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Testimony of LaDonna Pavetti, Ph. D., Vice President, Family Income Support Policy, Before the House Ways and Means Committee, Subcommittee on Human Resources

Welfare Reform Proposals

Thank you for the invitation to testify today. I am LaDonna Pavetti, Vice President for Family Income Support at the Center on Budget and Policy Priorities, a policy institute located here in Washington. I conducted some of the very first studies on the implementation of welfare reform and now spend most of my time working with state and county TANF administrators and local and state non-profit organizations to improve the program.

In recent testimony, I provided information showing how few families are reached by TANF and how little TANF does to help poor families find work and escape poverty. My testimony today will focus on the extent to which the Committee Discussion draft bill on TANF reauthorization posted last week will likely improve TANF's performance in these areas. I also will suggest additional changes to address some of TANF's fundamental flaws.

The draft legislation improves the structure of TANF work activities but does not go far enough. In order to operate high-quality work programs, states need to devote more resources and to be freed from onerous reporting requirements that dampen rather than strengthen the quality of services provided. They also should be rewarded for improving program access. Better work programs will do little to reduce poverty if very few household heads have access to them.

Work Participation Changes Represent Important Improvements

States have long identified the complexity and rigidity of TANF's countable work activities as hindering their ability to operate an effective work program. The draft bill makes many improvements that address those issues, though we have some additional suggestions.

First, the bill includes changes in what counts toward the work rate that will expand recipients' access to basic education, skills training, and vocational education, while updating TANF work preparation requirements to better match employers' needs. These changes include extending the countable duration of vocational education to 24 months, eliminating the distinction between "core" and "noncore" activities, and increasing opportunities for participants under age 26 who have not completed high school to do so (or to obtain a GED). These changes will lift the disincentives that have often led states to limit these activities due to concerns about harming their work participation rates.

Second, the bill includes changes to better serve families with the greatest barriers to employment. Allowing participation in job readiness activities to count toward the work rate may encourage states to place recipients in activities that will address personal and family challenges that hinder their ability to find jobs and retain work over the long term. Providing states with partial credit for recipients who participate for at least half of the required hours encourages states to engage recipients who may not be able to participate for the full 20 or 30 hours due to personal or family challenges. The new mandates that the state conduct assessments and the greater detail required in the renamed Individual Opportunity Plans should also improve work programs.

The bill also eliminates the marriage penalty by striking the separate two-parent work rate and hours requirements. This will permit states to treat single- and two-parent families the same and will reduce states' disincentive to serve two-parent families.

The draft bill indicates that it remains an open issue whether to adjust the 30 percent cap on vocational education's contribution to meeting the work rate. I encourage the Committee to eliminate the cap. Retaining it contradicts other changes in the bill, such as expanding access to education and training activities, simplifying the tracking of work activities, and adding a new TANF program goal of reducing poverty.

When Congress created TANF almost 19 years ago, it assumed that if recipients entered the labor market quickly, a first job would lead to a better job and recipients would eventually work their way out of poverty. This has not happened: individuals who start out in low-wage jobs often see little earnings growth over time and many remain poor. In the current economy, jobs that pay higher wages and offer the greatest growth opportunities require some post-secondary education and training. A substantial share of TANF recipients are young adults who would reap the benefits of additional education and training for many years to come. Arbitrary caps serve no reasonable purpose in an economy that places a high value on a skilled labor force.

Another open issue under the draft bill is how to verify participation in work activities. While states and local providers can best suggest ways to support their efforts to help TANF recipients improve their employment and earnings prospects, we would like to highlight the importance of this issue. States spend inordinate amounts of time gathering information on every hour that participants spend in program activities — time better spent helping recipients set and achieve their goals. Limited resources should not be used for purposes that contribute little to improving family outcomes.

The draft bill's elimination of the caseload reduction credit is a positive change, as it lessens the incentive for states to continually reduce their TANF caseloads. But it effectively raises the target work participation rate that a state must meet, significantly increasing the burdens on states to place a greater share of families in work activities. While the positive changes identified above will enable states to count more people toward meeting the rate, a sizable gap will likely remain for many states. As discussed below, we are concerned that these additional demands with no additional resources could increase the pressure on states to *not* serve families in their TANF cash assistance programs.

Finally, the draft bill's requirement that states failing to meet the work rate must increase their state spending is a significant improvement over the current penalty structure. The one change we would suggest is requiring states to reinvest those additional resources in the core purposes of TANF (which we elaborate on below).

Measuring Outcomes Is Step in Right Direction, But Details Need Refining

We have long advocated for measuring employment outcomes in TANF. The primary measure of TANF's success should be whether families leave the program with employment and on a path to earn enough to provide for their families, *not* simply whether they participate in a pre-defined set of activities that may or may not prepare them for employment and help them move out of poverty. The draft bill moves in this direction by proposing to hold states accountable for three outcomes for individuals required to participate in work activities that leave TANF: (1) employment two quarters after exit; (2) employment four quarters after exit; and (3) the change in median earnings between quarters two and four. These measures evaluate employment, retention, and advancement, respectively. Although we believe it is important to move in this direction, we believe that the details as outlined in the draft bill need careful scrutiny and refinement.

The employment and retention measures included in the draft bill mirror those in the Workforce Investment and Opportunity Act (WIOA), while the advancement measure is unique to TANF. Alignment of TANF and WIOA is an important goal, but it is important to acknowledge at the outset that assessing the outcomes for all TANF leavers is very different than assessing the outcomes for WIOA participants. In TANF, these outcomes will provide information on how all TANF leavers, regardless of their participation in a TANF work program, are faring while in WIOA they represent how individuals who have completed a WIOA program are faring. WIOA is also a voluntary program while TANF is mandatory. An important positive aspect of holding states accountable for these outcomes is that it will encourage states to keep TANF recipients engaged in TANF work programs until they are ready to find and sustain employment. As under WIOA, states will negotiate targets for each measure with HHS. Because most states do not have any historical data on employment outcomes for TANF leavers, states are likely to require substantial technical assistance to develop meaningful performance goals.

The draft bill's proposed earnings gain measure, which looks to the change in median earnings between the second and fourth quarters after leaving TANF, is problematic and should be revised to mirror the WIOA measure which measures median earnings at one point in time. Given the short-term nature of TANF employment services, it is unrealistic to expect an increase in median earnings in such a short time period. In addition, an increase in median earnings could reflect differences in the characteristics of individuals employed in the second and fourth quarters rather than any real increase in earnings. While the WIOA measure does not measure advancement and is a crude measure of the level of earnings, it will provide some indication of the median earnings of families when they leave TANF.

We believe that an outcome measure that assesses the circumstances of all TANF recipients at some future point in time (e.g., one year later after they are observed on TANF) would be more informative than one that just measures outcomes for leavers. A measure that looks at the employment and work activity status one year later would give states better information on how their caseload as a whole is faring, including who is employed, who is participating in work activities, and who is not working or participating in program activities. We will provide details on how such a measure could be constructed in our detailed comments on the Committee Discussion Draft.

We are concerned that the proposed penalty structure for these new outcome measures is too onerous and too complex. There inherently needs to be a lag period between the year in which performance is measured and when a determination is made on whether the performance goals have been reached. As currently drafted, the potential penalty at 10 percent of the block grant amount is harsher than any initial penalty and it appears that states may have no opportunity to remedy the problem before the funds are withheld. I would propose an alternative, two-pronged approach that focuses directly on states that fail to meet their negotiated goals: (1) provide technical assistance to develop a program improvement plan and (2) require states to increase their state maintenance-of-effort amount and to target a set portion of spending to work activities (or core welfare reform activities). In addition to keeping the block grant at its current level, this revised approach would simplify the penalty structure for states. Under this formulation, failure to meet the 50 percent work participation rate target or failure to meet the established outcome benchmarks would trigger an increase in the required maintenance-of-effort level. This approach would shift the focus to program improvement and require states to devote more state resources to their TANF program, without shrinking the block grant further or creating uncertainty for states.

Implementing an outcome measure is not costless. Only a few states gather information on recipients' earnings when they leave TANF, so states would need to develop new processes for obtaining data on recipients' earnings and following them over time. This would require states to shift resources currently used for other purposes and would most likely increase their overall administrative costs.

Need to Do More on TANF Funding and Spending

A major shortcoming of the draft bill is that it provides no additional funding for TANF even though the block grant has lost 30 percent of its value since its creation. In addition, the bill requires states to earn part of their existing block grant funds, imposes additional reporting requirements on states with no additional funding for those activities, and repurposes the Contingency Fund which some states have used to fund regular TANF activities.

Two spending provisions in the discussion draft aim to address some of the funding issues that have arisen in TANF: eliminating third-party maintenance-of-effort contributions and restricting TANF funds to families with incomes below 200 percent of poverty. We support both changes. Allowing states to claim third-party maintenance-of-effort funds has enabled them to reduce state spending on poor families; allowing states to define "needy families" has, in some cases, enabled them to shift TANF funds away from the poorest families. Changing these provisions will help to hold states accountable for contributing their fair share to help families improve their employment and earnings prospects.

A key flaw of the TANF block grant is that the permissible uses of the funds are so broad that states spread them across many areas of the budget. TANF reauthorization provides a key opportunity to reclaim some of those funds — one that should not be missed.

The draft bill notes that agreement was not reached on whether to require states to spend a specific share of their TANF resources on core purposes. Such a requirement, we believe, is essential for improving TANF work programs and participants' employment outcomes; it also provides an opportunity to reclaim some of the TANF funds that have been diverted to other purposes.

In many states, TANF funding decisions are made outside of the TANF agency, so without a mandate, TANF administrators would likely find it difficult to obtain the funds needed to fully implement the program changes envisioned in the draft plan. There are several possible approaches here. First, all states could be required to spend a specified share of their TANF funds (e.g., 50 percent) on basic assistance, work activities, and work supports. States could be given several years to reach that level of spending so they have time to adjust their funding. Alternatively, states that fail to meet either the work participation rate or their outcome benchmarks could be required to spend additional state funds in their TANF programs *and* to devote those additional funds to TANF's core purposes until the state reaches a specified share of spending.

Improved Access Needed to Make Progress Towards Reducing Poverty

The draft bill adds a new purpose to TANF: reducing poverty. While this is certainly a laudable goal, TANF cannot reduce poverty if it fails to reach poor families.

As my previous testimony explained, TANF serves only 26 families for every 100 families in poverty; in a growing number of states, it serves fewer than *10* families for every 100 families in poverty. The draft bill includes a few provisions that will lessen the incentive for states to avoid serving families in need or those with the greatest barriers, such as eliminating the caseload reduction credit and providing partial credit for recipients who do not participate for the full number of hours. But these do not go far enough.

The problem is that TANF lacks a meaningful accountability measure on how effectively a state's TANF program provides a safety net for very poor families, and the draft bill does not include one. We suggest holding states accountable for adequate access to TANF benefits on a par with the two other performance measures (the work participation rate and the new outcomes measure).

The best way to achieve this would be to add a third accountability measure that specifically measures access to TANF and to attach similar consequences to state failures. The TANF-to-Poverty ratio that we use is one option, but others could be considered.

There are other, more modest ways to encourage states to serve more families in need, such as considering a state's performance in this area either in negotiating with states over their outcome measures or in considering a state's penalty relief request if the state fails to meet the 50 percent work participation rate. At a minimum, Congress could instruct HHS to produce an annual report that measures access to the program; USDA's annual report for SNAP program could be a model.

TANF reform is long overdue. The draft bill doesn't go far enough but it provides a strong starting point for bringing about meaningful change in a program that currently reaches few poor families and does very little to help the families move out of poverty. A whole generation of children has grown up under the current TANF structure – we should move forward expeditiously to ensure that the next generation has access to a more robust TANF program that both reaches more families in need and provides more meaningful education, training and work opportunities that give families a reasonable chance of moving out of poverty.