

The Failure of TANF Work Requirements in Wisconsin: A Note for Speaker Ryan

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Many conservatives view the 1996 welfare reform law (particularly the creation of the Temporary Assistance for Needy Families or TANF block grant) an unprecedented success and a model for reforming other safety net programs. For example, speaking to the Heritage Foundation in September 2012, you said:

[The 1996 welfare reform law] is the crown jewel and the centerpiece of some of the most successful social policy legislation we've passed. It lowered child poverty rates, it moved people from welfare to work – because of these work requirements.²

In your December 3, 2015, speech at the Library of Congress, you laid out your vision for 2016 and reiterated this message:

In 1996, we created a work requirement for welfare. But that was just one program. We have to fix all the others now.

. . . I'd combine a lot of them [welfare programs] and send that money back to the states for better poverty-fighting solutions. Require everyone who can to work. Let states and communities try different ideas. And then test the results.³

The idea that TANF created a “work requirement” and “fixed” a welfare program is, by any objective analysis, wrong. While the law sent a symbolic message about the importance of work requirements and time limits, in practice, neither of these elements have been implemented in the way Congress intended. In fact, TANF is not “welfare reform” at all, but a flexible funding stream that has failed to provide an adequate safety net or an effective welfare-to-work program. In many states, it has become a slush fund used to supplant state spending and fill budget holes.

Background

The Family Support Act of 1988 imposed the first real work requirements on states, requiring them to have 20 percent of their nonexempt caseloads in a work, education, or training activity for an average of 20 hours per week by fiscal year (FY) 1995. The 1996 law increased the overall work participation rate target for a state by requiring that at least 50 percent of TANF families with an adult engage in one or more of 12 specified work activities for a minimum average of 30 hours per week (or 20 hours per week for a single parent with a child under six years of age) in a month. (The required rate for two-parent families was raised from 75 percent to 90 percent.) These work rate targets can be reduced by a caseload reduction credit that reduces a state's target rate(s) based on the percent decline in a state's caseload(s) from a base year.⁴ Failure to meet these requirements can result in a financial penalty.

On paper, TANF's work requirements seem stricter, but the 1996 law created a number of loopholes that have allowed many states to circumvent the intent of the law. Indeed, today the block grant structure has created a situation in which many states don't have the resources to run meaningful welfare-to-work programs, as the amount is not adjusted for inflation or demographic changes, and many states are left with no choice but to game the requirements to avoid a federal penalty.⁵

TANF Work Requirements Have Failed in Wisconsin

In FY 2014, Wisconsin achieved an overall work participation rate of 36.0 percent and a two-parent work rate of 31.7 percent, both short of the required work rate targets of 50 percent and 90 percent, respectively. Wisconsin has now failed to meet TANF's work requirements for three consecutive years (FY 2012 – FY 2014) and faces potentially large financial penalties.

Meanwhile, Wisconsin's neighboring states *seem* to be doing just fine; in FY 2014:

- Illinois achieved an overall work participation rate of 68.7 percent.
- Michigan achieved an overall work participation rate of 62.1 percent (and, due to the caseload reduction credit, faced a target of just 12.2 percent).
- Minnesota achieved an overall work participation rate of 46.2 percent (and, due to the caseload reduction credit, faced a target of just 39.9 percent).

In reality, Wisconsin is the only one of the four states that has implemented TANF's work requirements as Congress intended. The fact that it can't meet TANF's work rate targets is a reflection of the fact that the requirements are not reasonable or realistic.

Gaming the Work Requirements

Many states today are only able to meet TANF's work requirements by taking advantage of the loopholes Congress created in drafting the 1996 law. Each of these loopholes is a direct or indirect result of TANF's block grant structure or conceptual errors in the drafting of the work requirements.

Artificially reducing the denominator. TANF replaced a federal-state matching program, with a block grant and state maintenance-of-effort (MOE) requirement; the latter requires states to spend 75 or 80 percent of what they spent in FY 1994. Inflation has reduced the state requirement so that it is just 50 percent of what it was before TANF. In addition, under TANF states can count virtually any state expenditure that meets a TANF purpose, so it is now easy for most states to meet their MOE requirement and even generate a significant amount of "excess MOE." This "excess MOE" can be used to create "solely state funded programs" to remove families unlikely to meet the work requirements from the work rate calculation, paying for them with non-MOE funds.

Wisconsin does not use this strategy, but Illinois, Michigan, and Minnesota do, giving them a distinct advantage in meeting their work participation rates. Notably, all three states use this

approach (as do about half of all states nationwide) to completely remove two-parent families so that none face TANF's unrealistic 90 percent requirement. In FY 2014:

- Illinois had solely state funded programs for “Two-Parent Families Paid with State Only Funds,” “First Time Pregnant Women Paid with State Only Funds,” “Refugee Cases Paid with State Only Funds,” “Child Under One cases Paid with State Only Funds,” and a final program aptly called “Single Parent Cases Not in A Countable Activity Paid with State Only Funds.” The average monthly number of such cases outnumbered the actual number of TANF cases (24,349 vs. 20,050.)⁶
- Michigan had solely state funded programs for two-parent families and families in which the adult is incapacitated for over 90 days. The average monthly number of such cases (7,580) accounted for about one-fifth of the state's total caseload.⁷
- Minnesota placed about 10,000 families in solely state funded programs (about one-third of the state's total caseload – primarily two-parent families and families with barriers to employment. For the latter group, this gives “counties more flexibility to develop appropriate plans. ...Because these families are not subject to the work participation rate (WPR), counties, tribes, and ES providers have the flexibility to engage participants in a broader range of activities and/or fewer hours, and create the most appropriate plan without the pressure associated with the WPR.”⁸

Artificially inflating the numerator. One increasingly common loophole states take advantage of to meet TANF's work rates is paying a token benefit to families with children that have enough hours of employment to count in the work rate. Wisconsin did not do this, but both Michigan and Minnesota have relied on this strategy.

- Michigan did not rely on this gimmick in FY 2014, but it did in FY 2012 – when Wisconsin first failed the work participation requirement. It took families that would otherwise leave welfare for work and continues them on the rolls for an additional six months as “extended FIP” or EFIP cases. The state's policy guidance explained this as follows:

The DHS will provide a payment of \$10 per month for six months to individuals whose FIP case would have otherwise closed due to earnings, if those individuals continue to meet federal work participation requirements...⁹

The added \$10 payment was just a low-cost way for the state to boost its work rate by counting people who would otherwise have been off cash assistance and working anyway.

- Minnesota's Work Benefit Program funded a \$25 benefit for families leaving TANF and working sufficient hours to count in the work rate. In FY 2014, an average monthly 2,432 families received this benefit. The impact of this program was significant. The state's work participation rate of 46.2 percent can be divided into two parts – the regular TANF program (33.5 percent) and the Work Benefit Program funded in a separate state

program with MOE funds (95.4 percent). Notably, without this gimmick, the state would have fallen short of its 39.9 percent target rate.

Using “excess MOE” to inflate the caseload reduction credit. The caseload reduction credit reduces a state’s work rate target by percentage decline in a state’s caseload from a base year, which was initially set at FY 1995 (changed to FY 2005 starting in FY 2007) compared to a “comparison year” caseload – the year prior to the year for which work rates are measured. In addition, a regulatory provision allows state to reduce its comparison year caseload by spending in excess of its basic MOE requirement. The more it spends, the more it can reduce its target rate. (Note: While this is a regulatory provision, it is only possible because Congress replaced the federal-state match with a block grant and a separate MOE requirement. The concept of “excess MOE” would not exist in a federal-state matching program.) This led many states to simply find more third-party spending to count as MOE to artificially inflate the caseload reduction credit. Michigan and Minnesota used this approach in FY 2014 to lower its work rate targets. It appears that Wisconsin considered this approach, as it spent about 50 percent more than its basic MOE requirement, but it also experienced a substantial increase in its caseload and apparently this “excess” spending was not large enough to offset the caseload increase – its work rate targets were not reduced.

The Failure of TANF Work Requirements

TANF’s work requirements are flawed in many ways, but three main factors explain why states have had to resort to gaming strategies.

First, the 50 percent and 90 percent work rate targets are unrealistic. Conservatives like to claim that TANF’s work requirements are based on research about “work-first” programs. However, as Gordon Berlin, president of MDRC – the research organization that evaluated dozens of welfare-to-work programs over the last three decades – explains:

None of the welfare-to-work programs evaluated by MDRC to date – even the most effective ones – would have met the standards currently in place (that is, had states received no credit for caseload reductions), primarily because too few people participated in them for at least the minimum number of hours per week.¹⁰

Second, the amount of funding is not adjusted for inflation or demographic changes. Federal funding per poor child per year in Wisconsin has declined from \$2,449 in FY 1995 to \$1,346 in FY 2013. Furthermore, TANF’s excessive flexibility has allowed states to divert funding from basic assistance and work activities, to fund a wide array of benefits and services. In FY 1995, Wisconsin spent 81 percent of its AFDC funds on basic assistance and work activities; in FY 2013, they represented just 28 percent of spending. TANF has become revenue sharing in many states, a factor that further makes it more difficult for TANF agencies to meet work requirements.

Third, TANF’s rules on counting education and training activities are overly restrictive, focused too much on a narrow range of “work first” activities. As Gordon Berlin of MDRC explains:

The evidence indicates that both job-search-first and education-first strategies are effective but that neither is as effective as a strategy that combines the two, particularly a strategy that maintains a strong employment orientation while emphasizing job search first for some and education first for others, as individual needs dictate. There is little evidence to support the idea that states should be pushed to one or the other extreme.¹¹

Wisconsin's Secretary of the Department of Children and Families Eloise Anderson has argued that TANF greatly restricts "the autonomy necessary for operating TANF programming to fit the individual needs of states."¹² Based on her experience, she recommended a number of changes to the work requirements, including recognizing the need for more flexibility in counting educational and training activities.

Conclusion

TANF's work requirements are unreasonable, unrealistic, unhelpful, and are not about work. In fact, they are now more about gimmickry than connecting needy families with jobs. TANF is broken! It's time to reform "welfare reform."

¹ The views in this document reflect my own as a citizen and do not reflect the views of any organization I am now or have ever been affiliated with. By way of background, I consider myself a conservative and have worked on welfare issues for the Heritage Foundation, the American Enterprise Institute, and the White House under both President Reagan and President George H.W. Bush. This paper assumes the reader has a basic understanding of the TANF program, but for those readers who want more context and background, see Peter Germanis, *TANF is Broken! It's Time to Reform "Welfare Reform" (And Fix the Problems, Not Treat their Symptoms)*, July 25, 2015 draft, available at: <https://petergermanis.com/wp-content/uploads/2020/09/TANF-is-Broken.072515.pdf>.

² Cited in Rob Bluey, "Paul Ryan: HHS Welfare Work Waiver Will Undermine 1996 Reforms," *The Daily Signal*, September 13, 2012, available at: <http://dailysignal.com/2012/09/13/paul-ryan-hhs-welfare-work-waiver-will-undermine-1996-reforms/>.

³ Speaker Paul Ryan, "#ConfidentAmerica: Full Text of Speaker Ryan's Remarks at the Library of Congress," December 3, 2015, available at: <http://www.speaker.gov/press-release/full-text-speaker-ryans-remarks-library-congress>.

⁴ See Douglas J. Besharov and Peter Germanis, "Toughening TANF," American Enterprise Institute, April 21, 2004, available at: <https://www.aei.org/publication/toughening-tanf> and Douglas J. Besharov and Peter Germanis, "Toughening TANF: How Much? And How Attainable?," March 23, 2004, available at: http://www.welfareacademy.org/pubs/welfare/toughening_tanf.pdf.

⁵ A full discussion of TANF's failed work requirements is beyond the scope of this paper; for a more detailed discussion, see Peter Germanis, *TANF is Broken! It's Time to Reform "Welfare Reform" (And Fix the Problems, Not Treat their Symptoms)*, July 25, 2015 draft, available at: <https://petergermanis.com/wp-content/uploads/2020/09/TANF-is-Broken.072515.pdf>.

⁶ Illinois Department of Human Services, "TANF Caseload Reduction Credit Report FY 2015," December 2, 2014, available at: <https://www.dhs.state.il.us/page.aspx?item=41152>.

⁷ Michigan Department of Health and Human Services, "TANF Caseload Reduction Reports," for FY 2006-FY2015, available at: http://www.michigan.gov/mdhhs/0,5885,7-339-73970_61179_8366-22439--,00.html.

⁸ Charles E. Johnson, Minnesota Department of Human Services, "Implementing DWP/MFIP Family Stabilization Services (FSS)," November 16, 2007, available at: http://www.dhs.state.mn.us/main/groups/publications/documents/pub/dhs16_139712~2.pdf. Calculated from Minnesota Department of Human Services, "Public Participation," 2016.

⁹ Memo from Liza Estlund Olson, Director, Workforce Development Agency to Michigan Works! Agency (MWA) Directors, "BWT/Workforce Development Agency, State of Michigan (WDASOM) Policy Issuance (PI): 06-34, Change 10," June 30, 2011, available at: https://www.michigan.gov/documents/dleg/delegjet06242010kbl03_325740_7.pdf.

¹⁰ Gordon L. Berlin, "What Works in Welfare Reform: Evidence and Lessons to Guide TANF Reauthorization," MDRC, June 2002, pp. 36-37, available at: http://www.mdrc.org/sites/default/files/TANFGuide_Full.pdf.

¹¹ Gordon L. Berlin, "What Works in Welfare Reform: Evidence and Lessons to Guide TANF Reauthorization," MDRC, June 2002, pp. 36-37, available at: http://www.mdrc.org/sites/default/files/TANFGuide_Full.pdf.

¹² Eloise Anderson, Secretary Wisconsin Department of Children and Families and Chairperson of the Secretaries Innovation Group Before the Committee on Ways and Means Subcommittee on Human Resources U.S. House of Representatives April 30, 2015, available at: <http://waysandmeans.house.gov/wp-content/uploads/2015/06/Eloise-Anderson-Testimony-043015-HR3.pdf>.