Ten Things Everyone Should Know about Welfare Reform

Alan Weil

This brief presents 10 key findings about welfare reform, drawing primarily upon research conducted as part of the Urban Institute’s Assessing the New Federalism project.

**Welfare Reform Has Taken Hold**

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) was not the first attempt at welfare reform. Prior efforts were more modest (Reischauer 1989) and had limited effects on the actual operation of the welfare system (Nathan and Gais 1999). By contrast, PRWORA ushered in an era of substantial change.

In the immediate aftermath of PRWORA, states made four major and rapid changes in their welfare systems. First, they took clear steps to shift to “work first” welfare systems (Holcomb and Martinson 2002). That is, they designed their welfare programs to emphasize rapid labor force attachment, with less emphasis on skills development or long-term education. States overwhelmingly adopted narrower exemptions from work requirements than had existed under Aid to Families with Dependent Children (AFDC). Most notably, with the federal government’s repeal of the work exemption for parents with children under 3 years of age, most states limited the exemption to one year, while many states chose even shorter periods, and a few have no exemption at all (Rowe 2000). States also required welfare applicants to participate in work-related activities, with most states requiring applicants to spend a specified number of hours searching for a job immediately upon applying for welfare. In some states the welfare application is not even processed until job search activities are completed.

Second, most states modified program rules to help make work pay. Thirty-one states quickly expanded earned income disregards, which allow welfare recipients to keep more of their cash benefits even as they begin having earnings from work (Gallagher et al. 1998). Most states use higher income standards for testing eligibility among recipients than among applicants (Rowe 2000). In 2001, 16 states had earned income tax credits that supplement the federal Earned Income Tax Credit (EITC), providing additional resources to working families through the tax code (Johnson 2001).

Third, states adopted a varied set of rules to comply with federal work-oriented requirements in PRWORA. States designed and implemented sanction policies that reduced or eliminated benefits for those families that failed to follow program rules. Thirty-six states adopted full family sanctions (Gallagher et al. 1998). States also implemented the federally imposed five-year time limit on benefits, with 10 states adopting shorter lifetime limits (Rowe 2000).

Finally, states took steps to communicate these changes to caseworkers, welfare recipients, and applicants. Most states required some form of orientation session for applicants before they could be approved for benefits. These sessions emphasized the temporary nature of cash benefits to help welfare recipients understand their obligation to become self-supporting.

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assistance and the requirement that almost all applicants pursue and obtain employment.

**The Welfare Caseload Remains Dynamic**

Ellwood and Bane (1983) documented that the welfare caseload was composed of two groups: long-term recipients who, at any given moment, composed about half of those receiving welfare, and short-term recipients who were the majority of those who receive benefits from the program over time. Subsequent analysis showed the high frequency with which people leave and return to the welfare rolls (Pavetti and Alderson 1997).

Despite rapidly falling welfare caseloads under PRWORA, the dynamic nature of the welfare caseload remains. Among those who left welfare between 1997 and 1999, 22 percent were back on the rolls when they were interviewed in 1999 (Loprest 2002). Looking at caseload dynamics another way, of those on welfare in 1999, 47 percent had been on it consistently for the past two years, 26 percent were on for the first time, and 23 percent had returned to the rolls after a period off welfare (Zedlewski and Alderson 2001).

In 1999, those who had been on welfare continuously for the past two years and those who had left the rolls and returned had characteristics that suggest their prospects for sustained, successful employment are limited. Among long-term recipients and those who returned to the rolls, the prevalence of poor physical or mental health is 39 and 46 percent, respectively. Similarly, among these two groups the percentage with less than a high school education is 50 and 38 percent, respectively (Loprest 2002).

**More on Welfare Are Working Than in the Past**

One goal of welfare reform is to increase work activity among those who are receiving cash assistance, and, indeed, that has occurred. The increase is striking. In 1999, 32 percent of welfare recipients reported some amount of paid work, up from 22 percent in 1997 (Loprest 2002). Administrative data show work participation increasing from around 7 percent in the early 1990s to 33 percent in 1999 (U.S. DHHS 2000). Wages for these working welfare recipients are low. Their median hourly wage of $6.65 is lower than the $7.15 per hour median wage for those who have left welfare (Loprest 2002).

Of particular interest is the increased level of work activity among those who face barriers to going to work. Research has demonstrated that people with limited education or work experience, those raising young children, those in poor physical or mental health, those caring for a severely disabled child, or those with limited English proficiency are less likely to be working. This pattern remains, but between 1997 and 1999, work among welfare recipients facing two or more of these barriers increased four-fold, from 5 percent to 20 percent (Zedlewski and Alderson 2001).

Increased work among welfare recipients is due to a complex set of factors. A portion of the shift reflects a change in behavior among welfare recipients. This increase in work parallels a dramatic increase in work among single mothers, from 59 percent employed in 1993 to 73 percent employed just five years later (Lerman 2001).

Increased work may also reflect changed reporting incentives. Under AFDC neither families nor states had an incentive to report earnings. Under Temporary Assistance for Needy Families (TANF), families face work requirements, larger income disregards, and the potential benefits of the EITC, making it more advantageous to report earnings than in the past. States are held accountable to the federal government for meeting work participation targets among their welfare caseloads. The degree to which this increase reflects more accurate data collection is not known.

A final reason for observing more work among welfare recipients is the effect of increased earnings disregards. Larger disregards mean welfare recipients who go to work in low-paying jobs are more likely to remain eligible for a cash payment than they were in the past. With workers staying on the welfare rolls longer, the percentage of the caseload made up of workers increases.

**Most Welfare Leavers Are Working, but for Low Wages**

With rapid and large declines in the welfare caseload, much attention has been focused on the well-being of those who have left the welfare rolls. Indeed, the news generally seems good. As shown in figure 1, 64 percent of those who left the welfare rolls between 1997 and 1999 and remain off welfare were working in 1999. The median wage for former welfare recipients in 1999 was $7.15, which places these families squarely in the lower end of the labor market (Loprest 2002). Like other low-wage jobs, the jobs of welfare leavers offer few benefits. Only about one-third of these employers offer health insurance, and a slightly larger share offer paid sick leave (AcS and Loprest 2001).

Adults who leave welfare and work full-time for a full year at the median wage and receive all supplementary benefits for which they are eligible could move their families out of poverty (Coe et al. 1998). However, most do not receive all of these wage supplements. In addition, the 25th percentile hourly wage was just $6.05. Together these data demonstrate that many working welfare leavers live on resources below the federal poverty level (Loprest 2002).

As noted above, 22 percent of those who left welfare between 1997
and 1999 were back on welfare in 1999 (Loprest 2002). These families may get a second or third chance to find stable employment, moving on and off welfare a number of times before they leave for good. However, if these efforts fail or take more than five years, the families lose access to federally funded cash benefits unless they fall within the 20 percent of case-load exemption for the time limit as defined by the state.

In addition, one in seven adults who leave welfare report no visible means of support. These welfare leavers are not employed, are not in a family with someone who is employed, are not receiving disability benefits, and have not returned to the welfare rolls where they will obtain benefits. Little is known about how these families survive and why they have completely disconnected from the welfare system. With several hundred thousand families with children falling into this category in 1999, it is a group that warrants more policy attention in the future.

**States Are Doing More to Support Work**

One of the most interesting stories of welfare reform is how dramatically it has shifted resources into systems that support paid employment. Figure 2 shows that, in 2000, only 41 percent of TANF spending was on paying cash benefits, down from 76 percent in 1996 (Zedlewski et al. 2002). Almost 30 percent of TANF funds were going to child care and work activities in 2000, up from just 9 percent four years earlier. Additional funds were going to a combination of activities, including transportation support, tax credits for low-income families, and programs to promote marriage or reduce nonmarital pregnancies.

The extent of these shifts varies substantially from state to state. Under TANF’s fixed grant structure, large caseload declines free up resources that can be used for other purposes. In 2000, nine states were devoting less than a quarter of their TANF spending to cash benefits, while three states, including California, spent more than 55 percent on cash benefits (Zedlewski et al. 2002).

Reports from case studies indicate that states are also increasing their spending on services that support those who have substantial barriers to work. The “hard-to-serve” include those with mental or physical disabilities, substance abuse problems, and limited English language proficiency. No systematic data are available to quantify spending on services for these populations, but they are certainly getting more attention under TANF than they did in the past.

The direct expenditures described above supplement two policy changes discussed earlier: increased income disregards that permit families to keep more of their cash benefits as they begin to have earnings, and the federal EITC. This combination of work supports and financial supplements to work represents a major commitment to making work pay.

An important question when examining these data on changing TANF spending is whether these patterns represent new expenditures or simply the reporting of previously existing spending under a new guise. The U.S. General Accounting Office (2001) finds that the degree of “supplantation” (using federal funds to replace prior state spending) varied substantially across the 10 states it examined. The extent of supplantation is very sensitive to how broadly one defines social services spending; a narrow definition reveals substantial supplantation, while a broad definition that includes health and other social services programs does not.

**The Work Support System Often Does Not Meet the Needs of Workers**

Despite an increased financial commitment to supporting work, this
shift has been plagued with administrative difficulties. The problem stems from two sources. First, traditional welfare bureaucracies, designed to serve those in dire need who are not working, were not well suited to meet the needs of working families that face substantial constraints balancing work, family, and bureaucratic obligations. Second, separate administrative systems designed around specific programs, services, and providers were not coordinated in a manner that provides a comprehensive package of assistance to meet the needs of families.

Analysis conducted just before the implementation of PRWORA documented the degree of fragmentation in the various work support systems. Burt, Pindus, and Capizzano (2000) found that those who enter the system through the door of the welfare office are quite likely to find connections to a panoply of other supports, such as food stamps, health insurance, and, to a lesser degree, child care and child support assistance. However, those who enter through the door of the employment agency or the child support agency are far less likely to be informed of, directed to, or have their services coordinated with other agencies.

The fact that these problems remain is apparent when one examines caseload data for the Food Stamps program and the Medicaid program in the years following welfare reform. Both programs experienced substantial and rapid drops in enrollment. Subsequent analysis demonstrated that people who left welfare and remained eligible for these other support programs failed to obtain these benefits (Davidoff, Garrett, and Yemane 2001; Zedlewski and Gruber 2001). The story in child care is different. The movement of so many from welfare to work yielded increased use of child care supports. However, in many sites the administration of child care subsidies places time and documentation demands on applicants that are inconsistent with the needs of someone holding a job and raising children (Adams, Snyder, and Sandfort 2002).

Deep Hardship Has Increased

With political attention focused on how TANF has converted welfare into a work-oriented program, it is easy to forget that TANF retains the old AFDC role of serving as the ultimate cash safety net for the lowest income families with children. AFDC benefits were never sufficiently generous to lift these families above the poverty level. However, the benefits the program did provide usually averted deep poverty.

Recent evidence suggests that the safety net post-PRWORA is less effective at supporting the neediest families than AFDC was. Zedlewski (2002) analyzed the financial resources of independent single-parent families—those with a single adult caring for one or more children without any other adults in the household. Between 1996 and 1998, the percentage of these families with any earnings increased from 83 to 88, but the percentage receiving TANF fell from 34 to 24, and the percentage receiving food stamps fell from 48 to 40 percent.

The figures are starker when the analysis focuses on the bottom quintile of independent single-parent families—those with income below 70 percent of the poverty level. The percentage of these families with earnings rose 4 points between 1996 and 1998, but the percentage with...
TANF income and food stamps benefits fell 17 and 9 points, respectively. When the overall financial picture of these families is examined, the 1.3 million independent single-parent families in the bottom quintile are shown to have experienced an average net decline in financial resources of $630, or 8 percent (Zedlewski 2002). These statistics are particularly striking because they took place during a period of unprecedented economic growth.

Not all states experienced an increase in deep hardship. Ironically, states with more generous cash grants are more likely to observe such an increase. This is because a family moving off the welfare rolls either without employment or in a low-wage part-time job moves from poverty into deep poverty. In low-benefit states, families living on the welfare grant live in deep poverty, so when they leave the rolls without work, they do not increase the count of families in deep poverty.

Family Structure Changes Are Modest

States have made two kinds of efforts to achieve the family structure goals of welfare reform. First, they have attempted to realign financial incentives to eliminate preexisting disadvantages that married-parent families faced. Second, they have designed and implemented programs to dissuade teenagers and unmarried women from having children.

The original AFDC program was only available to parents who met the deprivation standard, meaning the “continued absence, incapacity, death or unemployment” of one parent. Under this definition, even very low income married parents were ineligible for benefits. The Family Support Act of 1988 required states to establish AFDC-U programs to serve families in which one parent had a work history but was currently unemployed. Under TANF, 33 states have the same eligibility requirements for single-parent and married-parent families, and another 12 made their requirements for the two groups more equitable than they had been in the past (Rowe 2000).

Despite the elimination of formal rules that barred married-parent families from eligibility, TANF retains the fundamental structural problem of a means-tested program targeted at those at the bottom of the income scale. Marriage to even a low-earning partner increases family income, thereby reducing or eliminating benefits. Thus, family-structure neutral eligibility rules that include an income test continue to disadvantage married-parent families. The federal EITC has a slightly different set of incentives because it has a phase-in income range as well as a phase-out range. If two adults have sufficiently low income, they can experience an increase in EITC benefits if they marry; adults with higher incomes face a marriage penalty. Most state EITCs have the same structure.

Enhanced child support enforcement efforts are another mechanism for reducing the financial incentives for giving birth to and raising children outside of marriage, and evidence suggests that active enforcement has an effect on parental behavior (Huang 2001; Nixon 1997). PRWORA increased child support enforcement requirements for states, continuing a trend of increased activity in this area that began more than 10 years earlier.

States have been more cautious in adopting programs targeted directly at marital and childbearing behavior. Programs designed to discourage teenagers from having children grew substantially in the 1990s. Broader efforts to reduce nonmarital childbearing by adults are less common. While 14 states had programs in 1999 designed to encourage sexual abstinence before marriage, none of the 10 most populous states were home to these programs (Wertheimer, Jager, and Moore 2000).

These efforts have yielded few behavior effects that can be measured in population data. Teen birth rates have been falling since 1992, and the share of children living in married-parent families stopped declining in the mid-1990s (Lerman 2002). Fewer children are living with single mothers; more are living with co-habiting partners (sometimes both of the child’s parents), but there has been no statistically significant increase in the share living with married parents (Acs and Nelson 2001).

Effects on Children Remain Unclear

While many aspects of welfare policy could improve or harm children’s well-being, evidence to date shows few measurable effects. Across a variety of measures, children in families on welfare and those in families that have left welfare fared no better or worse in 1999 than they did in 1997 (Zaslow et al. 2002). Specific welfare experiments have shown some positive results for children when parents go to work and increase the financial resources available to the family, and some negative results, especially for adolescents (Hamilton et al. 2001). These experimental results do not yet point the way to unambiguous conclusions about the relationship between welfare policy and child well-being.

The absence of strong findings may reflect data limitations. Comprehensive measures of child well-being require direct observation, which is time-consuming and expensive; narrower measures are not part of most population surveys. Limited findings may also reflect how long it takes for a series of modest changes to accumulate in a manner that affects children’s well-being. While parental employment and family income may change rapidly, aggregate measures of children’s well-being likely change more slowly.
Welfare’s Effects on Subgroups Are Varied

Welfare policies designed to support work are being applied to a heterogeneous population, with possibly varied effects. Elimination of the federal entitlement to benefits implies greater discretion with regard to services and supports provided, expectations placed upon clients, and application of sanction policies. The welfare population also becomes subject to the practices of the labor market, with differential rewards for different levels of education, training, and work experience; wages and benefits reflecting broader labor market conditions; and the possible effects of discriminatory practices.

Figure 3 shows that reductions in the proportion of the population receiving welfare have been large and fairly consistent across racial and ethnic groups. As Finegold and Staveteig (2002) note, these data tell us little about the presence or absence of discrimination, since such practices in the welfare office might reduce caseloads, while labor market discrimination could increase caseloads. Still, a few warning signs are present. A larger share of blacks than whites who have left welfare indicate that they did so for administrative reasons. Fewer blacks than whites report receiving government supports in the few months after leaving welfare. A few small-scale studies have shown disturbing evidence of differential treatment between blacks and whites (e.g., Gooden 1998).

Immigrants were the target of a substantial set of new legal provisions designed to bar them from receiving certain benefits. Prior to welfare reform, participation rates in AFDC and Food Stamps among low-income families with children led by legal permanent-resident aliens were lower than they were among families led by citizens (Fix and Passel 2002). These rates have fallen among legal permanent-resident alien families at about the same rate as they have fallen among citizen-led families. Studies have demonstrated that the immigrant provisions had a “chilling effect,” meaning families that retained eligibility left or failed to apply for the program out of fear or confusion (Zimmermann and Fix 1998). More recent evidence showing substantial declines in TANF participation among refugees—a group that should have been unaffected by the PRWORA provisions—affirms the existence of this phenomenon.

The immigrant provisions of PRWORA contained a new federalism twist. For the first time, states were given authority to define the safety net for needy immigrants. State choices were quite varied, with California standing out as having adopted the most generous package of supports despite substantial anti-immigrant political rhetoric that existed at the time (Tumlin, Zimmermann, and Ost 1999). Also of interest is the fact that recent growth in the immigrant population is larger in low-benefit states than in high-benefit states, offering evidence that counters the hypothesis that high benefits serve as a “magnet” for immigrants (Fix and Passel 2002).

FIGURE 3. Percentage of Low-Income Families Receiving Cash Assistance," by Race and Ethnicity

<table>
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<th>Year</th>
<th>White</th>
<th>Hispanic</th>
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<td>2000</td>
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Source: March Current Population Survey data in Finegold and Staveteig 2002. Note: White and black excluded those identified as Hispanic; Hispanic may be of any race.

“Cash assistance is Aid to Families with Dependent Children, Temporary Assistance for Needy Families, or general assistance.

References


About the Author

Alan Weil is director of the Urban Institute’s Assessing the New Federalism project. His research focuses on health policy, welfare policy, and federalism. Before coming to the Urban Institute, he was executive director of the Colorado Department of Health Care Policy and Financing.
This series is a product of *Assessing the New Federalism*, a multiyear project to monitor and assess the devolution of social programs from the federal to the state and local levels. Alan Weil is the project director. The project analyzes changes in income support, social services, and health programs. In collaboration with Child Trends, the project studies child and family well-being.


This series is dedicated to the memory of Steven D. Gold, who was codirector of *Assessing the New Federalism* until his death in August 1996.

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