

THE WHITE HOUSE
WASHINGTON

April 5, 1999

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reform*

MEMORANDUM FOR THE PRESIDENT

FROM: Bruce Reed

SUBJECT: Secretary Shalala's Report on Welfare Reform

Following your recent conversation with Secretary Shalala about welfare reform, she has provided the attached summary of the impacts and implementation of reform. This report pulls together evidence from many of studies we have described before, providing a helpful comprehensive summary. The report urges you to make your FY 2000 budget and other proposals to help low income working families a high priority. Her key points include:

Research Evidence

- **Employment:** There is solid, consistent evidence -- both from evaluations of state welfare reform demonstrations and national data -- that welfare reform has led to increased employment and earnings for welfare recipients. State studies show employment increases between 7 and 29 percent, and earnings increases of 16 to 27 percent. The employment rate of previous-year AFDC adult recipients increased from 19 percent in 1992 to 25 percent in 1996, and jumped to 32 percent in 1997.
- **Family income:** When earnings are combined with the EITC and other benefits, families who go to work should have more income than if they remain on welfare. For example, in the average state, a women with two children would be better off working 20 hours a week than she would be on welfare. At the same time, there is some early evidence that some of the most disadvantaged families may be losing income.
- **Child outcomes:** There are no early indications that rates of foster care or child abuse have increased as a result of welfare reform. For example, a recent study from Wisconsin found 5 percent of former welfare recipients (19 families) had a child live with someone else because they couldn't care for them after leaving welfare, but almost as many respondents (16) said this had happened to them before they left welfare. Maryland found that only 3 children (all in one family) had been placed in foster care out of a sample of 1,810 children in families who had left welfare.
- **Food Stamps and Medicaid:** As you know, enrollment in Food Stamps and Medicaid has fallen recently for a variety of reasons. The memo reviews the possible explanations but does not have definitive explanations for these trends. We continue to work closely with HHS and USDA to better understand the factors contributing to these trends and to ensure that the federal and state agencies are doing everything possible to make sure those who are eligible for these benefits continue to receive them.

- Legal immigrants: The memo underscores the importance of our current budget initiatives to restore benefits to vulnerable legal immigrants.

State policy choices

- Across the country, there has been a strong and pervasive shift towards encouraging, requiring, and supporting work. Most states require parents to engage in some form of work sooner than the 24 month federal requirement -- 23 states require immediate participation in work -- but they have flexibility to define what counts as work for this purpose. The memo indicates that Pennsylvania is the only state that treats this work requirement as a strict time limit that could lead to terminating families from assistance.
- There is significant variation in state use of sanctions, time limits, and diversion. Thirty eight states terminate assistance for families not cooperating with work requirements (typically cutting off benefits after several infractions, and restoring benefits to those who subsequently comply), while the remainder reduce benefits. Eight states have chosen a lifetime time limit shorter than five years, while five states plan to use state funds to extend benefits beyond the federal five year time limit and another five plan to impose time limits on adults only. It is too early to determine the impact of time limits since only a small fraction of recipients have reached them. Many states are experimenting with a variety of strategies to divert families from receiving cash assistance by providing lump sum emergency payments and other supports and requiring an applicant to search for a job before receiving assistance.
- States are in varying stages of designing strategies for and making investments in helping long-term recipients move from welfare to work and succeed on the job. The challenge is to convince states to invest unspent TANF funds on these adults.

The Unfinished Agenda

To make work pay and ensure the long-term success of welfare reform, Secretary Shalala encourages you to focus on three issues:

- Help low income families retain their jobs and find better ones by: enacting your initiatives to expand child care, raise the minimum wage, and maximize access to Medicaid and CHIP; making Food Stamps more accessible for working families; and through the TANF rule, encouraging states to help working families with transportation, child care and other supports.
- Invest in all families, including the hard-to-serve by: reauthorizing DOL's Welfare-to-Work program, encouraging states to invest TANF funds in hard-to-serve populations as well as non-custodial fathers, and resisting efforts to cut the TANF block grant.
- Treat legal immigrants fairly by enacting our new proposals to restore additional disability, health and nutritional benefits and by releasing guidance on public charge.



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THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

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MEMORANDUM FOR THE PRESIDENT

Introduction

The purpose of this memorandum is to provide a summary of:

- what we know now about the effects of welfare reform;
- what we know about the implementation of welfare reform, including State policy and spending choices; and
- what implications this information has for the next steps and the unfinished agenda of welfare reform.

Welfare reform has been successful in moving many, many families from welfare to work. Yet, the available evidence suggests that there are “winners” and “losers” among welfare families – some families are benefiting substantially from the new incentives, requirements, and opportunities and others are being left behind. And while a variety of studies show positive impacts on earnings, many parents leave welfare for work yet still do not earn enough to raise their families out of poverty. Our challenge now is to make work pay so that no working family is forced to live in poverty.

In order to achieve this full promise of welfare reform, we need to focus attention on supporting working families through a range of strategies, including health insurance, child care, Food Stamps, and other supports, so that families who leave welfare for work that may be low-wage and less than full-time are able to support themselves and their children. We also need to strongly encourage States to focus policy attention and resources on those families who remain on welfare and need more intensive services, including substance abuse and mental health services, domestic violence services, and supported work. Finally, we need to continue our efforts to ensure that legal immigrant families are treated fairly.

The Research Evidence

Despite the broad array of ongoing research about welfare reform, it is still early and our knowledge in many areas is still limited. We know a lot about effects on employment and earnings, but we know little about effects in other domains, such as child well-being or family structure, and we know very little about low-income families who do not enter the welfare rolls. Also, welfare reform has been implemented in the context of a strong national economy, so we know little about the effect of welfare reform in other economic circumstances.

Employment and Earnings

There is solid and consistent evidence from a variety of sources that welfare reform has increased the average employment and earnings of welfare recipients. This finding, that welfare reform and the strong economy have indeed had a positive impact on work, is the most solid of the research findings we have, because it comes from so many different sources.

- Experimental studies of State waiver demonstrations and other work programs that are very similar to TANF programs show consistently positive impacts on employment and earnings¹. Recent results from specific State programs at the upper range show employment increases in the range of about 7 to 29 percent, and earnings increases of about 16 to 27 percent. For example, in the evaluation of the Minnesota Family Investment Program (MFIP), earnings for single-parent long-term recipients in urban counties increased by \$1,041(26.9 percent), and the percent ever employed increased by 17.0 percentage points (28.8 percent) over 18 months.²
- TANF administrative data from 39 States shows a 30 percent increase in employment among TANF recipients in the fourth quarter of FY 1997, compared to the first three quarters. Over the same period, the average earnings of those employed increased by 17 percent, from \$506 to \$592 per month.
- Analyses of data from the Census Bureau's annual Current Population Survey (CPS) indicate a clear pattern of increased employment. The March employment rate of previous-year AFDC adult recipients increased from 19 to 25 percent between 1992 and 1996, and jumped to almost 32 percent in 1997. Also, the March employment rate of single mothers whose previous-year income was under 200 percent of poverty rose from 44 percent in 1992 to 54 percent in 1997, with average annual increases in 1996 and 1997 twice as large as in the previous 3 years.³

Other Impacts of Welfare Reform

The evidence about impacts on family income, on food security and hunger, on health insurance status, on child outcomes, and on other family experiences, are much less clear at this point. The best reading of the available evidence suggests that because the baseline levels of employment and earnings for welfare recipients are so low, even with substantial increases most families exiting welfare continue to be poor; and that while some families are benefiting dramatically

¹ Fein, David et al, *Indiana Welfare Reform Evaluation: Program Implementation and Economic Impacts After Two Years*, Abt Associates, Inc., November 1998

Bloom, Dan et al, *The Family Transition Program: Implementation and Interim Impacts of Florida's Initial Time-Limited Welfare Program*, MDRC, April 1998.

Miller, Cynthia et al, *Making Welfare Work and Work Pay: Implementation and 18-Month Impacts of the Minnesota Family Investment Program*, MDRC, October 1997.

² Miller, Cynthia et al, *Making Welfare Work and Work Pay: Implementation and 18-Month Impacts of the Minnesota Family Investment Program*, MDRC, October 1997.

³ U.S. Department of Health and Human Services, Administration for Children and Families, *Temporary Assistance for Needy Families (TANF) Program: First Annual Report to Congress*, August 1998.

from the new incentives, requirements and opportunities, others are being left behind. However, current evidence does not support the hypotheses that large numbers of people are becoming homeless or that more children are being moved into foster care (see below).

- Results from waiver demonstrations and studies of recipients who left welfare (“leaver” studies) for the most part indicate that average family income has been unchanged with some families increasing their income but others experiencing declines. For example, 2-year impacts on clients assessed as “job-ready” from Indiana’s waiver demonstration showed earnings up 17.0 percent (\$1,374) and quarters of employment up 12.8 percent, but total combined income from earnings and benefits was unchanged.⁴
- When earnings are combined with the EITC and other benefits, most families who go to work would have a higher income than if they had remained on welfare. In the average State, a woman with two children could be better off working 20 hours a week than she would be on welfare. However, not all eligible families are accessing tax credits and benefits, such as Food Stamps, child care, and transportation subsidies. In some cases State policy choices may have the effect of restricting families’ access to Food Stamps and Medicaid.
- There is some early evidence that the most disadvantaged families may be losing income. CPS data indicate that real average family income for the bottom quintile of female-headed families with children declined between 1995 and 1997, after increasing from 1993 to 1995.⁵
- Some individuals leaving welfare may earn too much to qualify for Food Stamps, or they may be unaware of their eligibility. For example, a South Carolina leaver study found that 17 percent reported having had no way to buy food some of the time since leaving TANF. (This was true of nine percent while on TANF.) Having a job did not reduce the probability of not having a way to buy food.⁶
- Another area of concern is the impact of welfare reform on child well-being in such areas as adequate shelter, health and development, family stability and other outcomes. In particular, we need to measure effects on child health and development, foster care and child abuse. There are no early indications that rates of the latter two have increased with welfare reform.

⁴ Fein, David et al, *Indiana Welfare Reform Evaluation: Program Implementation and Economic Impacts After Two Years*, Abt Associates, Inc., November 1998

South Carolina, Department of Social Services, *Survey of Former Family Independence Program Clients: Cases Closed During April Through June, 1997*, July 1998.

Cancian, Maria et al. *Post-Exit Earnings and Benefit Receipt Among Those Who Left AFDC in Wisconsin*, Institute for Research on Poverty, University of Wisconsin-Madison, October 1998.

Bloom, Dan et al, *The Family Transition Program: Implementation and Interim Impacts of Florida’s Initial Time-Limited Welfare Program*, MDRC, April 1998.

Fein, David, and Karweit, Jennifer, *The ABC Evaluation: The Early Economic Impacts of Delaware’s A Better Chance Welfare Reform Program*, Abt Associates, Inc., December 1997.

⁵ Bavier, Richard, “An Early Look at the Effects of Welfare Reform,” unpublished manuscript.

⁶ South Carolina, Department of Social Services, *Survey of Former Family Independence Program Clients: Cases Closed During April Through June, 1997*, July 1998.

A 1997 Maryland study found that, of the 1,810 children in their sample of families leaving welfare, only 3 children, in one family, had been placed in foster care in the 3-6 months of follow-up. The recently published Wisconsin report found that 5 percent of respondents – 19 families – reported that since leaving welfare they have had a child live with someone else because they couldn't care for them, but almost as many respondents – 16 families – reported that this had happened to them before they left welfare.⁷ We are investing in additional research on child outcomes under welfare reform, and reports will be available over the coming months.

- We are currently supporting research in a number of other areas where we do not yet have results to report. For example, we do not yet know what the full impact of time limits will be, as only a small fraction of recipients have reached them. Over the next four years, an increasing share of the caseload will come up against them. We are also currently undertaking studies to increase our limited knowledge of how families are faring in which there are persons with disabilities, substance abusers, or victims of domestic violence. Finally, early research is not yet available on the effects of welfare reform on child health and development.

Participation in Medicaid and Food Stamps

Enrollment in both Medicaid and Food Stamps has fallen recently, for a variety of reasons.

- Because of your efforts, Medicaid coverage has been preserved to a substantial extent under welfare reform. Nonetheless, Medicaid enrollment dropped by about 1 million from 1996 to 1997. There are many potential reasons for the decline, and we do not have any definitive answers about why it has occurred. Improvements in earnings and employment resulting from the strong national economy have probably played an important role in this decline, making it possible for some low-income Medicaid families to find jobs that offer health insurance. It is also important to note that, while Medicaid enrollment has declined, the number of people under the poverty level who are uninsured has not increased from 1996 to 1997. Changes in attitudes toward public assistance may also be playing a role in falling TANF, Food Stamp, and Medicaid caseloads.

However, as States change how they deliver cash assistance, we need to be concerned that a variety of other factors might be affecting Medicaid participation. These include: termination of the long-standing programmatic linkage between eligibility for cash assistance and Medicaid; potential barriers to enrollment for working families (e.g., limited application sites and hours of operation); and confusion about the eligibility of legal immigrants and their citizen children. Finally, as States continue to experiment with strategies that encourage families to seek employment prior to applying for TANF, some eligible adults and children may be diverted from Medicaid, and may not even know they are eligible.

⁷ Born, C. et al. *Life After Welfare*. Family Investment Administration, MDHR and University of Maryland School of Social Work. September 1997. (This analysis was not repeated in the later reports in this series.)
Survey of Those Leaving AFDC or W-2 January to March 1998, Preliminary Report, Wisconsin Department of Workforce Development, January 1999.

- Food Stamp participation fell from an average of 27.4 million persons in 1994 to 21.5 million persons in 1997 – a drop of 5.9 million. During this same period, the number of persons living in poverty fell by only 1.5 million, from 38.1 million to 36.6 million. Since 1997, Food Stamp participation has dropped even further to 18.6 million persons in December 1998. Part of this drop is due to the new restrictions on Food Stamp participation by certain legal immigrants and able-bodied unemployed adults without dependent children. Also, many eligible individuals may erroneously believe that once they leave or are diverted from TANF they are also ineligible for Food Stamps. In addition, many of the factors cited for the decline in Medicaid participation also apply to Food Stamps. While immigrants and able-bodied unemployed adults without dependent children account for a significant portion of the decline in Food Stamp participation, 60 percent of the decline can be attributed to fewer AFDC/TANF participants.

Legal Immigrants

Legal immigrant families were among those most at risk after welfare reform. Their disproportionate declines in participation are consistent with anecdotal reports we have received about the chilling effect of public charge policies and confusion over changing eligibility requirements on the use of benefits by legal immigrant families. The findings lend support to our interagency efforts to develop clear guidance on public charge policies, and they provide support for the Administration's recent accomplishments and current budget proposals to restore certain benefits to vulnerable legal immigrants. We also have research efforts underway in New York City and Los Angeles that are studying the situation of legal immigrants.⁸

State Policy Choices

States have a wide array of choices when it comes to designing their programs. However, the primary focus of State policy choices continues to be encouraging, requiring, and supporting work. A major study of the implementation of welfare reform noted that the pervasive changes in social programs since enactment of the Personal Responsibility and Work Opportunity Reconciliation Act "have occurred in large part because strong signals have been sent by governors and State legislators that a work-based approach to welfare reform is no longer just one Federal priority among many but is now a central objective within each State."⁹ Almost all of the States have moved to "Work First" models, requiring recipients to move quickly into available jobs.

Beyond the focus on work, three other themes stand out about State policy choices:

⁸ Zimmerman, Wendy and Michael Fix, *Declining Immigrant Applications for MediCal and Welfare Benefits in Los Angeles County*, The Urban Institute, Washington, D.C., July 1998.

Fix, Michael and Jeffrey S. Passel, *Trends in Noncitizen's and Citizen's Use of Public Benefits Following Welfare Reform, 1994 to 1997*. The Urban Institute, March 1999.

⁹ Nathan, Richard P. and Gais, Thomas L., *Implementation of the Personal Responsibility Act of 1996*; Federalism Research Group, The Nelson Rockefeller Institute of Government, State University of New York.

- As envisioned in the statute, there is considerable variety in the choices States have made about policies such as time limits, sanctions, diversion, and policies for families who face specific barriers to work. There is no single, typical program.
- State choices about TANF policy and implementation can affect families' ability to receive other benefits for which they are eligible (such as Medicaid and Food Stamps), sometimes in unintended ways. The "delinking" of eligibility for Medicaid and TANF, for example, offers States both challenges and new opportunities. When families learn they can receive Medicaid coverage without having to receive welfare, they may be less likely to turn to welfare in the first place. Therefore, we must be clear that States are accountable for ensuring access to these benefits for eligible families.
- Many States have not yet reinvested the TANF resources freed up by declining caseloads to help families with more intensive needs (for example, families with a disabled parent or child, families with a member who needs substance abuse or mental health treatment, families suffering from domestic violence) move to self-sufficiency before the time limits take effect. We must keep challenging States to make these investments, while at the same time protecting the TANF resources in the Congress.

Making Work Pay and Requiring Work

States have enacted policies to make work pay, generally by increasing the amount of earnings disregarded in calculating welfare benefits. Forty-seven States made changes to simplify and expand the treatment of earnings compared to the AFDC treatment. In conjunction, all States have raised their limits on assets and/or vehicles so that families do not have to get rid of a vehicle that may be their only transportation to work and so that they can accumulate savings.

Parents or caretakers receiving assistance are required to engage in work (as defined by the State) within 24 months, or shorter at State option. Most States have opted for a shorter period, with 23 States requiring immediate participation in work; 8 States requiring work within 45 days to 6 months; 17 States requiring work within 24 months; and 3 States with other time frames for work. In addition, some States use a narrow definition of "work," whereas others allow for a broader range of activities, including training or volunteering. There is no Federal penalty associated with failing to meet this requirement, so States have considerable flexibility in how they structure and enforce it. Many States have chosen to treat this requirement as a broad goal for the system, and we are not aware of any State except Pennsylvania that is treating it as a strict time limit that could lead to termination of individual families from assistance.

Another major feature of State policy regarding work is the increased use of sanctions if a family fails to participate in required activities. While we do not have good national data at this point, the State waiver studies suggest that there is much more aggressive State use of sanctions under welfare reform. For example, waiver demonstrations indicate that a demonstration county in Florida increased its sanction rate from seven to thirty percent and Delaware's sanction rate increased from nearly zero to fifty percent.¹⁰ Under PRWORA, if the individual in a family

¹⁰ Bloom, Dan et al, *The Family Transition Program: Implementation and Early Impacts of Florida's Initial Time-Limited Welfare Program*, MDRC, May 1997.

Fein, David, and Karweit, Jennifer, *The ABC Evaluation: The Early Economic Impacts of Delaware's A Better Chance Welfare Reform Program*, Abt Associates, Inc., December 1997.

receiving assistance refuses to engage in required work, the State has the option to either reduce or terminate the amount of assistance payable to the family, subject to good cause. Thirty-eight States have elected to terminate the amount of assistance payable to a family for not cooperating with work requirements (typically after several infractions), and thirteen States have chosen to reduce the amount of cash payable to a family.

Time Limiting Assistance

State policies related to time limiting assistance to a family vary greatly. States have chosen the following time limit policies:

- 27 States use the federal time limit (Alabama, Alaska, Colorado, District of Columbia, Hawaii, Iowa, Kansas, Kentucky, Maine, Maryland, Minnesota, Mississippi, Missouri, Montana, New Hampshire, New Jersey, New Mexico, New York, North Dakota, Oklahoma, Pennsylvania, South Dakota, Vermont, Washington, West Virginia, Wisconsin, and Wyoming);
- 6 States (Louisiana, Nevada, North Carolina, South Carolina, Tennessee, and Virginia) have chosen “intermittent” time limits with a lifetime limit of 60 months (for example, Louisiana limits TANF receipt to 24 months in any 60 month period, with a lifetime limit of 60 months);
- 8 States have chosen a lifetime time limit shorter than the federal limit (Arkansas, Connecticut, Delaware, Florida, Georgia, Idaho, Ohio, and Utah);
- 5 States have chosen options involving supplements for families reaching the federal time limit (Illinois, Massachusetts, Michigan, Nebraska, and Oregon); and
- 5 States have chosen time limits for adults only (Arizona, California, Indiana, Rhode Island, and Texas).

Diversion

Many States are experimenting with a variety of strategies to divert families from receiving cash assistance. These strategies are quite diverse and include lump-sum cash payments, where families receive a payment sufficient to resolve an immediate emergency (such as a car breakdown) and keep the family working and off of cash assistance; applicant job search, where the applicant is required to look for a job for some period of time (with or without structured assistance from the welfare office) before receiving benefits; and other alternative support services (such as linkages to child care or community resources). These strategies are quite new and there is little research yet on their effects.

However, a recent study, funded by the Department, has examined the emergence of diversion programs as a welfare reform strategy and the potential for diversion to affect access to Medicaid. The study reported on the use of diversion in all 50 States and the District of Columbia, and also included an examination of the experiences of five local communities in establishing and operating diversion programs. In addition to noting the importance of processing Medicaid applications even in cases in which TANF assistance is deferred, it highlights promising approaches that other States may follow to ensure access to Medicaid and

other supports, such as child care, for those who obtain employment through diversion or are otherwise diverted from the TANF rolls.¹¹

One of the local programs examined in the study is Montana's, which provides a child care and Medicaid only option for families with work or child support income. The study found that this has greatly increased demand for child care in Montana.

Families Facing Specific Barriers to Employment

Although there have been dramatic gains in work for many TANF families, too many families with multiple barriers to success could be left behind. While many parents on welfare have succeeded in moving to work despite extraordinary obstacles, others will need additional treatment and support services to work and succeed at work, and the States vary a great deal in the extent to which they have planned and invested in programs to provide these supports. There are no completely reliable estimates of specific family needs among welfare families, but recent studies suggest that as many as 27 percent of adults in the caseload nationally have a substance abuse problem; up to 28 percent have mental health issues; up to 40 percent have learning disabilities or low basic skills; and up to 32 percent are current victims of domestic violence.

The Department (including both the Administration for Children and Families and the Substance Abuse and Mental Health Administration) has co-sponsored with the Department of Labor a series of conferences on Promising Practices under welfare reform, which has featured practitioners and researchers providing information on the approaches to treatment and support that enable parents facing these obstacles to prepare for work and succeed at work. However, while there are a number of States that have developed innovative and impressive approaches and a few States that have already made substantial investments,¹⁴ we are concerned that too few States are operating at a scale that will meet the need. One important accomplishment to note is that as a result of your strong focus on domestic violence, many States have made policy decisions and investments that focus for the first time on protecting and supporting women on welfare who have experienced domestic violence.¹⁵ The challenge now is to convince States of the importance of investing unspent TANF funds in these hard-to-serve adults remaining on the rolls.

¹¹ Maloy, K., et al, *A Description and Assessment of State Approaches to Diversion Programs and Activities Under Welfare Reform*. The George Washington University Medical Center, Center for Health Policy Research, August 1998.

Pavetti, LaDonna A., et al, *Diversion as a Work-Oriented Welfare Reform Strategy and its Effect on Access to Medicaid, An Examination of the Experiences of Five Local Communities*. The George Washington University Medical Center, Center for Health Policy Research, publication pending.

¹² *Ancillary Services to Support Welfare-to-Work*, prepared by Mathematica Policy Research, Inc., under contract to DHHS/ASPE, June 1998.

¹³ *In Harm's Way? Domestic Violence, AFDC Receipt and Welfare Reform in Massachusetts*, University of Massachusetts, 1997.

¹⁴ For example, North Carolina is reported to be doing innovative programming with substance abuse clients, and Washington is reported to have focused attention on the learning disabled.

¹⁵ *Ancillary Services to Support Welfare-to-Work*, prepared by Mathematica Policy Research, Inc., under contract to DHHS/ASPE, June 1998.

Unobligated TANF Funds

While 17 States (including California, Illinois, and Texas) have committed all of their FY97 and FY98 Federal TANF funds, the remainder of the States have about \$3 billion (10 percent of the total) unobligated as of the fourth quarter of FY 98, the subject of much attention in Congress and the press (see attached chart). The reasons include: State choices to hold resources for the future in rainy day funds; a time lag in reallocating funds left uncommitted as a result of unexpected caseload declines; and a time lag in implementing welfare reform on a statewide basis.

Innovative investment of these funds is essential to the success of welfare reform. States need both to help working families to sustain and improve their employment and to help hard-to-serve family members overcome their various obstacles within the time limits, so that all families are given the chance to succeed.

The Unfinished Agenda

Making work pay — to lift families out of poverty — has always been one of this Administration's major goals. Your initiatives to expand the EITC and child care, to raise the minimum wage, and to encourage States to expand their earnings disregards through waivers, have been important steps toward the goal of every working parent being able to provide for their children's basic needs. Yet millions of young, low-income parents are not benefiting from programs like Medicaid, Food Stamps, and child care that could support their entry into the workforce and lift them out of poverty once they do work.

Working parents, including both those who have left welfare and those never on assistance, should not have to worry about being unable to feed, house, clothe, or secure medical care for their children. Yet there are millions of children now living in working families with incomes below the poverty level. To make work pay and ensure the long-term success of welfare reform, forceful action is needed in at least three areas: supporting low-income working families who no longer receive, or never received, cash assistance; helping the less employable TANF recipients secure stable jobs; and continuing our efforts to ensure that legal immigrant families are treated fairly.

Many of the proposals below are in your FY 2000 budget. We will see them enacted only if the Administration as a whole makes these items high priorities in any budget, tax or appropriations negotiations.

Helping low-income working parents keep their jobs and find better ones

1. **Hold the States' feet to the fire.**

Millions of eligible individuals are not participating in programs that would lift them out of poverty. We must use every means available to get States to reach out to these people and provide them with the benefits and services they need.

2. **Enact your Child Care Initiative, which would make child care more affordable for hundreds of thousands of low-income working families and, through the Early Learning Fund, increase the quality of child care and promote school readiness for children across income levels. (in FY 2000 budget)**

We are currently providing child care assistance through Child Care and Development Block Grants for only 1.25 million of the 10 million children eligible.

In addition, an extensive body of research shows that the poor quality of care many young children receive threatens their cognitive and social development. As you and the First Lady highlighted in the 1997 White House conference on early learning and the brain, the first three years are absolutely critical to an individual's intellectual development. Children who fall behind during this crucial period may never catch up, with devastating educational and economic consequences. This is why the Early Learning Fund should be a centerpiece of the Administration's education agenda.

3. **Maximize access to Medicaid by publicizing the range of options available to States under current law to widen outreach and broaden coverage, and by continuing to act on reports that States may be inappropriately diverting eligible persons from Medicaid.**

Shortly, we will issue a guidebook describing the requirements governing Medicaid eligibility, application and enrollment. Under Medicaid, States have great flexibility in how they operate their programs. The guide will also highlight the options States have for facilitating enrollment -- such as expanding coverage of working families under section 1931 and providing presumptive eligibility and 12 month continuous eligibility. As part of our ongoing technical assistance activities, the Department will sponsor a "best practices" conference to help disseminate information on how to improve enrollment. We are also, as you know, working with the NGA on a range of outreach activities for both Medicaid and CHIP.

4. **Eliminate unnecessary reporting requirements for transitional Medicaid, in order to provide this transitional health coverage to more working families. (in FY 2000 budget)**

This will lessen one of the main reasons cited by States and families for low utilization of transitional Medicaid.

5. **Expand allowable uses of the \$500 million Medicaid fund created to cover the cost of extra eligibility determination work resulting from the breaking of the link between welfare and Medicaid. (in FY 2000 budget)**

Giving States greater flexibility in the use of these funds for outreach would allow them to enroll in Medicaid and CHIP more children in families that are diverted from or never connected to TANF.

6. Resist efforts to rescind the funds available for CHIP.

7. Enact your proposal to increase the minimum wage from \$5.15 to \$6.15.

Various studies have found that the average wage for those leaving TANF for work ranges from approximately \$5.50 to \$7.50 per hour. A minimum wage increase would put significantly more money in the pockets of those parents currently working for less than \$6.15 per hour and would likely also bump up the wages of many now earning just over \$6.15.

8. Make Food Stamps more accessible to working families by:

- **Eliminating the vehicle fair market value test (while retaining the more appropriate equity test; the equity is the amount the household would receive, and could use for food, if the car were sold);**
- **Giving States the option to implement quarterly reporting (in addition to the current options of monthly reporting or reporting any change within 10 days); and**
- **Increasing the error rate tolerance from the current \$5, an action that would reduce potential State liabilities for serving working families with changing circumstances.**

The latter two proposals do not require legislation.

If savings are identified from the larger-than-expected decline in the Food Stamp caseload, it would be appropriate and desirable to reinvest those dollars in the Food Stamp program to expand access for working families. I know this is a priority for Secretary Glickman, and I completely share his goals in this area.

The availability of Food Stamps as a support for such families can also be enhanced by encouraging State outreach, especially for families diverted from or leaving TANF, and by clarifying State obligations under current law and regulations (which USDA did in a January 29 letter to State commissioners).

9. Publish the final TANF regulations, which will encourage States to help working families with transportation, child care or post-employment education or training (to upgrade skills), and to otherwise use TANF dollars creatively to accomplish the goals of welfare reform.

In addition, the Department will continue to explore through demonstration projects innovative strategies to stabilize the employment and boost the earnings of TANF recipients who find jobs.

This year, the Department will award the first High Performance Bonuses on job retention and earnings gains, as well as initial job placement. We will continue to encourage States to focus on these goals, which will in turn provide us with a wealth of information regarding State performance in welfare reform.

10. **Secure the additional \$144 million requested for HUD's Welfare-to-Work housing vouchers and the additional \$75 million sought for the Department of Transportation's Job Access program in the FY 2000 budget.**

Investing in all families, including the hardest to serve

11. **Reauthorize DOL's Welfare-to-Work program, which is targeted to high-poverty areas and to hard-to-employ recipients. (in the FY 2000 budget)**
12. **Encourage States to make the additional TANF investments (e.g., in substance abuse and mental health services, services for victims of domestic violence, intensive work services) needed to move some of the more disadvantaged recipients into long-term employment. Also encourage States to invest in services for non-custodial parents, to help them increase their earnings and child support payments.**

Treating immigrants fairly

13. **Give States the option of providing Medicaid and CHIP to legal immigrant children who entered the country after enactment of welfare reform. (in the FY 2000 budget)**
14. **Give States the option of providing Medicaid to pregnant legal immigrants who entered the country after enactment of welfare reform, to ensure that their children, who will be U.S. citizens, get the best start in life. (in the FY 2000 budget)**
15. **Release DOJ/INS/State guidance on public charge.**

Clarifying the public charge policy will ensure that immigrant families know which benefits they can access without fear of deportation or other adverse impact on their immigration status, thus addressing the potential effect of public charge on this community's receipt of needed benefits.

16. **Restore SSI and Medicaid for legal immigrants who entered after enactment of welfare reform, have been in the country for five years, and became disabled after entry. (in the FY 2000 budget)**
17. **Restore Food Stamps for aged legal immigrants who were in country prior to passage of welfare reform and turned 65 after that date. (in the FY 2000 budget)**

Maintaining TANF funding

18. **Resist efforts to reduce the TANF block grant and enact the Administration's budget proposal to uncap the contingency fund; this combination will enhance States' ability to meet needs not currently anticipated.**

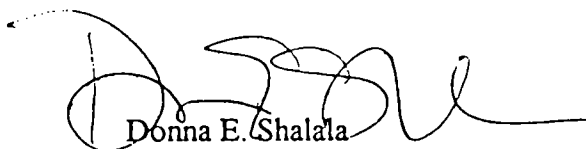
As welfare reform has been implemented in a time of a strong national economy, we know little about how effective the TANF program would be in other economic circumstances. In addition,

it is likely that falling caseloads have left on the welfare rolls a higher proportion of families who need intensive services.

Conclusion

Perhaps the most important step you can take as President is to help working families by fundamentally changing the perception of programs such as Food Stamps, health care (Medicaid/CHIP), and child care so that they are seen as supports for working families. Low and moderate-income working families should think of Food Stamps, Medicaid, CHIP or child care subsidies as no different from student loans, Hope scholarships, or Pell Grants – which no one considers welfare. States are the critical actors in this transformation and we need to hold them accountable for both moving more forcefully in restructuring their income support systems to make them worker-friendly, and investing TANF resources to ensure that all families move to work and succeed at it. The States need to focus on lifting working families out of poverty, not just getting them into jobs.

The initial success of welfare reform is clear. Now we must, through the actions described above, take the next steps toward making work pay and ensuring that no working parent is unable to meet their children's and their own basic needs. Our goal must be to lift every working family out of poverty.



Donna E. Shalala

Attachment

90% OF FY 97 & 98 FEDERAL TANF FUNDS HAVE BEEN EXPENDED OR OBLIGATED BY STATES

