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STATEMENT OF
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ON THE
INITIAL FINDINGS FROM AN
EVALUATION OF THE 1981 AFDC CHANGES
BEFORE THE
SUBCOMMITTEE ON PUBLIC ASSISTANCE AND
UNEMPLOYMENT COMPENSATION, COMMITTEE ON
WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES



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Mr. Chairman and Members of the Subcommittee:

We are very pleased to be here today to discuss our initial findings from an evaluation of the Omnibus Budget Reconciliation Act of 1981 (OBRA) changes to the Aid to Families with Dependent Children (AFDC) program.

The AFDC program (Office of Family Assistance, U.S. Department of Health and Human Services) provides cash welfare payments to needy children (and their mothers or other caretaker relatives) without able-bodied fathers at home.¹ The 1981 OBRA legislation made substantial changes to the AFDC program, particularly regarding the treatment of income of working welfare recipients. These changes included a gross income limit tied to each State's need standard and a 4-month limit on the earned income disregard; they were aimed at reducing costs and creating disincentives to long-term welfare dependency.

On June 15, 1982, the Committee on Ways and Means asked the U.S. General Accounting Office (GAO) to:

- estimate how OBRA's changes to AFDC affected national caseloads and outlays;
- provide data on the percentages of AFDC earners (that is, working recipients) and nonearners affected by the various OBRA changes;
- determine what happened to earnings patterns and welfare use patterns among individuals who were removed from the AFDC rolls;

¹GAO's evaluation of the OBRA AFDC changes is confined to the AFDC-basic program and does not include cases in the AFDC-UP program, a program existing in 23 states serving two-parent families whose principal wage earner is unemployed.

- provide data on demographic and income and other resource characteristics of AFDC families before and after the implementation of OBRA's changes to AFDC and provide information on how often AFDC recipients moved on and off the AFDC rolls;
- examine the effect of OBRA's changes to AFDC on the composition of AFDC households;
- ascertain the economic well-being and general circumstances of the individuals and households who were removed from the AFDC rolls and, to a lesser extent, of those who received reduced benefits.

Our understanding is that this list of requests for information stemmed from three Congressional information needs. First, there was a general need to know what in fact occurred nationally with respect to AFDC caseloads and outlays as a result of the OBRA changes. Second, there was a more specific need to know whether the new limits on gross income for determining eligibility for AFDC and the changes in the treatment of earned income led to more or to less dependence on welfare. Concern had been expressed that OBRA's changes to AFDC and the associated loss of Medicaid for cases that closed might discourage AFDC recipients from working and lead them to increase their reliance on welfare. Third, there was a need to know whether the economic well-being and general circumstances of families who lost eligibility for AFDC because of OBRA have been affected, regardless of any effects on their employment and use of welfare.

EVALUATION DESIGN

The design we selected has two major components: first, a national component, which includes a survey of the states' implementation of the OBRA changes to AFDC as well as an

analysis of OBRA's effects on national AFDC caseloads and outlays; and second, a site-specific in-depth component, which consists of five separate evaluations of the effects of the OBRA changes on individual AFDC families in Boston, Massachusetts; Dallas, Texas; Memphis, Tennessee; Milwaukee, Wisconsin; and Syracuse, New York. These sites differ substantially in how they have structured the AFDC program and AFDC benefit levels. The in-depth evaluations involved reviewing large numbers (almost 12,000 overall) of case records of both working and non-working AFDC families in a "base period" before OBRA, in an "OBRA period" during which the AFDC changes were implemented, and in a period after OBRA's implementation. We also conducted interviews in the fall of 1983 with between 127 and 147 persons from the OBRA period sample in each site (668 in total) who were working and receiving AFDC benefits before OBRA's implementation but who lost eligibility for AFDC because of the changes OBRA made to the program. Our response rates were high, ranging from 73 percent to 88 percent across the sites.

INITIAL FINDINGS

Our recent report (GAO/PEMD-84-6) presents in detail the findings from our initial analyses.² With your permission, Mr. Chairman, in response to your time constraints today, let me summarize only the main points of our report.

To obtain a comprehensive picture of the effects of OBRA's changes to AFDC, it is necessary to consider findings from both the national and in-depth components of the study. Here, we

²GAO. An Evaluation of the 1981 AFDC Changes: Initial Analyses, PEMD-84-6. Washington, D.C.: April 2, 1984.

first present the results from the national component and then summarize the highlights of our in-depth evaluations in the five localities. In this way, we can examine OBRA's effects on AFDC caseloads and outlays, provide information on the rate at which cases cut from the AFDC rolls by the 1981 changes returned to AFDC, and review changes in the economic well-being and general circumstances of working families terminated because of OBRA.

National Component

Several months after the OBRA changes to AFDC, national AFDC caseloads had decreased and so had outlays, compared to what they would have been without OBRA:

- We estimate that 493,000 fewer cases were open in an average month. This is in the context of approximately 3.6 million cases active in the month prior to OBRA.
- We estimate that outlays were \$93 million less in an average month. This is in the context of a monthly outlay exceeding \$1 billion prior to OBRA.
- There is some indication that both of these effects are not permanent but eroding over time. More data are needed for a longer time period after OBRA's implementation to determine whether the effects are lessening. We plan to examine this question in the future.

The Site-Specific In-depth Evaluations

We analyzed the data from each of the five sites separately, so that we could identify any patterns they share. Differences between the sites may reflect state program variations, such as need standards and payment levels. For example, Boston, Milwaukee, and Syracuse pay relatively high AFDC benefits while in com-

parison Dallas and Memphis pay low AFDC benefits.

--Overall, the OBRA changes affected working AFDC recipients much more than they affected non-working recipients. Large proportions of AFDC earner cases (that is, cases that included workers) were either closed or had their AFDC grants reduced: across the five localities 39-60 percent of the cases were closed and an additional 8-48 percent of the cases were given reduced grants. The comparable figures for non-working cases at the time of OBRA are 1-12 percent closed and an additional 1-6 percent reduced. Because earners make up only a small proportion of the entire AFDC caseload, OBRA's overall effect on the total caseload for our five sites is only 7-14 percent for closed cases and 1-11 percent for reduced cases.

--The average monthly AFDC dollar losses for closed earner cases were substantial: \$71 to \$74 in Dallas and Memphis and \$156 to \$198 in Boston, Milwaukee, and Syracuse. For reduced cases, the average monthly AFDC dollar losses were \$46 to \$52 in Dallas and Memphis and \$110 to \$137 in Milwaukee and Syracuse. (Data were not available for Boston.)

--OBRA also tightened eligibility rules for the food stamp program, and many earners who lost AFDC in the sites paying higher benefits reported when interviewed that they simultaneously lost food stamp benefits. For example, in Syracuse 79 percent of the closed cases containing earners reported that they had been receiving food stamps prior to OBRA, with an average grant of \$81, and 72 percent of these

reported that they lost food stamps when they lost AFDC.

These findings clearly show large losses for AFDC earners as a result of the OBRA legislation. Three questions then arise: (1) Did working recipients who lost AFDC due to OBRA quit their jobs and return to the rolls? (2) Did AFDC recipients overall show different work effort and welfare use patterns as a result of OBRA, than they did in the past? (3) What happened to the general circumstances and economic well-being of the working families affected?

First, what were the rates of return to AFDC?

--In general, most earners who lost AFDC benefits did not quit their jobs and return to AFDC. Twelve months after OBRA's implementation, only 7-18 percent of these cases were back on the AFDC rolls in our five localities. It is also true that most of those who returned were no longer working. If return rates are calculated for those who returned at any time in the year after OBRA, the rates are somewhat higher, at 11-30 percent across the five localities.

Second, what did we learn about work effort and welfare use patterns?

--In looking at patterns of AFDC use for both the base and OBRA periods, we noted that smaller proportions of our earner and nonearner cases in the OBRA period were working and receiving AFDC a year later than in the base period. To find out whether these smaller proportions were attributable to the OBRA AFDC eligibility changes or rather to changes in recipients' behavior, we subjected

the base-period cases to OBRA eligibility rules. We found that most of the previously observed differences in base-period and OBRA-period AFDC use and work patterns disappeared. This analysis was, of course, limited to the work behavior of active AFDC cases. However, when it is considered with other analyses performed on case record and interview data, we find scant evidence of behavioral effects on work effort and welfare use. Thus the differences observed in work effort and AFDC use patterns can be largely accounted for by the OBRA eligibility changes.

Finally, what information was developed about the economic well-being of working families who lost AFDC due to OBRA?

--While families had been categorically eligible for Medicaid during the period they were receiving AFDC, we found that few were receiving Medicaid or any other form of government-subsidized health care at the time of the interview.

--Some families had private insurance but differences in this type of health coverage were pronounced across sites: in Dallas and Memphis, only about 25 percent of the respondents had private coverage for themselves or their children, while in Boston, Milwaukee, and Syracuse the figures were 57-61 percent.

--Approximately 60 percent of the respondents in Dallas and Memphis had no coverage of any type for themselves; 63 percent in Dallas had no coverage for their children. In Memphis, children in 50 percent of the families lacked any

health insurance coverage.

--The respondents in four sites, particularly in Milwaukee, reported experiencing various types of hardships more often after OBRA than in the 2 years before. For example, they reported more frequently having to borrow \$50 or more from friends or relatives after OBRA than in the past. In three sites, they reported a higher incidence of having to get food from a charity and of running out of food with no money to buy more. The three sites where respondents ran out of food more often were the sites where the greatest percentages reported losing food stamp benefits when they lost AFDC benefits--Boston, Milwaukee, and Syracuse.

--As for employment, 77-88 percent of the respondents were employed when we interviewed them in Boston, Milwaukee, and Syracuse, but in Dallas and Memphis the figures were lower, at 63 and 69 percent. Of those who were in the labor force at the time of the interview, many had increased their average monthly earnings (even after an adjustment for inflation), but 11-32 percent reported decreases in earnings, compared to their situation before OBRA.

--All sites show a similar pattern of loss when the monthly income of the respondent is compared for the period before the loss of AFDC and the time of the interview. The respondents' income from any earnings and AFDC and food stamp grants was significantly lower--\$115 to \$229 a month less, in constant dollars. Thus, even though

earnings increased for many who remained in the labor force, the respondents as a whole (including those no longer working) apparently did not make up the entire loss of income from AFDC and food stamps by working.

--Our comparisons of the respondents' income before and after OBRA do not include the resources of household members other than the respondents, and there is some possibility that additional resources may have been available to them. However, at the time of the interview, the average reported monthly household income (which included the earned and unearned income of all household members) was lower than the OMB poverty level for 28-41 percent of the families in Boston, Milwaukee, and Syracuse; in Dallas and Memphis, it was lower for 75-86 percent.

SUMMARY OF THE GAO FINDINGS

In summary, the OBRA AFDC changes accomplished major reductions in national AFDC caseloads and outlays. However, long-term effects are less certain. In addition, we found that most working recipients in five localities who lost AFDC due to OBRA did not quit their jobs and return to the AFDC rolls by the Fall of 1983. On the other hand, these families experienced substantial and significant income losses on average and many were found to be without either public or private health insurance.

Mr. Chairman, this concludes my statement. We thank you for the opportunity to present our results here today and would be happy to explain any part of our testimony or answer any questions the subcommittee might have.