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TEMPORARY ASSISTANCE FOR NEEDY FAMILIES

Implications of Caseload and Program Changes for Families and Program Monitoring

Statement of Kay E. Brown, Director
Education, Workforce, and Income Security

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Highlights

Highlights of GAO-10-815T, a testimony before the Committee on Finance, U.S. Senate.

Why GAO Did This Study

The Temporary Assistance for Needy Families (TANF) program, created in 1996, is one of the key federal funding streams provided to states to assist women and children in poverty. A critical aspect of TANF has been its focus on employment and self-sufficiency, and the primary means to measure state efforts in this area has been TANF's work participation rate requirements. Legislative changes in 2005 were generally expected to strengthen these work requirements. Given changes in the number of families participating in TANF over time and questions about whether the program is achieving its goals, this testimony draws on previous GAO work to focus on 1) key changes to state welfare programs made in response to TANF and other legislation and their effect on caseload trends; 2) how low-income single-parent families are faring; and 3) how recent developments in state programs and the economy may affect federal monitoring of TANF. To address these issues, in previous work conducted from November 2008 to May 2010, GAO analyzed state data reported to the Department of Health and Human Services; used microsimulation analyses; surveyed state TANF administrators in 50 states and the District of Columbia; interviewed officials in 21 states selected to represent a range of economic conditions and TANF policy decisions; conducted site visits to Florida, Ohio, and Oregon; and reviewed relevant federal laws, regulations, and research.

View GAO-10-815T or key components.
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What GAO Found

Changes states made to their welfare programs as they implemented TANF contributed to a significant decline in program participation, but caseloads are starting to increase in many states. The strong economy of the 1990s, TANF's focus on work, and other factors contributed to increased family incomes and a decline in the number of families poor enough to be eligible for cash assistance. However, research shows that state policies—including TANF work requirements, time limits, and sanction and diversion policies—also contributed to the caseload decline, as fewer eligible families participated in the program. In recent years, states have varied in their response to changes in economic conditions, with caseloads rising in 37 states and falling in 13 states between December 2007 and September 2009, the latest data available when we did our work.

Like TANF recipients, families who left TANF, as well as those who qualified for the program but who did not participate, had low incomes and continued to rely on other government supports. In the years following welfare reform, many of the parents who left cash assistance found employment, and some were better off than they were on welfare, but earnings were typically low and many worked in unstable, low-wage jobs with few benefits. Among eligible families who did not participate, a small subset did not work and had very low incomes.

Efforts to measure states' engagement of TANF recipients in work activities and to monitor states' use of all TANF funds have been of limited use in ensuring accountability for meeting federal TANF goals, according to our analysis. Work participation rates—a key performance measure for TANF, as currently measured and reported, do not appear to be achieving the intended purpose of encouraging states to engage specified proportions of TANF recipients in work activities. In addition, states' decisions to shift their spending from cash assistance to other programs and work supports such as childcare have highlighted gaps in the information available at the federal level on how many families received TANF services and how states used funds to meet TANF goals.

A central feature of the TANF block grant is the flexibility it provides to states to design and implement welfare programs tailored to address their own circumstances, but this flexibility must be balanced with mechanisms to ensure state programs are held accountable for meeting program goals. The limited usefulness of current measures of work participation and the lack of information on how states use funds to aid families and to meet TANF goals hinders decision makers in considering the success of TANF and what trade offs might be involved in any changes to TANF when it is reauthorized.

Mr. Chairman and Members of the Committee:

I am pleased to have the opportunity to participate in today's discussion of women in poverty. I will focus on the role of the Temporary Assistance for Needy Families (TANF) program in providing assistance to this population. As you know, many families receiving TANF cash assistance are headed by single parents, and because the vast majority of those parents are women, the $16.5 billion TANF block grant is one of the key federal funding streams provided to states to assist women and children in poverty. The Bureau of the Census just released last week poverty statistics for 2009 and the poverty rate for children is now at 20.7 percent, the highest it has been this decade. My remarks today are mainly based on two of our recent reports entitled *TANF: Fewer Eligible Families Have Received Cash Assistance Since the 1990s, and the Recession's Impact on Caseloads Varies by State*; and *TANF: Implications of Recent Legislative and Economic Changes for State Programs and Work Participation Rates*.[1]

As you know, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) introduced sweeping changes to federal welfare policy. PRWORA ended Aid to Families with Dependent Children (AFDC), which entitled eligible families to monthly cash payments, and created TANF, a capped block grant that emphasizes employment and work supports for most families who receive cash assistance. Under the TANF block grant program, states receive a capped amount of federal funds to design and operate their own welfare programs within federal guidelines. The Department of Health and Human Services (HHS) administers the TANF program, which provides states with up to about $16.5 billion each year in TANF block grant funds, and each state must contribute a specified level of its own funds to qualify for the grant. Within certain limitations, states set their own eligibility limits and benefit levels for cash recipients, but they must restrict most families to a lifetime limit of 60 months of federally funded TANF cash assistance. Central to TANF's focus on employment and self-sufficiency are TANF's work participation rate requirements, which require states to involve a minimum percentage of their families receiving TANF cash assistance in work activities for a required number of hours each week.

[1]See GAO-10-164 (Washington, D.C.: February 23, 2010) and GAO-10-525 (Washington, D.C.: May 28, 2010).

Recently, several legislative and economic changes have affected TANF. First, with the reauthorization of the TANF block grant through the Deficit Reduction Act of 2005 (DRA), the Congress took steps generally expected to strengthen TANF work requirements by modifying the credit provided to states for reducing the number of families receiving TANF. Following DRA, the U.S. economy experienced a severe recession and, in response, the Congress passed the American Recovery and Reinvestment Act of 2009 (Recovery Act) which included provisions affecting TANF such as the creation of a $5 billion Emergency Contingency Fund for state TANF programs. States qualify for this fund based on increases in expenditures for short –term non-recurrent benefits or subsidized employment or increases in the number of families receiving cash assistance. This fund supplemented the TANF contingency fund, which under PRWORA had made up to $2 billion available to states.

With the creation of TANF, the number of families who received cash assistance fell significantly, from 4.8 million families on average each month in 1995—just prior to the creation of TANF—to 1.7 million in 2008. More recently, however, caseloads have begun to rise in some states. Recent changes in state TANF programs made in response to DRA as well as changes in the economy have raised questions about how the program has affected low-income families over time and how best to monitor TANF's progress in meeting two of its key goals—to provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives and to end the dependence of needy families on government benefits by promoting job preparation, work, and marriage.

My remarks today—based primarily on our February and May 2010 reports—will focus on the following three issues: (1) key changes made to state welfare programs in response to TANF and other legislation and the effect of these changes on caseload trends; (2) how single parent families with children are faring, including those who receive TANF cash assistance as well as those who are eligible but do not receive assistance; and (3) the implications of recent developments on monitoring state TANF programs.

We used multiple methodologies to develop our findings for these reports. We reviewed and analyzed state TANF data reported to HHS; reported on microsimulation analyses conducted for us by the Urban Institute using a model known as TRIM3[2]; reviewed relevant federal laws, regulations, and guidance and relevant research on the factors affecting the decline of cash recipient families; interviewed HHS officials; surveyed state TANF administrators from the 50 states and Washington, D.C.; interviewed TANF officials in 21 states, and conducted site visits to meet with state and local TANF officials in Florida, Ohio, and Oregon. The states we selected for interviews and site visits had a range of economic conditions, caseloads, TANF policies, and geographic diversity. We assessed the data we received for data reliability and concluded that the data were sufficiently reliable for the purposes of our report.

We conducted our work from November 2008 to May 2010 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions in this product.

[2]TRIM3 is maintained and developed at the Urban Institute under primary funding from HHS, Office of the Assistant Secretary for Planning and Evaluation. Using TRIM3 for these analyses required our input on assumptions and/or interpretations about economic behavior and the rules governing federal programs. Therefore, the conclusions presented in this testimony are attributable only to GAO.

Changes to State TANF Programs Contributed to a Long-Term Decline in Participation but Caseloads are Starting to Increase in Many States

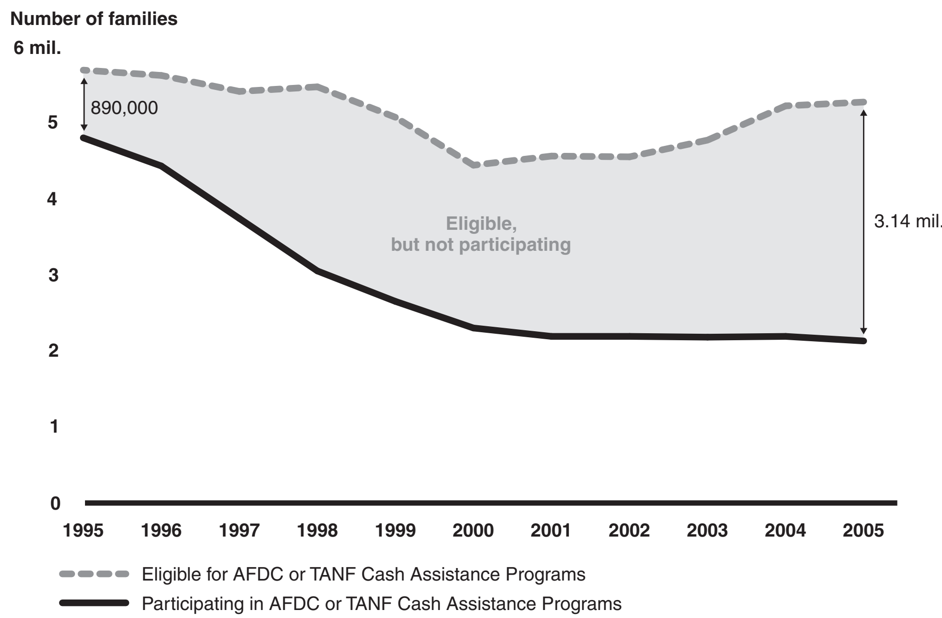
In response to the creation of TANF, states implemented more work-focused welfare programs, and research shows that these changes—in concert with other policy changes and economic conditions—contributed to raising the incomes of single parent families so that fewer were eligible for cash assistance. In designing and implementing their new TANF programs, states focused more than ever before on helping welfare recipients and other low-income parents find jobs. Many states implemented work-focused programs that stressed moving parents quickly into jobs and structured the benefits to allow more parents to combine welfare and work.[3] States also imposed financial consequences, or sanctions, on families that did not comply with TANF work or other requirements, strengthening the incentives for TANF participants to comply with work requirements. Other concurrent policy changes contributed to an increase in the share of single parents in the labor force. These included an increase in the Earned Income Tax Credit (EITC) in the 1990s and increases in the minimum wage in 1996 and 1997, both of which contributed to an increase in the returns to work. Additional funds for federal and state work supports such as child care also made it easier for single parents to enter the labor force. Finally, the strong economy of the 1990s facilitated the move from welfare to work for many TANF recipients. A decline in the unemployment rate and strong economic growth contributed to the widespread availability of job openings for workers of all skill levels in many parts of the country. During this period, labor force participation increased among single mothers, the population most affected by TANF—from 58 percent in 1995—the year prior to the creation of TANF—to 71 percent in 2007, with most of this increase occurring immediately following the passage of welfare reform. Because the incomes of many single-parent families increased as a result of these policies, in total, 420,000 fewer families had incomes low enough to be eligible for cash assistance in 2005 compared to 1995, according to HHS data.

At the same time that some families worked more and had higher incomes, others had income that left them still eligible for TANF cash assistance; however, many of these eligible families were not participating in the program. According to our estimates, the vast majority—87 percent—of

[3]Not all TANF families are subject to work requirements. TANF law allows states to exclude single custodial parents caring for a child under the age of 1, for example. Families without adult recipients—child-only cases—are sometimes exempt from work requirements and time limits. States also have the option to consider some parents not "work eligible," such as those on SSI or Social Security Disability Insurance.

the caseload decline can be explained by the decline in eligible families participating in the program, in part because of changes to state welfare programs. (See Fig. 1). These changes include mandatory work requirements, changes to application procedures, lower benefits, and policies such as lifetime limits on assistance, diversion policies, and sanctions for non-compliance, according to a review of the research.

Figure 1: Families Estimated as Eligible for and Participating in Cash Assistance through the AFDC or TANF Cash Assistance Programs, Monthly Average, by Calendar Year, 1995 through 2005



Source: GAO analysis of data from HHS's *Indicators of Welfare Dependence*, based on the TRIM3 model.

Note: For estimates of families' eligibility and participation using TRIM3, 2005 was the latest data that was publicly available when we conducted our work. TRIM3 is a microsimulation model funded by HHS that simulates major governmental tax, transfer, and health programs.

While mandatory work activities assisted some participants in getting jobs, according to a research synthesis conducted for HHS, these mandates may have led other families to choose not to apply rather than be expected to fulfill the requirement to work. Other families may have found it more difficult to apply for or continue to participate in the program, especially those with poor mental or physical health or other characteristics that make employment difficult. A decline in average cash benefits may also have contributed to the decline in participation. Average cash benefits under 2005 TANF rules were 17 percent lower than they were under 1995

AFDC rules, according to our TRIM3 estimates, as cash benefit levels in many states have not been updated or kept pace with inflation. Research also suggests that in response to lifetime limits on the amount of time a family can receive cash assistance eligible families may hold off on applying for cash assistance and "bank" their time, a practice that could contribute to the decline in families' use of cash assistance. In addition, fewer families may have applied or completed applications for TANF cash assistance because of state policies and practices for diverting applicants from cash assistance; nearly all states have at least one type of diversion strategy, such as the use of one-time nonrecurring benefits instead of monthly cash assistance. Finally, some studies and researchers noted that full sanctions for families noncompliance—those that cut off all benefits for a period of time—are associated with declines in the number of families receiving cash assistance, although more research is needed to validate this association.

During the recent economic recession, caseloads increased in some states but decreased in others, as circumstances in individual states as well as states' responses to the economic conditions varied. Between December 2007 and September 2009, 37 states had increases in the number of families receiving TANF cash assistance while 13 states had decreases. However, the degree of change in families receiving TANF cash assistance varied significantly by state, as some states experienced caseload increases or decreases of over 25 percent while others experienced minimal changes of 0 to 5 percent. Nationwide, the total number of families receiving TANF cash assistance increased by 6 percent during this time period although the subset of two-parent families receiving such assistance increased by 57 percent. Initially few states reported reducing TANF-related spending on family and/or work supports in response to the recession, instead using funding sources such as the Emergency Contingency Fund created by the Recovery Act to respond to rising caseloads and/or to establish or expand subsidized employment programs. However, through their comments on our national survey and during our site visits, state officials discussed how the economic recession has caused changes to local TANF service delivery in some states. A majority of state TANF officials nationwide, as well as TANF officials from all eight localities we visited, reported that they made changes in local offices' TANF service delivery because of the economic recession.[4] Specifically, of the 31 states reporting such changes through our survey, 22 had reduced

[4]For more information on the eight localities we visited, see appendix I of GAO-10-525.

the number of TANF staff, 11 had reduced work hours at offices, and 7 had reduced the number of offices.[5] Officials in all three states we visited also reported that local TANF caseworkers are now managing an increased number of TANF cash assistance families per person. As a result of these increased caseloads, along with tightened resources, local officials in all three of the states we visited expressed their concerns that staff are less able to provide services to meet TANF cash assistance families' needs and move them toward self-sufficiency.

Most TANF Participants and Eligible Non-Recipients have Low Incomes, and A Small Subgroup Have Very Low Incomes

Research on how families are faring after welfare reform has shown that, like those who receive TANF cash assistance, families that have left welfare, either for work or for other reasons, tend to remain low income and most depend in part on other public benefits. As we noted in a 2005 report, most of the parents who left cash welfare found employment and some were better off than they were on welfare, but earnings were typically low and many worked in unstable, low-wage jobs with few benefits and advancement opportunities.[6] There is evidence that some former TANF recipients have had better outcomes; for example, a 2009 study found that, in general, former TANF recipients in three cities, especially those who had left TANF prior to 2001, had higher employment rates and average income levels than they had while they were on TANF.[7] However, even among working families, many rely on government supports such as the EITC, Medicaid, the Supplemental Nutrition Assistance Program (SNAP), formerly known as the Food Stamp Program, and other programs to help support their families and lift them out of poverty, as most parents who recently left welfare are not earning enough to be self-supporting. In addition, a considerable body of work has documented families who are often described as "disconnected" from the workforce. It is not yet known whether or to what extent the recession has led to an increase in the number of these families.

[5]In contrast, 5 states reported that they had increased the number of TANF staff, 4 had increased work hours at offices, and 1 had increased the number of offices.

[6]GAO, *Welfare Reform: More Information Needed to Assess Promising Strategies to Increase Parents' Incomes*, GAO-06-108 (Washington, D.C.: Dec. 2005).

[7]Bianca Frogner, Robert Moffitt, David Ribar, *Income, Employment, and Welfare Receipt After Welfare Reform: 1999-2005 Evidence from the Three-City Study*, Johns Hopkins University Working Paper 09-02 (May 2009).

A recent GAO analysis of the characteristics of low-income families several years post-welfare reform found that while families who were receiving TANF cash assistance in 2005 had low incomes, a third worked full-time and most received other public supports, according to the most recent data available. The median household income of families receiving TANF cash assistance was $9,606 per year, not including means-tested benefits. One third of families who received TANF cash assistance at some point during the year (33 percent) were engaged in full-time employment, while 44 percent were headed by an adult without earnings. About a fifth (18 percent) of these families were headed by an adult who had a work-limiting disability. The vast majority of families receiving TANF cash assistance—91 percent—also received at least one other public benefit, with most (88 percent) receiving benefits from the Supplemental Nutritional Assistance Program (SNAP), formerly known as the Food Stamp Program, and a smaller proportion receiving subsidized housing (22 percent), child care subsidized by the Child Care and Development Fund (CCDF) (11 percent), or Supplemental Security Income (SSI), a cash assistance program for low-income people with disabilities (22 percent). Only 16 percent of families receiving cash assistance included married couples, and even fewer—less than 10 percent—had income from an unmarried partner.

Many TANF eligible families do not participate in the program, possibly because they left the program or because they did not apply. Our analysis found that on average, these families had higher incomes than TANF recipients, but median incomes remained low, a significant proportion did not work full time, and many received public supports other than TANF. Compared to TANF cash assistance recipients, eligible non-recipients had higher median incomes ($15,000 per year) and higher rates of full-time employment (44 percent). However, a significant proportion of TANF-eligible non-recipient families—41 percent—were headed by an adult without any earnings, and 11 percent had a work limiting disability. A somewhat lower percentage of those eligible but not receiving TANF cash assistance received other public benefits (66 percent received any benefit), but a majority lived in households that received SNAP (59 percent). Receipt of other benefits was also somewhat lower than among TANF recipients, with 13 percent receiving subsidized housing, 8 percent receiving CCDF-subsidized child care, and 18 percent receiving SSI. More eligible non-participating families were headed by married couples than participating families, but no more had income from an unmarried partner.

A small subgroup of families eligible for but not receiving TANF cash assistance (732,000 families in 2005), did not work and did not receive SSI benefits and this group has lower incomes than TANF recipients and other eligible non-recipients. In addition, these families also had lower receipt of other public benefits compared to TANF recipients. Among families with no earned income that received neither TANF nor SSI, the median income from all sources was $7,020, an amount equal to about 45 percent of the federal poverty threshold for a family consisting of one adult and two children. Twelve percent of this group of families was headed by a parent who reported having a work-limiting disability. The extent to which these families received other public benefits was similar to that of other families eligible but not participating in TANF, with 66 percent receiving any benefit. Most (63 percent) received SNAP benefits while 18 percent received subsidized housing, and 4 percent received CCDF-subsidized child care. These more disadvantaged non-participants accounted for 11 percent of all families who were eligible for TANF cash assistance in 2005.

Efforts to Measure States' Engagement of TANF Recipients in Work Activities and to Monitor States' Use of All TANF Funds Fall Short

Data on caseload trends, state policies, and how families are faring can provide important insight into how TANF programs are working. However, work participation rates—a key accountability feature of TANF, as currently measured and reported—do not appear to be achieving the intended purpose of encouraging states to engage specified proportions of TANF adults in work activities. In addition, as cash assistance caseloads fell, many states shifted their spending away from cash assistance toward work supports such as child care, highlighting information gaps at the federal level in how many families received TANF services and how states used federal and state MOE funds to meet TANF goals.

States Used Flexibilities Allowed in Law to Engage a Smaller Share of Participants in Work Activities than Stated Goal

To promote TANF's focus on work, HHS measures state performance by the proportion of TANF participants engaged in allowable work activities. States are expected to ensure that at least 50 percent of all families receiving TANF cash assistance participate in one or more of 12 categories of work activities[8] for an average of 30 hours per week.[9] PRWORA established penalties for states that did not meet their required work

[8]For two-parent families, the participation rate is 90 percent. For illustrative purposes, we refer primarily to the expected rate for all families. For more information on two-parent TANF families, see GAO-10-525.

[9]To be counted as engaging in work for a month, most TANF families are required to participate in work activities for an average of 30 hours per week in that month. However, PRWORA defined different weekly work hour requirements for teen parents attending school, single parents of children under age 6, and two-parent families.

participation rates and gave HHS the authority to make determinations regarding these penalties.

However, states can take advantage of program options to make it easier to meet their required rates. For example, states can annually apply to HHS for a caseload reduction credit that generally decreased the state's required work participation rates by the same percentage that the state's caseload decreased since a specified year, established as 1995 in PRWORA.[10] Because of the significant drop in caseload size, many states were able to reduce their required work participation rate. In fact, 18 states reported caseload reductions of at least 50 percent in fiscal year 2006, effectively reducing their required work participation rate to zero. In addition, states can modify the calculation of their work participation rates by funding certain families with state maintenance-of-effort (MOE) dollars[11] rather than federal TANF block grant dollars. By using state MOE dollars rather than federal dollars, states are able to remove these families from the work participation rate calculation. Between 2001 and 2006, all but two states met the participation rate requirement, according to HHS data.[12] However, nationally, between 31 and 34 percent of families receiving cash assistance met their work requirements during this time.

In 2006, DRA reauthorized the TANF block grant through fiscal year 2010 and made several modifications that were generally expected to strengthen TANF work requirements intended to help more families attain self-sufficiency, and to improve data reliability.[13] For example, DRA

[10]See GAO-10-525.

[11]The $16.5 billion per year TANF block grant is a fixed federal funding stream to states, which is coupled with a maintenance-of-effort (MOE) provision that requires states to maintain a significant portion of their historic financial commitment to their welfare programs. To meet the MOE requirement, each state must generally spend 75 or 80 percent of what it was spending in fiscal year 1994 on welfare-related programs, including: Aid to Families with Dependent Children, Job Opportunities and Basic Skills Training (JOBS), Emergency Assistance (EA), and AFDC-related child care programs.

[12]This refers to the all families rates; during this time period, from 1 to 4 states each year did not meet the higher two-parent rate.

[13]In our 2005 report on TANF work participation, we found differences in how states defined the 12 TANF work activities, which had resulted in some states counting activities that others did not count, and, therefore, an inconsistent measurement of work participation across states. We also found that some of the states in our review lacked internal controls over work participation data. See GAO, *Welfare Reform: HHS Should Exercise Oversight to Help Ensure TANF Work Participation*, GAO-05-821 (Washington, D.C.: Aug. 19, 2005).

modified the caseload reduction credit by changing the base year from 1995 to 2005, and it mandated that families receiving cash assistance funded with state maintenance of effort dollars be included in the calculation of the work participation rates. It also directed HHS to issue regulations defining the 12 work activities and included new requirements to better ensure the reliability of work participation rate data.

We found that the proportion of families receiving TANF cash assistance that met work participation requirements has changed little since DRA was enacted and is still below the 50 percent generally specified as the required rate. In fiscal years 2007 and 2008—the two years following DRA for which national data are available—between 29 and 30 percent of families receiving TANF cash assistance met their work requirements.[14] In numbers of families, 243,000 of 816,000 families met their work requirements in fiscal year 2008. The small decrease in the proportion of families that met their requirements after DRA may be related, in part, to the federal work activity definitions and tightened work hour reporting and verification procedures states had to comply with after the act, as well as states' ability to make the required changes.[15]

The types of work activities in which families receiving TANF cash assistance most frequently participated were similar before and after DRA. For example, among families that met their work requirements, the majority participated in unsubsidized employment in the years both before and after DRA. In all of the years analyzed, the next most frequent work activities were job search and job readiness assistance, vocational educational training, and work experience. [16]

[14]An additional 8 and 10 percent of TANF families in fiscal years 2007 and 2008, respectively, participated in work activities for less than the amount required to meet their individual work requirements. Further, some states reported TANF families participating in "other" work activities that do not count toward the federal work requirements, both before and after DRA.

[15]As noted earlier, our 2005 report found differences in how states defined the 12 TANF work activities, which had resulted in some states counting activities that others did not count, and, therefore, an inconsistent measurement of work participation across states. We also found that some of the states in our review reported the hours recipients were scheduled to work, rather than those actually worked, as work participation. As a result, some states likely needed to make significant changes to their work definitions and procedures after DRA. See GAO-05-821.

[16]We analyzed states' work participation data reported to HHS for selected years. For more information, see appendix I of GAO-10-525.

Although the national rate did not change significantly, fewer states met the required work participation rates after DRA, according to HHS data.[17] As before DRA, states used a variety of options and strategies to meet their required work participation rate. For example:

- States continued to request caseload reduction credits to help lower their required work participation rates; however, the credits were significantly smaller after DRA, since caseloads went down less after 2005.

- Some states lowered their required rates by spending state MOE dollars in excess of what is required under federal law on TANF-related programs[18] – a practice we found enabled 22 states to meet their rates in 2007 and 14 states in 2008.[19] Total state MOE expenditures increased by almost $2 billion between fiscal years 2006 and 2008, which appears to be related to state spending on programs and services such as preventing and reducing out-of-wedlock pregnancies.

- Some states used policies to ensure that families complying with their individual work requirements were included in the work participation rate calculation by, for example providing monthly cash assistance to working families previously on TANF or about to lose TANF eligibility because their working incomes placed them just above eligibility thresholds. 18 states have implemented such programs since DRA.

- In contrast, after DRA required that state maintenance of effort dollars be included in the calculation of the work participation rates, some states removed certain nonworking families from the calculation of their rates by funding cash assistance for these families with state dollars unconnected to the TANF program – a practice we found in 29 states. We learned that states often use these state-funded programs to provide cash assistance to families that typically have the most difficulty meeting the TANF work

[17] In 2007, 12 states did not meet the 50 percent participation rate requirement, and in 2008, 7 states did not meet it.

[18] DRA also added a provision allowing states to count a broader range of their own expenditures toward the TANF MOE requirement. Additionally, if states spend in excess of the required MOE amount, they are allowed to reduce the number of families included in the calculation of their work participation rates through the caseload reduction credit calculation. HHS officials told us that, prior to DRA, only one state had claimed excess MOE expenditures toward its caseload reduction.

[19] Although the majority of states reported excess MOE expenditures after DRA we did not determine whether these increases reflected new state spending.

requirements, such as families with a disabled member or recent immigrants and refugees.

In short, because of the various factors that affect the calculation of states' work participation rates, the rate's usefulness as an indicator of a state's effort to help participants achieve self-sufficiency is limited. Moreover, the rate does not allow for clear comparisons across state TANF programs or comparisons of individual state programs over time. This is the same conclusion we reached in our 2005 report that triggered some of the DRA changes to improve this measure of states' performance. Further, our 2005 review before DRA changes as well as the one we just completed in May of this year indicate that the TANF work rate requirements as enacted, in combination with the flexibility provided, may not serve as an incentive for states to engage more families or to work with families with complex needs. Many states have cited challenges in meeting work performance standards under DRA, such as new requirements to verify participants' actual activity hours and certain limitations on the types and timing of activities that count toward meeting the requirements. The TANF work rate requirements—as established in the original legislation and revised in the Deficit Reduction Act—may not yet have achieved the appropriate balance between flexibility for states and accountability for federal TANF goals.

Reduced Cash Assistance Caseloads Freed Up TANF Funds for Purposes Beyond Welfare-to-Work Programs But Limited Information Exists on Use of These Funds

The substantial decline in traditional cash assistance caseloads combined with state spending flexibilities under the TANF block grant allowed states to broaden their use of TANF funds. As a result, TANF and MOE dollars played an increasing role in state budgets outside of traditional cash assistance payments. In our 2006 report that reviewed state budgets in nine states,[20] we found that in the decade since Congress created TANF, the states used their federal and state TANF-related funds throughout their budgets for low-income individuals, supporting a wide range of state priorities, such as refundable state earned income credits for the working poor, prekindergarten, child welfare services, mental health, and substance abuse services, among others. While some of this spending, such as that for child care assistance, relates directly to helping cash assistance recipients leave and stay off the welfare rolls, other spending is directed to a broader population that did not necessarily ever receive welfare payments.. This is in keeping with the broad purposes of TANF specified in the law:

[20]See GAO-06-414.

1. providing assistance so that children could be cared for in their own homes or in the homes of relatives;
2. ending families' dependence on government benefits by promoting job preparation, work, and marriage;
3. preventing and reducing the incidence of out-of-wedlock pregnancies; and:
4. encouraging the formation and maintenance of two-parent families.

More recent data indicated that this trend has continued, even under recessionary conditions. In fiscal year 2009, federal TANF and state MOE expenditures for purposes other than cash assistance[21] totaled 70 percent of all expenditures compared with 27 percent in fiscal year 1997, when states first implemented TANF, as shown in figure 2. In addition, of the 21 states we surveyed for our February 2010 report, few reported that they had reduced federal TANF and MOE spending for other purposes, such as child care and subsidized employment programs, to offset increased expenditures for growth in their cash assistance caseloads. States that increased spending on cash assistance while maintaining or increasing spending for other purposes did so by spending reserve funds, accessing the TANF Contingency Fund, accessing the TANF Emergency Contingency Fund created by the Recovery Act, or a combination of the three.[22]

Figure 2: Expenditures for Cash Assistance and Other Purposes, Fiscal Years 1997 and 2009

Source: GAO analysis of HHS TANF expenditure data.

Note: Expenditures for both cash assistance and other purposes totaled $19.0 billion in fiscal year 1997 and $30.6 billion in fiscal year 2009. The fiscal year 2009 data include Recovery Act spending of $550 million. Excluding Recovery Act spending does not change the percentages.

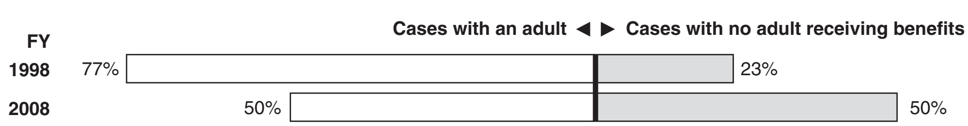
[21]We refer to this category as cash assistance, although ACF uses the term "basic assistance." This category includes benefits designed to meet on-going basic needs, including cash, payments, or vouchers.

[22]States can save portions of their TANF block grant to use in the future for cash assistance to families. PRWORA also established a contingency fund for state TANF programs to draw on and the Recovery Act provided additional funds on a time limited basis for states to meet increasing needs.

This shift in spending left gaps in the information gathered at the federal level to ensure state accountability. Because existing oversight mechanisms focus on cash assistance, which no longer accounts for the majority of TANF and MOE spending, we may be missing important information on the total numbers served and how states use TANF funds to help families to achieve program goals in ways beyond their welfare-to-work programs. For example, states have used significant portions of their TANF funds to augment their child care subsidy programs, which often serve non-TANF families, yet we do not know how many children are served or what role these subsidies play in helping low-income families avoid welfare dependency, a key TANF goal. Further, many states use TANF funds to fund a significant portion of their child welfare programs. In effect, there is little information on the numbers of people served by TANF-funded programs other than cash assistance, and there is no real measure of workload or of how services supported by TANF and MOE funds meet the goals of welfare reform.

Another implication of changing caseloads relates to their changing composition, with about half of the families receiving cash assistance composed of cases with no adult receiving assistance in fiscal year 2008 compared with less than one-quarter in fiscal year 1998 (see fig. 3). There are four main categories of "child-only" cases: (1) the parent is disabled and receiving SSI; (2) the parent is a noncitizen and therefore ineligible; (3) the child is living with a nonparent relative; and (4) the parent has been sanctioned and removed from cash assistance for failing to comply with program requirements, and the family's benefit has been correspondingly reduced. These families, with parents or guardians not receiving TANF cash assistance and generally not subject to work requirements, have not been the focus of efforts to help families achieve self-sufficiency.

Figure 3: Proportion of Child-Only Families Receiving Cash Assistance, Fiscal Year 1998 and Fiscal Year 2008



Source: GAO analysis of HHS data.

Concluding Observations

Nearly 15 years after the creation of TANF, the expected upcoming reauthorization of the program has brought renewed interest to efforts to assess how well the program is meeting the needs of low income families with children—most headed by women—and putting them on a path to self-sufficiency. While the dramatic decline in the TANF caseload following welfare reform and the increase in employment among single mothers has been cited as evidence for the program's success, questions have been raised about its effect on families. Many who left the rolls transitioned to low wage, unstable jobs, and research has shown that a small subset of families who neither receive TANF nor earn income may have been left behind. Following the recent economic recession, poverty among children has climbed to its highest level in years.

A central feature of the TANF block grant is the flexibility it provides to states to design and implement welfare programs tailored to address their own circumstances, but this flexibility must be balanced with mechanisms to ensure state programs are held accountable for meeting program goals. Over time we have learned that states' success in engaging TANF cash assistance recipients in the type, hours, and levels of work activities specified in the law has, in many cases, been limited, though they have met the required targets using the flexibility allowed. Although the DRA changes to TANF work requirements were expected to strengthen the work participation rate as a performance measure and move more families toward self-sufficiency, the proportion of TANF recipients engaged in work activities remains unchanged. States' use of the modifications allowed in federal law and regulations, as well as states' policy choices, have diminished the rates' usefulness as the national performance measure for TANF, and shown it to be limited as an incentive for states to engage more families or work with families with complex needs. Furthermore, while states have devoted significant amounts of the block grant funds as well as state funds to other activities, little is known about use of these funds. Lack of information on how states use these funds to aid families and to meet TANF goals hinders decision makers in considering the success of TANF and what trade offs might be involved in any changes to TANF when it is reauthorized.

We provided a draft of the reports we drew on for this testimony to HHS for its review, and copies of the agency's written responses can be found in the appendices of the relevant reports. In its comments, HHS generally said that the reports were informative and did not disagree with our findings.

Mr. Chairman, this concludes my statement. I would be pleased to respond to any questions you or other Members of the Committee may have.

GAO Contacts and Acknowledgments

For questions about this statement, please contact me at (202) 512-7215 or brownke@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals who made key contributions to this testimony include Hedieh Rahmanou Fusfield, Rachel Frisk, Alexander G. Galuten, Gale C. Harris, Kathryn A. Larin, and Deborah A. Signer.

Related GAO Products

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