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

(name redacted)
Specialist in Social Policy

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Summary

The recession that began in December 2007 has raised issues about policies to address the threats to the economic security of people and families from an economic downturn. 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 cash benefits underwent major changes over several decades, culminating in policy changes in the mid-1990s that included the major welfare reform law of 1996. The current recession is 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 and gave states enhanced flexibility in designing benefits and services for needy families with children. The cash welfare caseload declined by two-thirds from 1994 to 2008 and stood at 1.8 million families in December 2008, just above the post-welfare reform low of 1.7 million families in July 2008. The share of poor children receiving TANF plummeted from over 60% before welfare reform to 22% by 2008.

The American Recovery and Reinvestment Act of 2009 (ARRA, P.L. 111-5) provides states with incentives and funds to rethink the safety net for disadvantaged families with children. First, it provides states with funding incentives to expand UI for low-income workers. This permits states to expand social insurance to respond to the recession. ARRA also provides additional funding to the states through TANF to finance recession-related expenditures. It establishes a temporary, $5 billion "emergency" contingency fund that will reimburse states for 80% of increased expenditures for basic assistance, non-recurrent short-term benefits, and subsidized employment expenditures for fiscal years 2009 and 2010. Emergency funds for basic assistance are contingent on increases in the basic assistance caseload. Through September 11, 2009, 15 states have been granted emergency funds totaling $563 million with $180 million in outlays.

ARRA's new funds to pay for increased basic assistance (i.e. cash welfare) have raised the question of whether the newly available funds will serve to promote welfare dependency. Historically, cash welfare caseloads often increase when unemployment increases, so it could be argued that the additional funds will pay for caseload rises caused by systemic economic forces (e.g. a world-wide recession). However, concerns about increasing welfare dependency, as well as concerns that traditional cash welfare might not meet the needs of those thrown into poverty by the recession, could lead to debates at the state level about how best to use these new TANF funds. Since TANF provides states with broad flexibility, ARRA's additional TANF funding could be used for new programs, such as short-term benefits, subsidized employment programs, and community service programs, in addition to or instead of increased traditional cash welfare. 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 6.9 million jobs. In August 2009, the Congressional Budget Office (CBO) issued its revised economic outlook, forecasting a return to economic growth in the last half of 2009, but with the unemployment rate continuing to rise through 2010, topping 10% by mid-2010.[1] This has raised the profile of economic insecurity caused by the recession. Individuals and families who were economically disadvantaged before the recession hit are particularly at-risk of economic insecurity.

This report discusses the potential role that the Temporary Assistance for Needy Families (TANF) block grant to states may play in mitigating the effects of the recession for poor families with children. 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.

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 full year of an economic expansion that dated back to 2001, stood at 18.0%—higher than the rate for the elderly (9.7%) or that for non-aged adults (10.9%). In the recession year of 2008, the child poverty rate rose to 19.0%.

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

Current public policy toward low-income families with able-bodied adults emphasizes work. This 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).

[1] Congressional Budget Office, *The Economic and Budget Outlook 2009-2019: An Update*, August 2009.

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

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

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 the 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.

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 (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 December 2008, the cash welfare caseload had fallen to 65% below the December 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 2008, the welfare recipiency rate among poor children stood at 22%—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 9.7% in August 2009—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. Since the beginning of the recession in December 2007, 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. These groups—women maintaining families, those with no high school diploma, African-Americans, Hispanics, and young adults—had unemployment rates well into

[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: 1987-2007*, by (name redacted).

[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.

the double-digits. Though not all unemployed workers in at-risk groups are in families with children, many are.

Table 1. Unemployment Rates for Selected Groups

(data seasonally adjusted unless otherwise noted)

Demographic Group	Unemployment Rate: Dec. 2007	Unemployment Rate: July 2009	Unemployment Rate: August 2009
All workers	4.9%	9.4%	9.7%
Women maintaining families (not seasonally adjusted)	6.9	12.6	12.2
No high school diploma (25 years and older)	7.5	15.4	15.6
African-American (20 years and older)	7.6	13.6	14.3
Hispanics (16 years and older)	6.2	12.3	13.0
Young adults (20 to 24 years old)	9.2	15.3	15.1

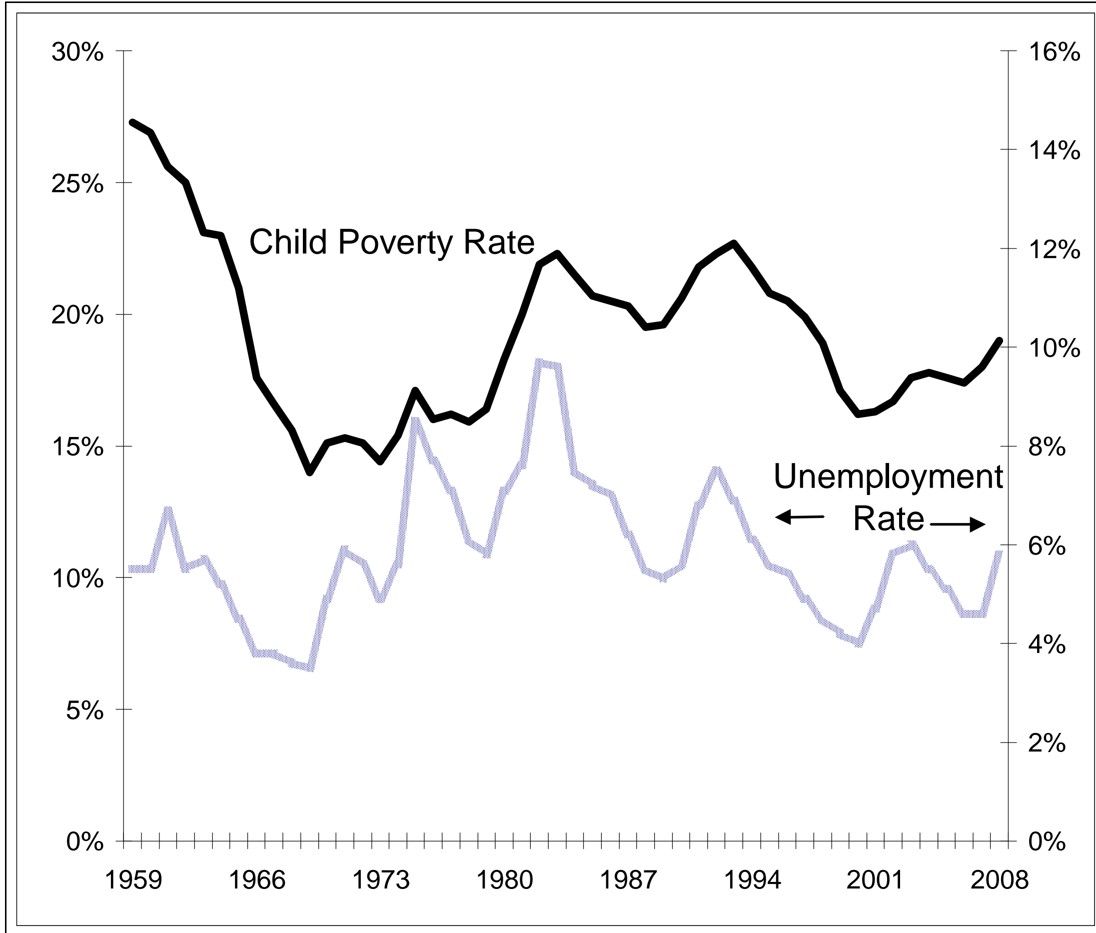
Source: Congressional Research Service (CRS), based on data from the U.S. Department of Labor, Bureau of Labor Statistics.

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 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. The child poverty rate also increased after the 2001 recession. It rose from its low point of 16.2% in 2000 to 17.8% in 2004, before falling for a couple of years, and then rising again to 18.0% in 2007. The child poverty rate rose with the higher unemployment rate in 2008, reaching 19.0%.

Figure 1. Child Poverty and Unemployment Rates, 1959 to 2008

(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. Even among job losers, UI receipt is not universal. UI requires sufficient recent employment (and 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.

Research shows that low-wage workers, part-time workers, and women, have lower rates of UI receipt when they become unemployed.[6] Additionally, policies to increase the financial rewards from work and the welfare reforms of the 1990s 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.[7] A 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.[8] 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 leave 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.

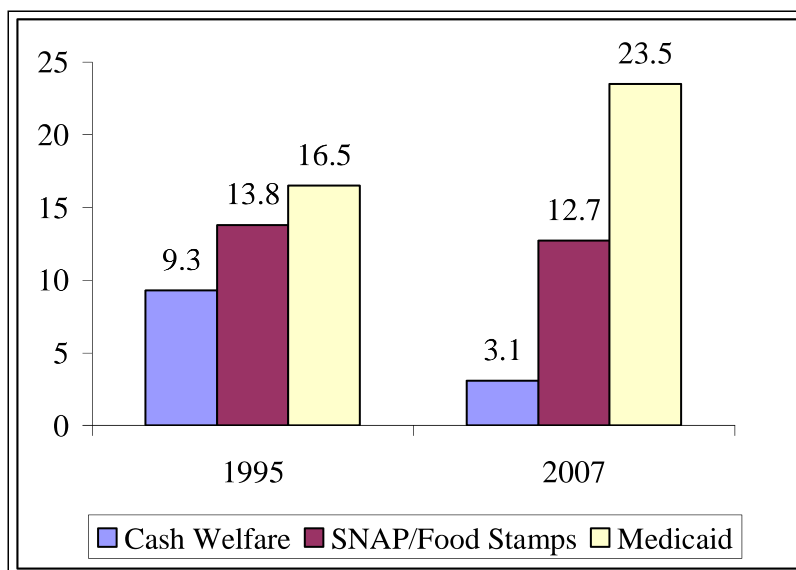
[6] See U.S. Government Accountability Office. *Unemployment Insurance: Role as Safety Net for Low-Wage Workers is Limited,* GAO-01-181, December 2000. See also: U.S. Government Accountability Office, *Unemployment Insurance: Receipt of Benefits Has Declined, with Continued Disparities for Low-Wage and Part-Time Workers*, GAO-07-1243T, September 19, 2007.

[7] 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.

[8] 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 American Recovery and Reinvestment Act of 2009 and Disadvantaged Families with Children

The American Recovery and Reinvestment Act of 2009 (ARRA, P.L. 111-5) provides states with incentives and funds to rethink the safety net for disadvantaged families with children.[9] It does so through provisions that affect both tiers of the safety net—social insurance and need-based assistance. In particular, disadvantaged families with children could be affected by ARRA's provisions to enhance UI for low income families, provide additional TANF funding to allow the expansion of need-based assistance, or both. The UI and TANF provisions give states new options to address the economic needs of disadvantaged families; states could exercise them or leave the status quo alone.

Social insurance programs are the primary source of economic aid to mitigate the risk of the loss of earnings, with benefits earned through work in covered employment. Though these benefits do affect incentives to work and save, they generally do not conjure up the same issues of "welfare dependency" that need-tested benefits do.

The ARRA includes several provisions that can enhance UI for low-wage workers. It provides federal funding for a $25 per week increase in the weekly UI benefit. It also provides incentive grants to states that permit those with shorter work histories, those available only for part-time

[9] For an overview of ARRA's provisions affecting human services programs, see CRS Report R40211, *Human Services Provisions of the American Recovery and Reinvestment Act*, by (name redacted) et al.

employment, and those who lose their jobs for "compelling family reasons" to receive UI upon becoming unemployed. States also can receive incentive grants, in part, based on providing dependents' allowances that would raise benefits for families with children.[10]

The remainder of this report will focus on the TANF provisions of the ARRA. However, should the state expand UI for low-wage workers, the economic needs of disadvantaged families might be lessened and the role of TANF in helping these families could be smaller.

TANF Funding and Recessions

In creating TANF in the 1996 welfare law, Congress converted 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 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 the TANF 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.

The fixed nature of TANF funding imposes financial risk on states. Absent additional funding, states bear the risk of an increase in recession-related costs, including increases in the cash welfare caseload. To pay for increased costs in a recession, states either have to cut other human services funded through TANF or increase spending from their own funds. TANF funds have been used for a wide range of human services that either seek to address the root cause or ameliorate the effects of economic disadvantage among families with children. These initiatives—launched in better economic times—are at risk in states that need to reallocate TANF funds toward economic assistance during a recession.

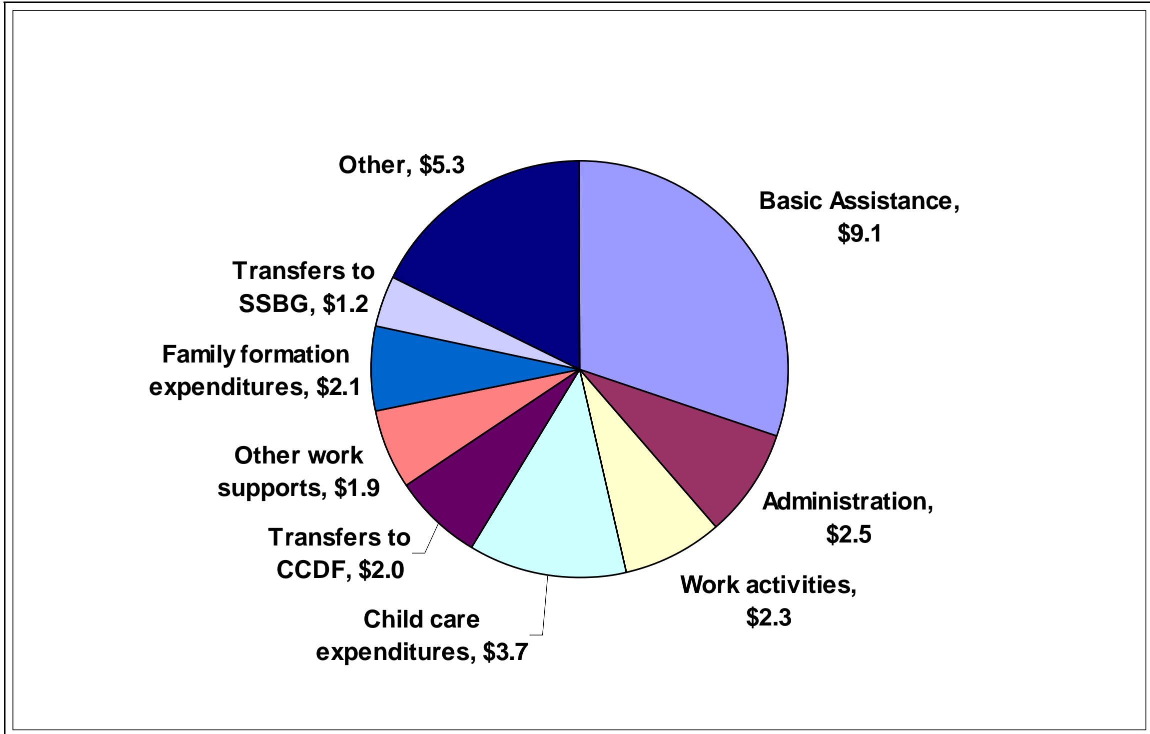
Figure 3 shows the use of TANF grants and MOE spending for FY2007. As shown on the figure, basic cash assistance (what most people call cash welfare) accounted for only $9.1 billion (30%) of all TANF and MOE funds in that year. Even when also counting expenditures on administration and work activities (the other categories associated with traditional welfare programs), a little less 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 and MOE spending.[11] Other work supports, such as the refundable portion of state tax credits for low wage workers and transportation aid, account for an additional 6% of all funds spent.

[10] CRS Report R40368, *Unemployment Insurance Provisions in the American Recovery and Reinvestment Act of 2009*, by (name redacted), (name redacted), and (name redacted).

[11] The ARRA added $2 billion in funding for the Child Care and Development Fund. These extra funds also could free up TANF dollars for recession-related benefits and activities.

Figure 3. FY2007 Use of TANF Funds and MOE Expenditures

(in billions of dollars)



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

The 1996 Law and Extra TANF Funding for Recessions

TANF has two major sources of extra funding in case the fixed block grant is insufficient to cover costs for any period. The 1996 law allowed states to save unspent TANF monies, without fiscal

[12] 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.

year limit. As of September 30, 2007 (the latest available data), TANF reserves nationwide totaled $1.7 billion. At that time, 12 states held no reserves. Additionally, the national total represents only a small percentage of total federal and MOE funds (of about $28 billion) expended under TANF in a year.

Before the enactment of the ARRA, states could use these reserves only for the purposes of providing assistance (i.e., traditional cash welfare) to families—it could not be used for the wider range of TANF activities. The ARRA lifted the restriction that reserves only be used for assistance, allowing them to finance any TANF benefit, service, or activity.

The 1996 law also provided a $2 billion contingency fund, for extra matching grants to states that meet certain criteria of economic need. At the beginning of FY2009 (October 1, 2008), $1.3 billion remained in the fund. The Congressional Budget Office (CBO) estimated in January 2009, before the enactment of the ARRA, that $1 billion of the fund would be used in FY2009 and the fund would be exhausted at some time in FY2010. For the remainder of this report, this fund will be termed the "regular" TANF contingency fund, because the ARRA established a temporary "emergency" TANF contingency fund.

States qualify for the regular TANF contingency fund based on economic need. Economic need is established by either: (1) Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps) participation, for the most recent three months for which data are available, that is at least 10% higher than it was during the corresponding three-month period in either FY1994 or FY1995; or (2) a three-month average unemployment rate of at least 6.5% and that equals or exceeds 110% of the rate measured in the corresponding three month period in either the previous two years.

Though eligibility for the regular TANF contingency fund is based on economic need, the actual amount of grants a state may receive under the fund is based on its TANF expenditures. States must spend from their own funds at least 100% of what they spent in FY1994 on the pre-TANF programs before they qualify for matching funds. Spending above the 100% level is matched at the Medicaid matching rate (statutorily limited to between 50% and 83%, with the rate inversely related to a state's per-capita income). The expenditures that count toward the 100% and matching requirements are the broad range of TANF expenditures, with the exception of child care, which is not counted for contingency fund purposes. Annual federal funds from the regular contingency fund are capped at 20% of a state's basic annual block grant.

The TANF "Emergency" Contingency Fund Established by the ARRA

The ARRA added a new temporary "emergency contingency fund" to TANF for FY2009 and FY2010. It appropriated $5 billion to the fund for these two years. The emergency contingency fund will reimburse states for 80% of increased expenditures for basic assistance, non-recurrent short-term benefits, and subsidized employment expenditures up to a cap. The cap is a cumulative amount for FY2009 and FY2010, and restricts a state to receiving in both regular and emergency contingency funds amounts up to 50% of its annual basic block grant over the two years. Reimbursement for basic assistance under the temporary emergency fund is contingent upon increases in basic assistance caseloads. Increased caseloads and expenditures are measured on a quarterly basis, comparing each quarter in FY2009 and FY2010 to the corresponding quarter in the base years of FY2007 and FY2008. The applicable base period varies depending on

whichever results in the greatest increase for each state for the basic assistance caseload and by expenditure category.

Table 2 shows the annual state family assistance grant and the two-year limits on federal funds for both the regular TANF contingency fund and the combined TANF regular and emergency contingency funds. The Commonwealth of Puerto Rico and territories of Guam and the Virgin Islands are ineligible for regular contingency funds, but are eligible for emergency contingency funds. Additionally (not shown on the table), tribes that operate tribal TANF programs may receive emergency funds. The table shows that the sum of individual state caps ($8.2 billion) exceeds available funding ($1.3 billion in remaining regular contingency funds plus the $5 billion appropriated for the emergency fund).

Table 2. TANF State Family Assistance Grant, Regular Contingency Fund, and Emergency Contingency Fund Limits (FY2009-FY2010)

(in millions of dollars)

State	State Family Assistance Grant[a]	Regular Contingency Fund Limit (Over Two Years)[b]	Combined Regular and Emergency Fund Limit (Over Two Years)
Alabama	93.3	37.3	46.7
Alaska	46.4	18.6	23.2
Arizona	200.2	80.1	100.1
Arkansas	56.7	22.7	28.4
California	3,659.9	1,464.0	1,829.9
Colorado	136.1	54.4	68.0
Connecticut	266.8	106.7	133.4
Delaware	32.3	12.9	16.1
District Of Columbia	92.6	37.0	46.3
Florida	562.3	224.9	281.2
Georgia	330.7	132.3	165.4
Guam	3.5	0.0	1.7
Hawaii	98.9	39.6	49.5
Idaho	30.4	12.2	15.2
Illinois	585.1	234.0	292.5
Indiana	206.8	82.7	103.4
Iowa	131.0	52.4	65.5
Kansas	101.9	40.8	51.0
Kentucky	181.3	72.5	90.6
Louisiana	164.0	65.6	82.0
Maine	78.1	31.2	39.1
Maryland	229.1	91.6	114.5
Massachusetts	459.4	183.7	229.7

State	State Family Assistance Grant[a]	Regular Contingency Fund Limit (Over Two Years)[b]	Combined Regular and Emergency Fund Limit (Over Two Years)
Michigan	775.4	310.1	387.7
Minnesota	263.4	105.4	131.7
Mississippi	86.8	34.7	43.4
Missouri	217.1	86.8	108.5
Montana	38.0	15.2	19.0
Nebraska	57.5	23.0	28.8
Nevada	43.9	17.6	22.0
New Hampshire	38.5	15.4	19.3
New Jersey	404.0	161.6	202.0
New Mexico	110.6	44.2	55.3
New York	2,442.9	977.2	1,221.5
North Carolina	302.2	120.9	151.1
North Dakota	26.4	10.6	13.2
Ohio	728.0	291.2	364.0
Oklahoma	145.3	58.1	72.6
Oregon	166.8	66.7	83.4
Pennsylvania	719.5	287.8	359.7
Puerto Rico	71.6	0.0	35.8
Rhode Island	95.0	38.0	47.5
South Carolina	100.0	40.0	50.0
South Dakota	21.3	8.5	10.6
Tennessee	191.5	76.6	95.8
Texas	486.3	194.5	243.1
Utah	75.6	30.2	37.8
Vermont	47.4	18.9	23.7
Virgin Islands	2.8	0.0	1.4
Virginia	158.3	63.3	79.1
Washington	381.0	152.4	190.5
West Virginia	110.2	44.1	55.1
Wisconsin	314.5	125.8	157.2
Wyoming	18.5	7.4	9.3
Total	16,387.0	6,523.6	8,193.5

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

Notes: Puerto Rico, Guam, and the Virgin Islands are ineligible for regular contingency funds but are eligible for emergency funds.

a. State Family Assistance Grants are as reduced for tribes in the state that operate their own tribal TANF programs. The figures are as of October 1, 2008 (beginning of FY2009) and might be reduced if additional tribes opt to run their own TANF programs, or increased if tribes currently opting to run their own TANF programs opt out.

b. Regular contingency fund limit is 20% of the annual state family assistance block grant per year. Unused amounts cannot be carried over to subsequent years. The table shows the maximum two-year limit to compare with the combined regular and emergency contingency fund limit, which is expressed as a cumulative limit for FY2009 and FY2010.

Table 3 shows grants and outlays of the TANF Emergency Contingency Fund through September 11, 2009. Through that date, 15 states had claimed emergency contingency funds totaling $563 million. Of these funds, $180 million had gone to the states as outlays.[13]

Table 3. Emergency Contingency Fund Grants and Outlays Through September 11, 2009

(in millions of dollars)

State	Grants (Obligations)	Outlays
Alabama	$0.471	$0.000
Arizona	0.166	0.000
California	248.805	0.750
District Of Columbia	0.992	0.000
Florida	23.343	2.956
Maine	0.066	0.066
Minnesota	13.415	0.000
Montana	0.522	0.205
New York	149.200	140.000
Ohio	35.846	35.421
Oklahoma	0.094	0.000
Pennsylvania	28.900	0.000
South Dakota	0.208	0.000
Tennessee	13.029	0.746
Washington	48.295	0.000
Totals	563.352	180.143

Source: Congressional Research Service (CRS), with data from Recovery.gov.

[13] For a description of actual and planned uses of TANF Emergency Contingency Funds, see Liz Schott, *Opportunities under the TANF Emergency Fund Created By the Federal Recovery Act* , Center for Budget and Policy Priorities, June 29, 2009.

Expanding TANF's Role to Respond to a Recession?

The 1996 welfare reform law was enacted, in part, out of concern that a part of the population was chronically welfare-dependent. Research published in the mid-1990s showed that while many families received cash welfare for only a short period of time, a substantial minority received welfare for a long time. It was estimated that little more than 1/3 of those who entered the rolls could be expected to be on the rolls for five years or more.[14] Other research showed that cash welfare provided a disincentive to work, and also affected decisions on whether to marry or have a child out-of-wedlock (though neither the effect of welfare on work or family formation could explain more than a small share of the trends in work or marriage among families with children).[15]

One of the goals of the TANF block grant is to reduce the dependence on government benefits of needy parents. **Figure 4** shows the trend in the number of families receiving cash welfare and its relationship to the unemployment rate. It shows that since the enactment of welfare reform in the mid-1990s, the welfare rolls have declined sharply. In the late 1990s, this decline coincided with the drop in the unemployment rate. Since 2000, welfare rolls continued to decline until very recently, regardless of the trend in the unemployment rate. Thus, as measured by the number of families receiving assistance, welfare dependency is much reduced from the pre-1996 levels.

Critics of the ARRA provision establishing the temporary emergency contingency fund argue that the extra funding will provide states with the incentive to increase their welfare rolls. **Figure 4** provides a long historical view of the welfare caseload, from July 1959 to December 2008. Over this period, there are periods when the trends in welfare caseloads moved in tandem with the unemployment rate, and there are other periods when the trends in the two data series differed. Most research on the welfare caseloads says that macroeconomic conditions are a factor affecting caseloads, though much of this research focuses on the period before 2000.[16]

The history of the cash welfare caseload also shows that a return to economic prosperity has not always resulted in lower caseloads, such as the trend seen in the 1980s. Other forces, demographic changes and policy, also affect the caseload.

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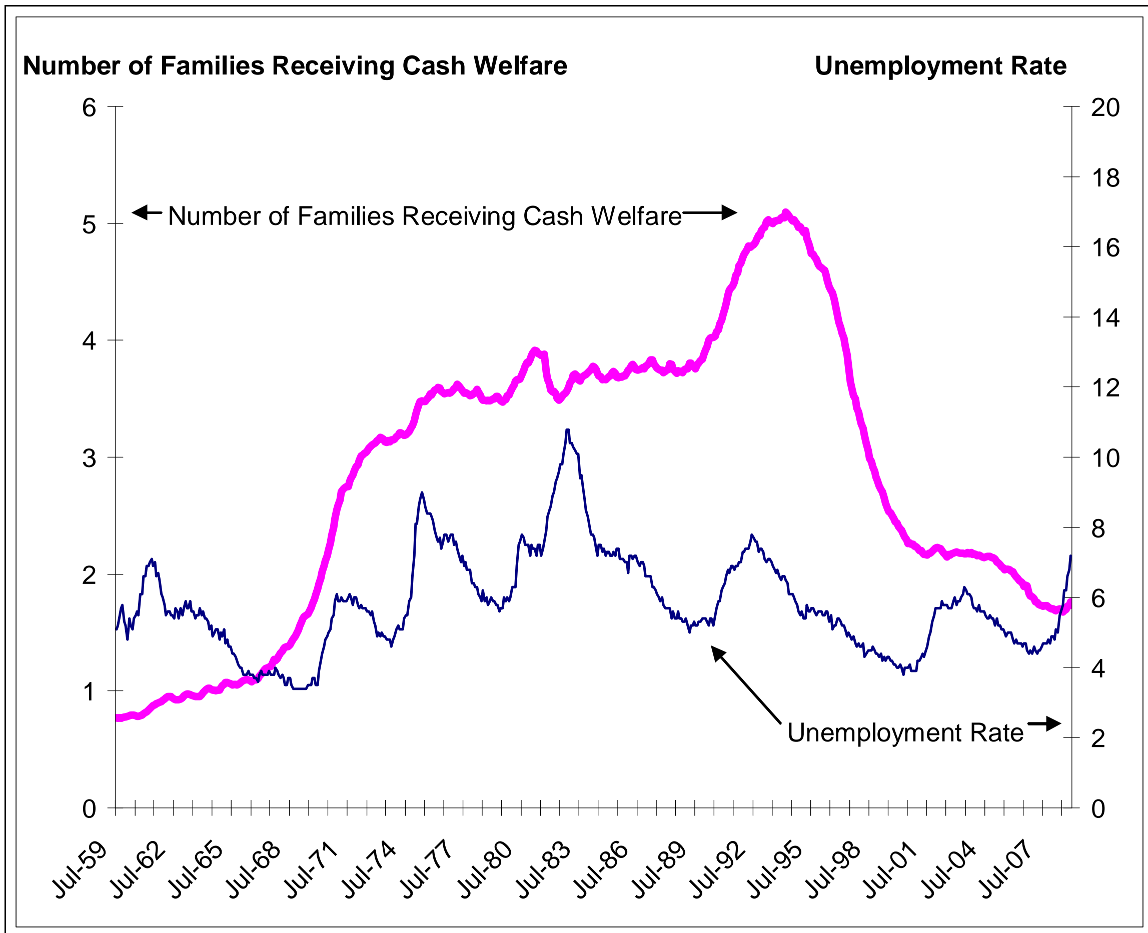
[14] LaDonna Pavetti, *Questions and Answers on Welfare Dynamics*, Urban Institute, Washington DC, September 11, 1995.

[15] For a review of the literature through the early 1990s, see Robert Moffitt, "Incentive Effects of the U.S. Welfare System: A Review," *Journal of Economic Literature*, vol. 30, no. 1 (March 1992), pp. 1-61.

[16] A recent study examined caseload trends through 2005. It concluded that, given the effect of welfare reform policy changes, the caseload would have declined further had the economy not weakened. (The study also found that much of the change in the caseload over time is not explained by either the economy or policy. That is, much is still unknown about what factors influence welfare caseloads.) See Caroline Danielson and Jacob Alex Klerman, "Did Welfare Reform Cause the Caseload Decline?," *Social Services Review*, vol. 82, no. 4 (December 2008), pp. 703-730.

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).

Cash Welfare for Needy Families With Children

Though the emergency TANF fund can be used for a wide range of economic supports for families during the recession, its first use is likely to be paying for increased cash welfare caseloads. In the early months of the recession, cash welfare caseloads did not rise. However, the national caseload did increase slightly from July through December 2008. During the period from December 2007 to December 2008, 31 states saw increases in their cash welfare caseloads.

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 4 provides TANF cash welfare benefits by state for 2008. 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 4. 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
North Dakota	477	32.5
Montana	472	32.2
New Mexico	447	30.5
Illinois	434	29.6
Kansas	429	29.3

State	Maximum Benefit	Maximum Benefit as a Percent of the 2008 Poverty Threshold
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. This includes TANF work participation requirements, the federal five-year time limit, and a requirement that the family legally turn over (assign) any rights it has to child support payments from noncustodial parents to the state as reimbursement for welfare costs. Though

states have some flexibility in how they implement these requirements, the federal rules influence the design of state programs and the requirements and rules that ultimately apply to individuals.

Work Participation Standards

The TANF work participation standards are numerical performance standards that states must meet or be subject to a financial penalty. They represent a target percentage of families that must be engaged in activities (50% of all TANF families with a parent, 90% of two-parent TANF families), but the statutory standards are reduced for reductions in the TANF assistance caseload. That is, the standards may be met either by engaging families in activities or reducing the assistance caseload. A provision called the "caseload reduction credit" reduces the statutory standards by one percentage point for each percent decline in the caseload since FY2005. The ARRA temporarily modified the caseload reduction credit, allowing a state that experiences caseload increases during the recession to "freeze" its credit at its FY2008 value or its largest value for the period FY2009 through FY2011. This also allows a state to "freeze" the percentage of its caseload that it must engage in activities at its FY2008 rate, or the lowest rate of the FY2009 through FY2010 period.

Though the ARRA caseload reduction credit provision has garnered significant attention, also important is a provision built into the original 1996 law that allows the Secretary of HHS to reduce the financial penalty for a state that fails to meet the work participation standard if it is economically eligible for the regular TANF contingency fund. In June 2009, all jurisdictions except Wyoming and the Virgin Islands were economically eligible for the regular TANF contingency fund, and thus eligible for relief from the TANF work participation penalty.

Activities That Count Toward the Work Participation Standards

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.

Time Limit

States cannot use TANF funds to assist a family with an adult recipient for more than five years, though 20% of the caseload can be on 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.

Child Support

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.

Potential Concerns

As mentioned above, welfare caseload trends have not always followed those of the unemployment rate—an example is the 1980s when caseloads remained fairly constant after the end of the 1981-82 recession. This might lead to concerns that possible expansions of caseloads during the recession might not be fully temporary. However, there are large differences in policies affecting the poor today compared with earlier periods. The returns to leaving welfare for work are greater than they were in the 1980s—owed to both increases in the Earned Income Tax Credit and other refundable tax credits tied to wages as well as the declining value of the welfare grant.

Still, concerns about increased welfare dependency might lead to a debate at the state level about how to use the new ARRA funds. There could also be concerns that the rules of cash welfare—that limit countable job search and require quick returns to employment—might not meet the needs of families thrown into poverty by the recession. The temporary emergency fund can be used to pay not only for traditional cash welfare, but also in different and innovative ways to address the effects of the recession.

Other Forms of Economic Support from TANF in the Recession

The temporary emergency fund created by ARRA would reimburse states for 80% of the increased costs of both non-recurrent short-term benefits and subsidized employment. Under pre-recession, pre-ARRA TANF programs, states spent relatively few dollars on either type of economic aid. In FY2006, states expended only $289 million on non-recurrent short-term benefits and $103 million in wage subsidies to employers. Both forms of aid might be expanded to respond to the recession, particularly if it is long and deep.

Non-Recurrent Short-Term Benefits

Non-recurrent short-term aid is defined in regulations as benefits that (1) are designed to deal with a specific crisis situation or episode of need; (2) are not intended to meet recurrent or ongoing needs; and (3) will not extend beyond four months. This type of aid is defined as distinct from ongoing cash welfare, and does not trigger requirements that apply when a family receives cash welfare. That is, a family that receives only short-term aid is not subject to the TANF time limit, is not included in the state's TANF work participation rate calculation, and is not required to legally turn over child support to the state.

Non-recurrent short-term benefits may take any number of forms. Some examples include

- 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
- loans to needy families to provide stable housing, secure a car, or for other reasons that are reasonably calculated to meet a purpose of the program.

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 in 2008 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.[17] 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.

Subsidized Employment

The ARRA temporary emergency fund will also reimburse states for 80% of the increased cost of subsidized employment. That is, this fund can be used to support employment for otherwise unemployed, needy parents. Just as with short-term non-recurrent benefits, if a family only benefits from a wage subsidy paid directly from TANF to the employer, that family is not considered to be receiving welfare, and TANF time limits, work participation standards, and child support requirements do not apply.

Other Activities

States may also use ARRA funds for increased "basic assistance" in ways other than expansions of traditional cash welfare. For example, states can create community service programs for unemployed parents and pay parents a stipend for ongoing basic needs. This would meet the regulatory definition of "basic assistance," thus making that family a basic assistance case and those expenditures reimbursable from the ARRA emergency fund. Similarly, states could pay families a stipend to attend a vocational educational training program. This too, can be considered "basic assistance" use of ARRA emergency funds.

Though states could establish community service or vocational education programs distinct from their regular welfare programs, these types of activities would technically come under the same requirements as cash welfare and trigger time limits, work participation standards, and child support assignment requirements. However, as discussed above, states have considerable leeway in implementing time limits. Aid tied to activities such as community service or vocational education could actually help a state meet TANF work participation standards (discussed above) if the recipients of aid participate for a sufficient number of hours. Further, states could structure their community service or vocational education programs to pass through all child support to a family with a member participating in such a program.

[17] 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.

Legislative Issues

Solvency of the Regular Contingency Fund

The regular TANF contingency fund provides states that meet specified criteria of economic need with extra, matching grants. 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. Before the enactment of the ARRA, the Congressional Budget Office (CBO) estimated that the contingency fund would remain solvent through FY2009, but run out of money in FY2010.

The availability of the temporary emergency contingency fund might affect these projections. Still, it remains possible that the regular contingency fund could run out of money in the next two years and Congress might seek to address that issue.

Penalties for Failure to Meet FY2007 and FY2008 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 for a state that failed the work standards if it met the economic need criteria of the TANF contingency fund. Most states currently meet these criteria.

HHS has released work participation data for FY2007, finding that 12 states and three territories failed to meet the all-family standard and seven states and one territory failed to meet the two-parent standard. These jurisdictions are thus at-risk of being financially penalized. (States could avoid the penalty by entering into and executing a corrective compliance plan with HHS). Further, Congress could either eliminate or defer these penalties to avoid TANF funding cuts in the midst of the recession. (This issue is not addressed in the ARRA.)

Author Contact Information

(name redacted)
Specialist in Social Policy
/redacted/@crs.loc.gov, 7-....

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