable activity for a maximum of 12 weeks in a fiscal year. Education and training is countable for one year in a lifetime. The remaining activities that count for adult recipients are employment, subsidized employment, on-the-job training, community service, work experience, and providing child care for the children of a community service participant. Education beyond the one-year limit may only be countable in conjunction with those activities more closely associated with work. States are also required to sanction (penalize) recipients who do not comply with work requirements, though states themselves determine the sanctions. Thus, the work standards reflect the policy goals of moving recipients quickly from welfare to work. This recession is likely the first major test of these rules for a prolonged period of high unemployment and lack of jobs.

States also cannot use TANF funds to assist a family with an adult recipient for more than five years, though 20% of the caseload can be the rolls for more than five years because of hardship. Again, this is a requirement on the state, not individuals, and states can use TANF MOE funds to aid families beyond five years. States have considerable flexibility in implementing the time limit, but it has influenced the design of state programs and most states do impose a time limit on welfare receipt.

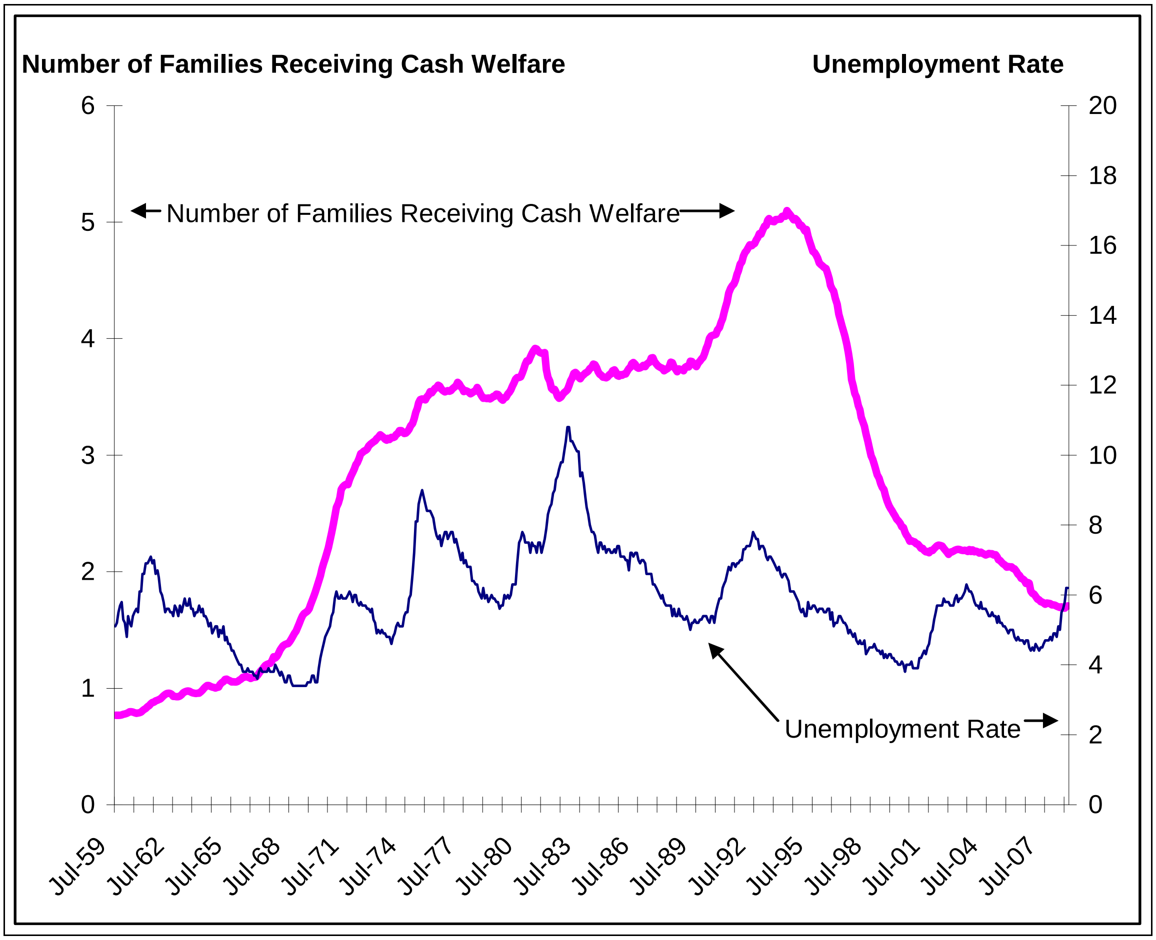
Additionally, families on TANF cash welfare must assign (legally turn-over) any child support payments from noncustodial parents to the state. States can pass-through that child support to the family, but must bear a share of its cost. However, the family is not entitled to receive any child support owed to it while it is on the cash welfare rolls.

The Cash Welfare Caseload and Economic Conditions

Historically, the relationship between the cash welfare caseload and economic conditions is not simple. There have been periods when the number of families receiving cash welfare and the unemployment rate increased or decreased together. There also have been periods when the trends in the cash welfare caseload and the unemployment rate have differed. Demographic and policy changes also contributed to the trends in the cash welfare caseload.

Figure 4 shows trends in the number of families receiving cash welfare and the unemployment rate for 1959 to 2008. Caseloads rose while unemployment fell during the 1960s. The number of families receiving cash welfare continued to rise through the recessions of the 1970s, but then leveled-off after the 1974-1975 recession. They began to rise again during the back-to-back recessions of 1980 and 1981-82, but fell beginning in October 1981 with policy changes enacted in the early years of the Reagan Administration. This decline occurred despite continuing increases in the unemployment rate through 1982. Caseloads again began to rise in 1988, continued through the 1990-91 recession, and reached their historical peak in 1994. The dramatic decline in the caseload post-welfare reform occurred amid a booming economy. The caseload decline slowed with the economy in 2001. However, national caseloads did not rise during the (albeit brief and shallow) 2001 recession, the only recession up until this one to occur since the enactment of the 1996 welfare reform law.

Figure 4. Number of Families Receiving Cash Welfare and the Unemployment Rate, 1959 to 2008



Source: Congressional Research Service (CRS) based on data from the U.S. Department of Health and Human Services (HHS) and the U.S. Department of Labor, Bureau of Labor Statistics (BLS).

In September 2008, the TANF cash welfare caseload of 1.7 million families stood 1.3% *below* the September 2007 caseload figure. (Nationally, the caseload reached a low point in July of 2008, and increased slightly in August and September of 2008. It is unclear whether this is the beginning of a sustained increase in caseloads.) This is in sharp contrast to the SNAP (food stamp) caseload, which in September 2008 stood 17% above the previous year's level.

Though it is not known whether the slight rise in caseloads in August and September 2008 portends a new trend, 16 states had caseload increases from September 2007 through September 2008. California, the most populous state with the largest cash assistance caseload, had a September 2008 caseload increase of 5.8% over the previous year's level. **Table 3** compares the September 2008 and September 2007 TANF cash assistance caseload by state, ranked in descending order of percentage change in the caseload so that the states with caseload increases are shown at the top.

Table 3. Number of Families Receiving TANF Cash Assistance, September 2007 and September 2008

States Ranked in Descending Order of Percentage Caseload Change

	September 2007	September 2008	Percentage Change: Sept. 2007 to Sept. 2008
Massachusetts	46,483	61,700	32.7
Oregon	18,645	22,537	20.9
New Mexico	12,503	14,069	12.5
Delaware	4,034	4,484	11.2
Washington	49,076	54,373	10.8
Florida	46,864	51,012	8.9
Nebraska	6,913	7,477	8.2
South Carolina	14,936	16,119	7.9
California	470,502	497,719	5.8
Maryland	19,630	20,701	5.5
Utah	5,069	5,333	5.2
Ohio	78,129	82,128	5.1
Wyoming	255	260	2.0
South Dakota	2,842	2,887	1.6
Virginia	31,563	31,970	1.3
Maine	12,352	12,355	0.0
Idaho	1,506	1,496	-0.7
Rhode Island	8,107	8,050	-0.7
Hawaii	6,426	6,374	-0.8
North Carolina	24,537	24,294	-1.0
Arizona	36,934	36,467	-1.3
Kentucky	29,492	29,006	-1.6
Arkansas	8,472	8,330	-1.7
Wisconsin	17,824	17,508	-1.8
Alabama	18,104	17,756	-1.9
Indiana	42,058	41,249	-1.9
Montana	3,217	3,136	-2.5
Mississippi	11,658	11,270	-3.3
New Jersey	34,123	32,722	-4.1
New York	156,420	148,548	-5.0

	September 2007	September 2008	Percentage Change: Sept. 2007 to Sept. 2008
Tennessee	58,244	55,054	-5.5
North Dakota	2,156	2,033	-5.7
Iowa	19,872	18,709	-5.9
Nevada	7,411	6,937	-6.4
Alaska	3,127	2,890	-7.6
West Virginia	9,699	8,928	-7.9
Missouri	39,544	36,359	-8.1
Connecticut	20,322	18,663	-8.2
New Hampshire	4,733	4,324	-8.6
Puerto Rico	12,617	11,488	-8.9
Louisiana	11,023	10,018	-9.1
Georgia	23,600	21,378	-9.4
Kansas	13,892	12,458	-10.3
Colorado	9,355	8,270	-11.6
Michigan	71,892	62,371	-13.2
District of Columbia	6,231	5,346	-14.2
Texas	59,972	51,045	-14.9
Minnesota	26,642	21,015	-21.1
Pennsylvania	60,167	46,895	-22.1
Illinois	26,222	19,034	-27.4
Vermont	4,503	2,934	-34.8
Oklahoma	18,645	7,920	-57.5
Totals	1,728,938	1,705,399	-1.3

Source: Congressional Research Service (CRS) based on data from the U.S. Department of Health and Human Services (HHS).

Notes: TANF cash assistance caseload includes families receiving assistance from Separate State Programs (SSPs) other than TANF that have their expenditures counted toward the TANF MOE requirement. Guam currently does not report caseload data.

Nonwelfare Economic Support from TANF in the Recession

The statutory purpose of TANF is to "increase state flexibility" to achieve the block grant's goals. This provides broad authority to spend TANF dollars on a wide range of benefits and services. These include economic support other than "welfare" to aid families during the recession. In 1999, the Department of Health and Human Services (HHS) published a "TANF Funding Guide," that lists allowable uses of TANF funds. Among those uses are:

- Rental assistance, including security deposits, application fees, and payment of back rent to avoid evictions;
- Moving allowance and loans to needy families to assist them in obtaining stable housing; and
- Supplemental Unemployment Compensation programs, to help families ineligible for regular state unemployment benefits.[11]

Additionally, much of the types of economic aid discussed above need not trigger TANF requirements, such as the work participation standards or the time limits. Under HHS regulations, short-term non-recurrent benefits are not considered cash welfare and thus do not trigger the requirements that apply to cash welfare. Short-term non-recurrent benefits must be for an “episode” of need, rather than to meet ongoing needs. They are also limited to a maximum of four months in a year.

The distinction between short-term non-recurrent benefits and ongoing cash welfare is not in statute, but was created through HHS regulation. The line between short-term aid and ongoing cash welfare is also not always clear. The Bush Administration recently issued a program instruction to states that attempted to restrict some activities states were claiming as “short-term” benefits; they admonished states against classifying certain aid as “short-term” benefits just to avoid the work participation standards applying to families receiving it.[12] Still, the exemption from TANF requirements for short-term non-recurrent benefits provides states and families choices other than ongoing cash welfare to meet some needs.

Another activity states could expand during a recession is subsidized employment. Under HHS regulations, if a family only benefits from a wage subsidy paid directly to the employer, that family is not considered to be receiving welfare, and TANF requirements do not apply.

Meeting Recession-Related Costs by Cutting Other TANF Services?

About half of TANF and MOE funding is not in cash assistance or associated administrative and work program costs associated with a traditional welfare program. This “other half” of TANF supports work and provides services that address the root causes or effects of structural poverty—poverty that exists in good economic times as well as bad, and will still exist when the economy recovers from its current recession.

One of the key questions facing states is whether to cut other TANF services to pay for increased recession-related expenditures within TANF. Recession-related costs might stem either from increases in the cash welfare rolls or through states use of TANF flexibility to provide “nonwelfare” benefits such as short-term aid or subsidized employment. TANF’s fixed funding poses this policy dilemma: curtail increases in cash welfare caseloads and not expand other forms of recession-related aid or cut TANF funding for initiatives launched in better economic times. These initiatives potentially serve a larger population than does cash welfare, and include items such as child care (which might be needed to support job search, as well as employment, during

[11] The HHS funding guide can be found on the world wide web at http://www.acf.hhs.gov/programs/ofa/resources/funding_guide.htm.

[12] See U.S. Department of Health and Human Services. Office of Family Assistance. *Diversion Programs*. Program Instruction TANF-ACF-PI-2008-05 (amended), May 22, 2008.

the recession), responsible fatherhood programs, marriage education and counseling, and funding for programs that address child abuse and neglect. Additionally, TANF funds are used to fund programs and initiatives of recent policy interest. For example, recent research shows the importance of the very early years of a child's life in his or her development,[13] and TANF helps to fund early childhood intervention programs, including pre-Kindergarten programs. Additionally, activities such as after-school programs for teens address a finding in welfare-to-work research that points to potential issues with adolescent behavior in moving their parents from welfare to work.[14]

Funding for these activities are at risk if a state faces increased recession-related costs in its TANF program. That is, the same "fixed funding" that freed-up money during times of economic growth for such activities could operate in the reverse.

Legislative Issues

The Deficit Reduction Act of 2005 (DRA, P.L. 109-171) extended TANF funding through the end of FY2010. Therefore, TANF legislation is not needed until FY2010. However, the American Recovery and Reinvestment Act (ARRA, P.L. 111-5, H.R. 1) makes certain changes to TANF for recession-related purposes. It also includes non-TANF provisions that affect the "safety net" for disadvantaged families, particularly changes to UI.[15]

Funding

In order to provide extra funding during recessions, there are two potential sources of extra funding: (1) reserve funds, which allow states to save unspent TANF monies in case of a recession; and (2) a contingency fund. As of September 30, 2007 (the latest available data), TANF reserves nationwide totaled $1.7 billion, though 12 states held no reserves. Additionally, TANF spending patterns for FY2008 indicates that these reserves likely diminished during the most recent fiscal year.

The Contingency Fund

The TANF contingency fund provides states that meet specified criteria of economic need with extra, matching grants. The maximum contingency fund grant for a state is 20% of its basic block grant. As of February 6, 2009, HHS reports that 12 states were drawing or were expected to soon draw contingency funds: Arizona, Arkansas, Delaware, Massachusetts, Michigan, Nevada, New York, North Carolina, South Carolina, Tennessee, Washington, and Wisconsin.

The 1996 welfare law established the contingency fund with $2 billion, and at the beginning of FY2009, $1.3 billion remained in the fund. One issue is whether the $1.3 billion is sufficient to cover contingency fund costs for the duration of the recession. The Congressional Budget Office

[13] James J. Heckman, "Schools, Skills, and Synapses," *Economic Inquiry*, vol. 46, no. 3 (July 2008), pp. 289-324.

[14] Lisa A. Gennetaian, Greg J. Duncan, and Virginia W. Cox, et al., *How Welfare and Work Policies for Parents Affect Adolescents*, MDRC, New York, NY, May 2002.

[15] See CRS Report RL33362, *Unemployment Insurance: Available Unemployment Benefits and Legislative Activity*, by Julie M. Whittaker.

(CBO) estimates that the contingency fund will remain solvent through FY2009, but run out of money in FY2010. However, there is a great deal of uncertainty in this estimate, as the solvency of the TANF contingency fund depends on whether some large states, particularly California, access the fund. (HHS reports that New York began accessing the fund for December 2008.) This is illustrated in **Table 4** which shows several scenarios for contingency fund grants and balances by the end of FY2009.

If only the current 12 states draw contingency funds, the fund would remain solvent through the end of FY2009. However, if only California joins the current 12 states—and California is currently economically eligible and is experiencing caseload increases—the fund would become insolvent by the end of the year. The table also shows that a combination of the current 12 states, and some other large states could exhaust the fund.

Table 4. Illustrative Scenarios for the TANF Contingency Fund, FY2009

$ in millions

	Total Grants	Balance at End of Year
Current 12 States	988	331
Current 12 States + CA	1,735	-416
Current 12 States Plus Other Large States (Except CA)	1,605	-286
All Currently Eligible States (Includes CA)	2,933	-1,614
All Currently Eligible States Less CA	2,186	-267

Source: Congressional Research Service based on data from HHS

Notes: Other large states represented are the top 10 states ranked based on their basic TANF block grant.

Total grants and balance at the end of the year are hypothetical computations based on numerous assumptions. Two of these assumptions are as follows. First, that the current 11 states that qualify for contingency funds continue to qualify for the remainder of the fiscal year and draw contingency funds for all 12 months of the fiscal year.

A second issue related to the TANF contingency fund is whether it is effective in supporting states that are experiencing recession-related costs from increased cash assistance caseloads. As shown above, 16 states experienced caseload increases from September 2007 to September 2008, yet only four received contingency funds. Eight states drew contingency funds without an increase in the cash assistance caseload.

The mismatch between states with caseload increases and those drawing contingency funds likely stems largely from the way the TANF contingency fund state spending requirement operates. The basic TANF MOE requires states to spend at least 75% of what they spent in FY1994. On the other hand, the TANF contingency fund requires a state to meet a 100% of FY1994 spending requirement before it can begin to draw the first matching dollar. It then needs to put up matching funds to draw down contingency funds. This state spending requirement had been, in the past, viewed as a steep one, and the major barrier for state access to the contingency fund. However, the types of expenditures that count toward this state spending requirement are quite broad—they cover all TANF-type activities except for child care. States may claim human service expenditures that previously were considered apart from the TANF program as TANF MOE expenditures to help them meet the contingency fund state spending requirement, and thus draw contingency funds. Some states may have such expenditures; other states may not.

The ARRA retains the existing TANF contingency fund, but also creates a temporary new emergency contingency fund for FY2009 and FY2010. States will receive an additional capped TANF grant equal to 80% of the increased costs of cash welfare, short-term aid, or work subsidies in FY2009 and FY2010. Each state's cumulative, combined funding from both the existing contingency fund and the new temporary emergency fund for FY2009 and FY2010 is capped at 50% of its annual basic block grant. ARRA provides total funding of $5 billion for emergency contingency fund grants made in the two years.

Supplemental Grants

TANF includes supplemental grants that total $319 million for 17 states. The 17 states, mostly in the South and West, are those with historically high rates of population growth and low welfare grants per poor person. Under prior law, supplemental grants expire at the end of FY2009. The ARRA extends supplemental grants through FY2010. Extension of supplemental grants through the end of FY2010 (when other TANF funding expires) eliminates uncertainty that these grants will continued to be funded for FY2010.

TANF Program Rules

TANF Work Participation Standards

States that fail TANF work participation standards are subject to a penalty through a reduction in their block grant. The penalty is reduced based on how far away they were from achieving their standard. The HHS Secretary may also reduce the penalty if a state failed the work standards because they met the economic need criteria of the TANF contingency fund. Most states currently meet these criteria.

Though there is relief from the financial penalty for failure to meet TANF work participation standards already in the law, Congress could act to further relieve states from the sanctions for failure to meet the participation standards. First, HHS has yet to penalize states for failure to meet the FY2007 or FY2008 participation standards. States that failed these standards would be penalized through a reduction in FY2009 and later block grants. Congress could either eliminate or defer these penalties as a response to the recession. Second, Congress could act to either help states meet the FY2009 and FY2010 standard or eliminate the penalty for failure to meet these standards because of a recession. TANF's work participation standards emphasize rapid job attachment—something more difficult to achieve during a recession. Work rules related to job search could be further liberalized to account for a deteriorated job market.

TANF's work standards also include a caseload reduction credit. Under the credit, state work participation standards are reduced by 1 percentage point for each percent decline since FY2005. This, together with fixed funding, provides states with an incentive to reduce the caseload. The ARRA allows states to "freeze" their caseload reduction credit at pre-recession levels. Therefore, any caseload increases caused by the recession would not reduce the credit, and thus increase state work participation standards.

Use of TANF Reserve Funds

TANF permits states to "reserve" unused TANF grants without fiscal year limit. Before the enactment of the ARRA, reserve funds were restricted to be used only for the purpose of providing cash welfare. The ARRA modifies TANF's reserve fund provision, allowing reserves to be used to fund any TANF benefit or service.

Definition of Short-Term Aid

As discussed above, one form of flexibility TANF gives states is to provide short-term economic aid to families and not have it considered "welfare," and thus not trigger TANF work participation, time limit, and child support enforcement assignment requirements. These short-term benefits can be used by states to provide a varied range of economic help to families with children to respond to specific episodes of need. However, as discussed above, the Bush Administration issued a program instruction in May 2008 that sought to reign in certain state practices in designating certain types of aid as "short-term" and thus not subject to the rules of "welfare."

The new Obama Administration might consider reinterpreting this provision. Alternatively, Congress could act and add to the statute a definition of short-term aid. (This issue is not addressed in the ARRA.)

Child Care for Unemployed Families

The TANF implementing regulations cited above also created a distinction in the rules governing TANF-funded child care for those who were employed and child care for those not employed. TANF-funded child care for families not employed operates under the same rules as cash welfare—it triggers work participation requirements, time limits, and the child support assignment requirement. TANF-funded child care for families with an employed member does not operate under these rules. This distinction makes sense from the presumption that TANF-funded child care for those who are not employed goes to those who also receive cash welfare and thus are already under these rules. However, that may not always be the case, particularly given that many disadvantaged families do not receive TANF cash welfare. This distinction poses a barrier to continue to provide subsidized child care to newly unemployed persons who do not receive cash welfare.

The welfare reauthorization proposals of 2002 to 2005 generally included language to eliminate the distinction between TANF-funded child care for employed and not employed. Under these proposals, unemployed persons could receive TANF-funded child care without triggering the requirements of welfare. Congress could revive that proposal as a response to the recession. (This issue is not addressed in the ARRA.)

Author Contact Information

Gene Falk
Specialist in Social Policy
gfalk@crs.loc.gov, 7-7344

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