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Strengthening Temporary Assistance for Needy Families

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Strengthening Temporary Assistance for Needy Families

The Great Recession was the longest and by some measures the most severe economic downturn in the postwar period. Incomes declined, poverty increased, and participation in government assistance through unemployment insurance (UI) benefits and food assistance rose substantially. In a new Hamilton Project proposal, Marianne Bitler and Hilary Hoynes argue that the experience of the Great Recession revealed significant holes in the safety net. The central cash welfare program for families with children in the United States—Temporary Assistance for Needy Families—did not respond effectively to the downturn. Even in normal economic times, the authors contend, the program fails to reach many needy families.

Temporary Assistance for Needy Families (TANF) came into existence with the passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, replacing the Aid to Families with Dependent Children (AFDC) program, commonly known as "welfare." AFDC had provided cash benefits to low-income and primarily single-parent families with children since 1935. After 60 years with minimal changes to AFDC, President Clinton made good on his pledge to "end welfare as we know it," signing the 1996 federal welfare reform legislation and thereby replacing AFDC with TANF. In a departure from the provisions of AFDC, this reform included recipient work requirements, lifetime limits on the duration of welfare receipt, and financial sanctions levied on individuals and states for failing to meet work requirement targets or other rules. These changes were designed to facilitate the transition from welfare to work and to reduce dependence on cash benefits.

However, several features of the current structure of TANF prevent it from reaching a sizeable share of needy families, and also hinder its ability to respond effectively to economic downturns. In this proposal, Marianne Bitler and Hilary Hoynes propose changes to TANF that would make the program more effective in protecting families from deep poverty, and that would allow the program to expand during economic downturns when families' needs are greatest.

The Challenge

The Reach of TANF

The antipoverty impact of TANF depends importantly on how funds are spent and which groups are targeted. The 1996 welfare reform provided for considerable state discretion along these dimensions. With welfare reform giving states wide latitude in how to spend their TANF dollars, many states currently allocate only a small share to cash assistance for families in need. Federal and state spending on assistance—defined by the U.S. Department of Health and Human Services as benefits "directed at basic needs," plus some supportive services—has declined substantially since 1996, as shown in figure 1.

In 2014 states spent, on average, about one-quarter of their TANF funds on cash assistance and another quarter on child care and other work-related support activities (not shown separately in figure 1). Outside these three "core" categories, TANF funds went to a range of noncore areas that include refundable earned income tax credits, prevention of nonmarital pregnancies, and formation of two-parent families.

There is significant variation across states in the allocation of TANF dollars, and particularly in the share allocated to cash assistance. For example, in 2014 only 7 percent of TANF spending in Texas went to cash assistance, compared to almost 46 percent in California; 35 states spent less than one-quarter of their TANF funds on cash assistance.

The shift away from cash assistance is problematic, in part because noncash benefits likely tend to go to relatively better-off recipients, although current reporting requirements do not require tracking the income levels of those who receive noncash benefits. In addition, these noncash benefits may be less valuable to needy families than cash benefits; for example, work assistance is of limited value when employment opportunities are scarce. States that allocate a low share of TANF to cash assistance are likely missing an opportunity to maximize the antipoverty impact of TANF.

The overall effect of the decline in cash assistance is a dramatic reduction in TANF's effectiveness in reaching and aiding needy families. The ratio of the number of families receiving TANF cash benefits to the number of families with children in poverty has declined substantially since 1996. Driving this change is the dramatic reduction in the TANF cash caseload, rather than an increase in poverty. Research suggests that only a small share of individuals receiving TANF cash assistance becomes ineligible due to exhaustion of their lifetime limits; instead, reductions in the caseload are mostly driven by decreased entry. Little is known, however, about whether these declines primarily reflect a reduction in applications for the program or an increase in application denials. It is also unclear how the decline is related to state decisions about allocating funds across cash assistance, other core activities, and noncore activities.

Over time, due to the aforementioned factors, AFDC/TANF has become less effective than other central safety net programs in bringing families out of deep poverty. In 1995, on the eve of welfare reform, AFDC lifted 2.4 million children out of deep poverty—defined as income below 50 percent of the poverty threshold—whereas in 2010 TANF lifted only 600,000 from deep poverty (the poverty threshold was $24,036 for a family of four with two children in 2015). By contrast, the number of children lifted from deep poverty by other programs such as the Earned Income Tax Credit (EITC), Child Tax Credit, and Supplemental Security Income (SSI) remained steady between 1995 and 2010.

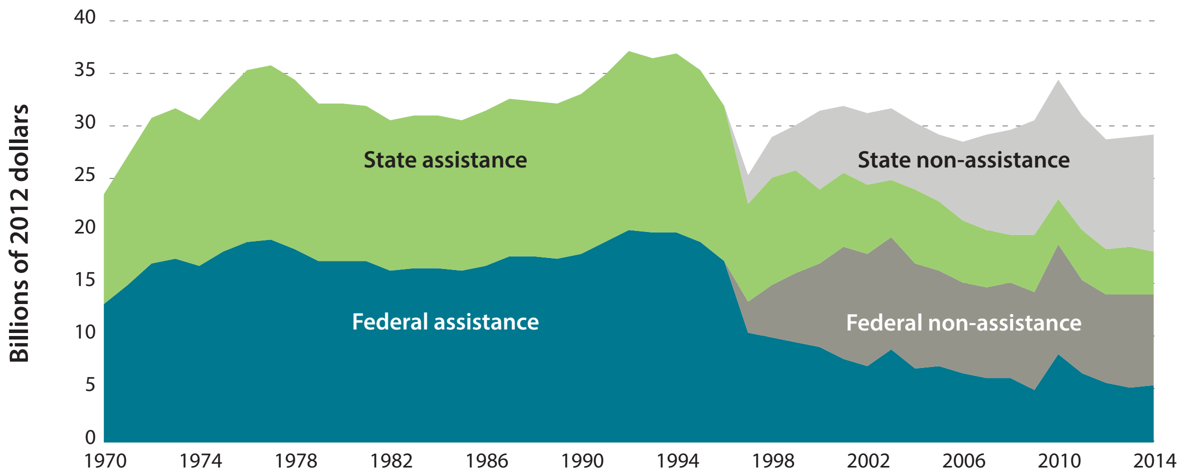
Finally, and perhaps most importantly, the size of the TANF block grant has remained fixed in nominal terms at its 1996 level. With nearly two decades of price inflation since the block grant was established, the real value of the TANF block grant has declined by one-third. Additionally, due to geographic changes in the population of poor children, the amount of TANF block funding allocated to each state may no longer reflect the distribution of the U.S. population. To the extent that the numbers of poor children across states have shifted, the allocations from the mid-1990s no longer make sense today.

The Responsiveness of TANF to Economic Downturns

Apart from the problem of TANF's limited reach, TANF is also unresponsive to economic downturns. This is undesirable for at least two reasons: first, recipients and potential recipients are poorly served precisely when their need is greatest. Second, this severely limits the automatic stabilizer role of the program when additional consumer spending would be particularly welcome.

FIGURE 1.

AFDC/TANF Expenditures, by Category, FY1970–FY2014



Source: James Ziliak, "Temporary Assistance for Needy Families," in Means-Tested Transfer Programs in the United States, vol. 2, edited by Robert Moffitt (Chicago: University of Chicago Press, 2016).

Note: "Assistance" includes the categories of cash assistance, child care, transportation and supportive services, and assistance under prior law (i.e., spending of federal funds, but not maintenance-of-effort funds, for purposes outside the four main goals of the 1996 welfare reform law, but that is nonetheless permitted because it supports a service that was in the state's AFDC Emergency Assistance Plan when TANF replaced AFDC). "Non-assistance" includes the categories of work-related activities, some additional child care and transportation spending, refundable tax credits, prevention of out-of-wedlock pregnancies, two-parent family formation and maintenance, administration, and systems, among others.

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BROOKINGS

Even though unemployment rose sharply in the Great Recession, the TANF caseload increased only modestly, and did so with a lag. By the end of 2014, the TANF caseload was actually lower than it had been at the end of 2007, even though the economy had not returned to its prerecession unemployment level. Comparing TANF cash assistance caseloads to trends in non-employment among single mothers—a group that proxies the population likely to need TANF—reveals a similar lack of responsiveness to the business cycle. In the roaring economy of the late 1990s, both the number of single mothers who were not employed and the caseloads of AFDC and then TANF dropped sharply. Starting in 2000, though, as the number of non-employed single mothers started to rise substantially, the TANF caseload continued to fall modestly, and showed only a very slight increase from 2008 through 2012, during and after the labor market collapse of the Great Recession. This is a stunning failure of a safety net program to respond to a massive downturn.

Variation across states in the severity of the recession further highlights the lack of responsiveness of TANF. Between 2007 and 2009, changes in annual state-level unemployment rates ranged from about 1 to 7 percentage points. All states experienced an increase in Supplemental Nutrition Assistance Program (SNAP) participation, but those with larger increases in unemployment experienced larger increases in SNAP, indicating that this program was responsive to the severe cyclical downturn. For TANF, there was a starkly different relationship. One would expect a safety net program to expand during a recession, but changes in the TANF caseload bore no relationship to increases in unemployment. In fact, more than half the states saw declines in their TANF rolls.

This lack of connection between TANF assistance and the dramatic decline in employment opportunities in the Great Recession led in part to greater volatility in deep poverty than expected. Deep poverty exhibited greater sensitivity to increases in unemployment rates in the Great Recession than it did in the recessionary periods that preceded welfare reform. Importantly, TANF's lack of responsiveness to the business cycle is a lost opportunity for the important automatic stabilizing role that the social safety net typically plays in periods of low aggregate demand.

Other programs in the social safety net provided significant additional support to households affected by the Great Recession. Fueled in part by benefit increases as part of the American Recovery and Reinvestment Act of 2009, SNAP expenditures rose from $30.4 billion in 2007 to $71.8 billion in 2011, with more than one in seven people in the United States receiving SNAP benefits. The maximum duration of UI benefits was extended to up to 99 weeks. The stimulus contained many provisions that targeted lower-income families, including the Making Work Pay tax credit and increases in the generosity of SNAP, UI, the EITC, and the Child Tax Credit.

Much of the lack of cyclical response of TANF—the failure of spending to rise during downturns and fall during normal times—is attributable to the block grant form of the program. Previously, under AFDC, the program was an entitlement, meaning that outlays would expand as demand for aid increased. Under TANF, states receive block grants that are fixed in nominal terms each year, regardless of macroeconomic conditions. To some extent, this inflexibility of the TANF block grant was addressed by the American Recovery and Reinvestment Act of 2009, which included a $5 billion TANF Emergency Contingency Fund; this fund offered 80 percent federal funding for new TANF spending in the categories of cash assistance, non-recurrent short-term payments, and subsidized employment, allowing states to provide more aid at relatively little cost to themselves. This program led to a needed infusion of resources for states. However, the allocation of additional funds reflected the existing pattern of TANF spending: only 32 percent of the contingency fund was spent on cash assistance, with 26 percent spent on subsidized jobs and 42 percent spent on non-recurrent short-term payments (i.e., benefits that address a specific episode of need and do not extend beyond four months). For both of the latter categories, little evidence exists that the benefits efficiently targeted the most disadvantaged. Moreover, the Emergency Contingency Fund lasted for only two years—very likely shorter than the duration necessary to meet increased need given the weak economic recovery.

A New Approach

To strengthen Temporary Assistance for Needy Families (TANF), Bitler and Hoynes propose reforms to (1) expand its reach, (2) improve its responsiveness to cyclical downturns, and (3) enhance its transparency. The first aim two reforms to improve TANF by making it a stronger part of the safety net. The latter aims to help policy makers and researchers understand how the program works, who it supports, and how it can be strengthened to meet its goals.

Expand the Reach of TANF

In addition to the core categories of cash assistance, child care, and work-related support programs, states have used their TANF funds in a variety of ways, ranging from refundable tax credits to the prevention of nonmarital pregnancies. As a result, some states spend very little on cash assistance and core support. Bitler and Hoynes maintain that it is impossible to know how noncash funds are targeted.

The authors therefore propose that Congress phase in a requirement that states spend at least 25 percent of annual TANF funds on cash assistance and at least 50 percent on the core support categories. Furthermore, to improve the targeting of the spending, they propose that all TANF funds be spent on individuals and families with incomes below 150 percent of the official poverty threshold. To make it feasible to meet these new rules, Bitler and Hoynes propose that Congress reduce states' work participation rate targets for work-ready cash recipients to 40 percent for the full caseload and 70 percent for two-parent families, in order to encourage states to serve through TANF those who are the least work-ready.

Make TANF More Responsive to Economic Downturns

To improve TANF's ability to respond to cyclical downturns, the authors propose that Congress enact legislative changes that temporarily expand both eligibility for TANF and federal funding during economic downturns.

Bitler and Hoynes propose that recipient work requirements and lifetime limits be waived during economic downturns. Specifically, the authors propose that lifetime limits and work requirements be waived under the same economic conditions that make a state eligible to waive SNAP time limits for able-bodied adults without dependents. Time limits and work requirements would be waived when at least one of the following occurs:

- a recent 12-month or 3-month state unemployment rate above 10 percent,
- state qualification for UI extended benefits,
- or designation as a Labor Surplus Area by the Department of Labor—that is, when the area has experienced a recent 24-month average unemployment rate 20 percent above the national average for the same period.

Unlike the SNAP waivers, which states must actively request, Bitler and Hoynes propose that the TANF waivers be automatic. Furthermore, given that recipients would have their time limits and work requirements waived during these downturns, the authors propose that state work participation rate requirements be relaxed concurrently so states would not be discouraged from expanding spending on those not able to find work.

Because need is greater during economic downturns, Bitler and Hoynes also propose that Congress create an Automatic Emergency Fund (AEF) modeled on the successful TANF Emergency Fund, which was enacted as part of the American Recovery and Reinvestment Act of 2009. Under that fund, states were eligible to receive additional funding over the two-year period 2009–10, with funds used to reimburse states for the bulk of increased TANF-related spending in the areas of subsidized employment, cash assistance, and short-term non-recurrent benefits. The authors propose that the AEF reimburse up to 80 percent of increased TANF-related spending up to a maximum of 20 percent of their annual block grant.

These AEF funds would also be required to meet the guidelines that the authors propose for the allocation of TANF spending. That is, at least 25 percent of AEF spending must go to cash assistance, 50 percent of spending must go to core programs, and benefits must be limited to those with income less than 150 percent of the official poverty

Roadmap

Congress will enact legislation to make TANF a more effective part of the safety net, more responsive to economic downturns, and a more-transparent program.

- To make TANF a more-effective part of the safety net, Congress will require states to adhere to certain constraints on the allocation of TANF funds, phased in over a five-year period: at least 25 percent must be cash assistance, at least 50 percent must be core support (cash, child care, and work-related activities), and all TANF funds must be targeted to individuals and families below 150 percent of the official poverty threshold.
    - To make these requirements feasible for states, existing work participation targets imposed on the states will be loosened to 40 percent for the full caseload and 70 percent for two-parent families.
    - Congress will also restore the TANF block grant to its inflation-adjusted 1997 level (approximately $24 billion), index the grant to inflation for future years, and periodically reapportion the grant according to the distribution of poor children across states.
- To make TANF more responsive to economic downturns, TANF recipient time limits and work requirements will be temporarily lifted when a state's unemployment rate exceeds 10 percent or when certain other recession indicators are observed. Concurrently, state work participation requirements will also be lifted. Under the same economic conditions, the federal government will provide additional funding to states under an Additional Emergency Fund.
- To make TANF a more-transparent program, Congress will enact legislation requiring the states to collect and report the following information to the Office of Family Assistance at the U.S. Department of Health and Human Services:
    - Number of recipients receiving cash or core services as a fraction of the number of poor families with children;
    - Number of denied applications by reason for denial, separately for cash and noncash applicants;
    - TANF spending by income-to-poverty ratio of recipients; and
    - Recipients' employment outcomes after receiving services.

Learn More about This Proposal

This policy brief is based on The Hamilton Project policy proposal, "Strengthening Temporary Assistance for Needy Families," which was authored by

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threshold. States would be eligible to receive AEF funding under the same economic conditions as discussed above for waiving individual time limits and work requirements.

Restore the Value of the TANF Block Grant and Reexamine Its State Allocation

In 1997 the TANF block grant was set at $16.5 billion and has remained unchanged in nominal terms since then, allowing the real value of the block grant to decline by one-third since 1997. During this same period, the number of people in poverty increased by over 30 percent. To strengthen TANF and prevent further erosion in the block grant's real value, Bitler and Hoynes propose that Congress restore the value of the block grant to its inflation-adjusted 1997 level—today approximately $24 billion—while also indexing the block grant to inflation in future years.

Given that the current block grant state allocation was set quite some time ago, when the distribution of poverty may have been somewhat different across states, Bitler and Hoynes contend that it is time for a reexamination. They propose that the new funding, but not existing federal TANF spending, be allocated across states according to the number of poor children in the state, using a three-year average of this number, and recommend that this adjustment be revisited periodically to ensure that TANF remains geographically well-targeted.

Improve Accountability Measures

Currently, there are large gaps in our understanding of TANF and its effects. Bitler and Hoynes therefore propose that Congress amend the TANF legislation to improve accountability by collecting additional information on spending (particularly on noncash assistance recipients), on application determinations, on program reach, and on employment outcomes.

States are already required to track TANF spending by usage category (e.g., cash assistance, child care, prevention of out-of-wedlock pregnancies, etc.). Bitler and Hoynes argue that a more robust accountability measure would be to track the funds not only according to the amount in each usage category, but also by the share of spending in each category going to different income groups. The authors propose grouping individuals by income-to-poverty ratios: those with income below 50 percent of the poverty threshold, those with income of at least 50 percent of the poverty threshold but less than 100 percent, and those with income at or above 100 percent of the poverty threshold but under 150 percent. Importantly, the authors are not proposing that a specific share of TANF spending be allocated to each group, but rather that states collect and report this more-detailed information to facilitate better understanding of the program.

In addition, to generate more information about both the reach of the program and the population served, Bitler and Hoynes propose that states be required to track the core services caseload, as well as the cash assistance caseload, and report these numbers as a share of the families with children with incomes below the official poverty threshold. The authors further propose that states report TANF application denials by reason for denial (e.g., whether the applicant was ineligible based on income or for another reason) separately for cash and noncash applicants. This requirement would be phased in to reduce administrative burden.

The foregoing reporting requirements would substantially enhance our understanding of how TANF functions. However, Bitler and Hoynes believe that we can go further by measuring recipients' employment outcomes, which would generate important information about TANF's effectiveness. One approach, they suggest, would be to track the employment rate among TANF core-service recipients one to three years after receiving services, although this would require relatively sophisticated data infrastructure; a simpler but somewhat less useful approach would be to track the employment rate among parents in families with children with incomes below the official poverty threshold. The authors propose that states be required to report one of these two measures—the choice of which would be left to the states.

Conclusion

The passage of the 1996 welfare reform bill led to sweeping changes in the central U.S. cash safety net program for families with children. The key provisions of that law included recipient work requirements, lifetime limits on the duration of welfare receipt, and financial sanctions levied on states for failing to meet work requirement targets or other rules. In the immediate aftermath of welfare reform, the new Temporary Assistance for Needy Families (TANF) program appeared to be working reasonably well. This appearance of success was bolstered by expansions in earnings subsidies for low-income families with children through the EITC as well as by the booming labor market of the late 1990s—which offered the most favorable conditions for low-skilled workers in many decades.

However, the Great Recession has highlighted significant shortcomings in the current TANF program. Welfare reform altered the responsiveness of TANF to the business cycle; in an economic downturn TANF is less able to provide protection than AFDC had been. While the noncash welfare safety net (and especially SNAP) now provides significantly more protection during economic downturns, the expansion of other safety net programs was insufficient to offset the shortcomings of TANF. As a result, deep poverty went up while TANF did not adjust, suggesting that many families may have fallen through the safety net in the Great Recession. By implication, TANF reaches a smaller fraction of poor families than it did previously. Exacerbating the problem is states' wide flexibility in block grant usage, which has led to a decreased focus on the most disadvantaged families in TANF-funded services.

Bitler and Hoynes argue that TANF can be meaningfully improved while preserving its strong pro-employment emphasis. They offer policy proposals that aim to achieve three goals: first, that TANF funds reach the neediest families; second, that TANF be responsive to economic downturns; and third, that states improve accountability along both of these dimensions.

Questions and Concerns

1. Does this proposal undermine TANF's promotion of job preparation, work, and marriage?

No. The proposal strengthens these goals by requiring states to use a substantial share of TANF funds on core activities, including child care and work-related supports. In addition, Bitler and Hoynes propose measuring program effectiveness through monitoring employment outcomes.

2. The EITC is a successful antipoverty program. Isn't it picking up the slack for TANF?

For many families, the EITC has been successful, but it has some limitations that should be addressed through TANF. EITC does not help in times when work is unavailable or impossible (e.g., due to illness). Furthermore, the EITC is distributed when families file taxes, and may not respond immediately to need.

3. Is the Supplemental Security Income system a better way to serve the neediest population?

Supplemental Security Income pays benefits to adults and children who are disabled and have low incomes. As such, eligibility requires that a child or adult in the household meet the disability requirement. This is not and should not be available for all income-needy families, the authors argue. When children shift to Supplemental Security Income, the length of time they receive aid and stay on the program is quite long, which is undesirable in the context of the alleviation of poverty, which is often temporary.

4. Why should we put conditions on how states use the block grant? Don't states know best?

The safety net was severely tested in the Great Recession, and TANF proved particularly unable to respond to the increased need. The authors' proposed requirements about spending on cash assistance and core services will improve the effectiveness of the program. By expanding total federal spending and relaxing state work participation restrictions during economic downturns, states will actually be less constrained in some important ways.

Highlights

Marianne Bitler of the University of California, Davis and Hilary Hoynes of the University of California, Berkeley propose reforms to strengthen TANF by expanding its reach, improving its responsiveness to cyclical downturns, and enhancing its transparency.

The Proposal

Improve the effectiveness of TANF. Congress would pass legislation to make TANF a more-effective part of the safety net, better targeted to the needy population.

Make TANF more responsive to economic downturns. Recession-linked temporary funds and relaxation of work and other requirements would allow TANF to expand in an economic downturn, when it is most important for the program to reach needy families.

Enhance the transparency of TANF. Congress would require states to provide additional information regarding the use of TANF funds and labor market outcomes for TANF recipients, permitting a more informed assessment of the program.

Benefits

This proposal would make TANF a better-targeted, more-effective antipoverty program. In addition, it would allow TANF to expand during economic downturns, when the need for the program is greatest. Finally, the additional data reporting requirements would lay the groundwork for more evidence-based reform in the future.

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