New Federalism
Issues and Options for States
An Urban Institute Program to Assess Changing Social Policies
THE URBAN INSTITUTE
Series A, No. A-70, July 2006

Getting On, Staying On, and Getting Off Welfare: The Complexity of State-by-State Policy Choices

Gretchen Rowe and Linda Giannarelli

Virtually any statement about welfare is no longer universally true across the country.

Congress reauthorized Temporary Assistance for Needy Families (TANF), the nation's primary cash assistance program for families with children, in February 2006 as part of the Deficit Reduction Act of 2005. Under reauthorization, Congress increased the share of the caseload that states must include when calculating work participation rates, and it restructured the caseload credit that states receive. These changes will require most states to greatly increase work participation among their caseloads in order to avoid financial penalties[1] and could cause many states to rethink their current welfare policies overall. This marks a good time to review states' current rules. Such a review can provide a benchmark against which future changes can be assessed.

Virtually any statement about welfare is no longer universally true across the country. While welfare benefit levels have always varied tremendously, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) gave states autonomy to set eligibility rules and to determine how participants will meet federal work and time limit requirements. In addition, states may now choose to use state funds for certain recipients who would not be covered by federal funds, furthering local options. As a result of this flexibility and the ensuing diversity of state policy choices,[2] it is difficult to summarize clearly and briefly the national picture of state welfare policy.

This brief reviews the multiple ways a family can get on welfare, stay on, and leave (or lose) assistance.[3] It uses the Urban Institute's Welfare Rules Database (WRD) to examine the variation in key policies.[4] Details are offered on how each state defines its program as of 2003.[5] We include some discussion of how states' TANF programs differ from the program TANF replaced in 1996, Aid to Families with Dependent Children (AFDC), to highlight the changes that have occurred over the past decade.

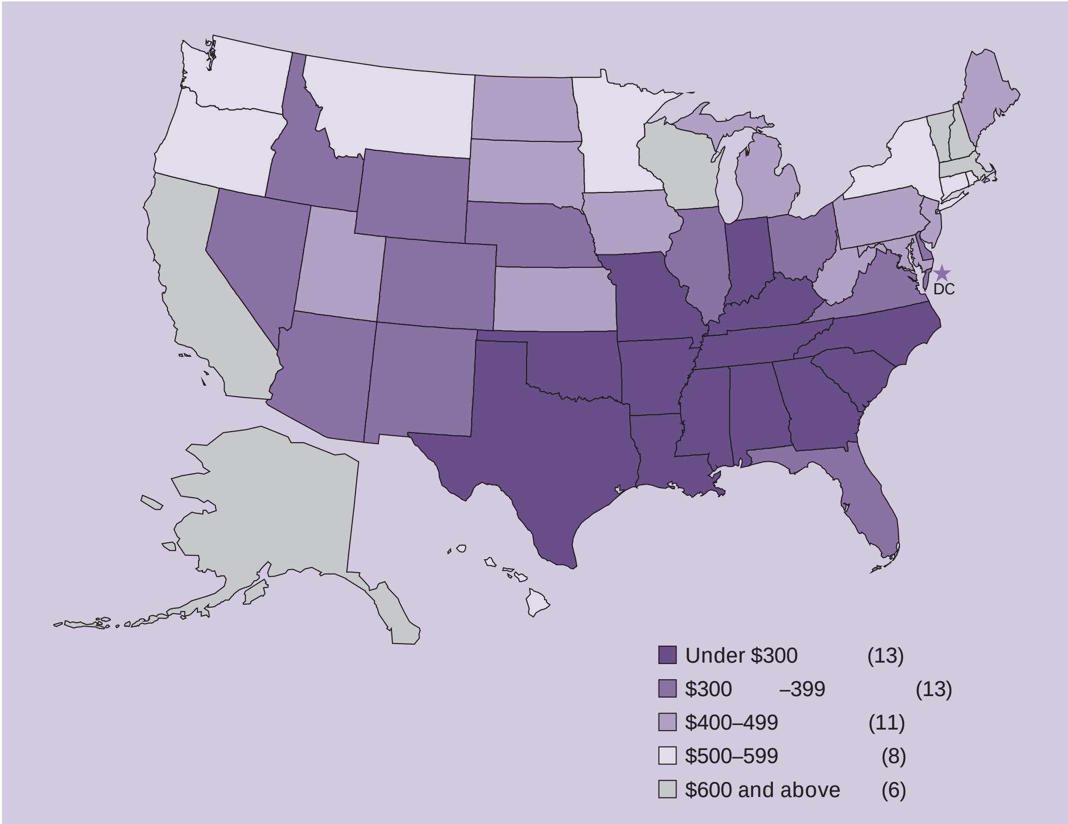
Getting On

The many policies that determine which families are eligible for TANF benefits vary greatly by state. States vary benefit levels (see figure 1 for maximum benefit levels) and most other policies that affect entrance into the program, including availability of diversion payments, breadth of required job search, and treatment of two-parent families. In contrast, state variability was much more limited to differences in needs standards, benefit levels, and some two-parent policies under the old AFDC program. As indicated more specifically below, in some policy areas, such as treatment of two-parent families, a large majority of states have moved in the same direction, while in other areas, such as diversion, there is enormous variation among states.

Initial Eligibility Threshold

States determine whether a family's income is low enough to become eligible for benefits in that state. States establish income definitions, income tests, earned income disregards, and need standards. One key measure that allows comparison across state policies is the initial eligibility threshold (IET), the maximum amount of income

FIGURE 1. Maximum Benefit for a Family of Three with No Income, July 2003



Source: Rowe with Versteeg (2005).

an applicant family can earn and still be eligible for assistance.[6] As of 2003, the IET for a family of three varies considerably by state, ranging from $269 in Alabama to $1,641 in Hawaii, with a median of $704.

Not only does the IET vary among states, but it also varies across time. Comparing the 2003 TANF values to those in 1996 (before the passage of PRWORA), 39 states have changed the IET (Rowe with Versteeg 2005). More than half the states increased their thresholds, allowing more recipients to work and still receive some benefits. The increase ranges from 1 percent in Texas (a $1 increase for a family of three) to 235 percent in Virginia (an $892 increase), with a median threshold increase of just under 40 percent. On the other hand, 12 states reduced the IET during this period. The decline varies from 3 percent in Maryland (a $16 decrease for a family of three) to 26 percent in Alabama (a $97 decrease), with a median threshold decrease of 20 percent. If the inflation rate during the period is taken into account, the IET has actually declined in two-thirds of the states since the beginning of the TANF program.

"Diversion" Payments

Over half of states give families a choice to apply for a "diversion" payment, a one-time lump-sum payment used to alleviate short-term problems that interfere with keeping or finding employment. Families that accept diversion payments are typically barred from applying for monthly TANF benefits for a certain period. As of July 2003, 27 states have established statewide formal diversion programs.

States with diversion programs choose how to determine the diversion payments. The majority of states pay a multiple of the family's maximum allowable monthly payment, with the multiple ranging from two to eight. A handful of states offer a fixed payment, ranging from $1,000 to $1,600. The average maximum diversion payment for a family of three in 2003 is about $1,500, ranging from $612 in Arkansas to $5,696 in Hawaii (table 1).

TABLE 1. Variation in State Policies for a Family of Three as of July 2003

State	Maximum formal diversion payment	Job search required at application	Benefit received when working half-time in month 13 of assistance[a]	Minimum hourly work requirement	Reduction in benefit for initial sanction[b]	Reduction in benefit for most severe sanction[b]
Alabama	No diversion	Yes	$0	32	25%	100%
Alaska	$2,769	No	$755	30	40%	100%
Arizona	$1,041	No	$98	Case-by-case	25%	100%
Arkansas	$612	Yes	$102	30	25%	100%
California	$2,112[c]	No	$593	32	19%	19%
Colorado	$1,000[d]	No	$172	22	25%[d]	100%[d]
Connecticut	$1,629	No	$543	Case-by-case	25%	100%
Delaware	$1,500	No	$291	20	33%	100%
D.C.	$1,137	Yes	$284	30	21%	21%
Florida	$1,000	No	$180	30	100%	100%
Georgia	No diversion	Yes	$68	30[e]	25%	100%
Hawaii	$5,696	No	$469	32	100%	100%
Idaho	$927	Yes	$121	30	100%	100%
Illinois	No fixed maximum	No	$247	30	50%	100%
Indiana	No diversion	No	$176	Case-by-case	20%	100%
Iowa	No diversion	No	$247	40	100%	100%
Kansas	No diversion	Yes	$215	30	100%	100%
Kentucky	$1,300	No	$110	30	33%	100%
Louisiana	No diversion[f]	No	$0	30	22%	100%
Maine	$1,455	No	$451	30	25%	25%
Maryland	$1,419	Yes	$205	Case-by-case	100%	100%
Massachusetts	No diversion	No	$415	—[g]	0%	0%[h]
Michigan	No diversion	No	$262	40	100%	100%
Minnesota	No diversion	No	$651[i]	30	10%	100%
Mississippi	No diversion	No	$7	30	100%	100%
Missouri	No diversion	Yes	$0	30	25%	25%
Montana	No diversion	No	$322	30	21%	100%
Nebraska	No diversion	No	$230	30	100%	100%
Nevada	No diversion	Yes	$0	30	33%	100%
New Hampshire	No diversion	No	$402	30	11%	59%
New Jersey	$750	Yes	$201	35	24%	100%
New Mexico	$1,500	No	$228	34	25%	100%
New York	No fixed maximum	No	$402	30	19%	33%
North Carolina	$816	Yes	$110	30	25%	100%
North Dakota	No diversion	Yes	$142	Case-by-case	21%	100%
Ohio	No diversion	Yes	$275	20	18%	100%
Oklahoma	$876	No	$129	30	100%	100%
Oregon	No diversion	No[j]	$237	Case-by-case	10%	100%
Pennsylvania	No diversion	No	$180	20	22%[k]	100%[l]
Rhode Island	No diversion	No	$416	30	19%	27%
South Carolina	No diversion	Yes	$205	30	100%	100%
South Dakota	$966	No	$198	30	0%	100%
Tennessee	No diversion	No	$185	40	100%	100%
Texas	$1,000	No	$0	30	14%	14%
Utah	$1,422	No	$301	Case-by-case	21%	100%
Vermont	No diversion	Yes	$417	30	12%	35%

(Continued)

TABLE 1. (Continued)

State	Maximum formal diversion payment	Job search required at application	Benefit received when working half-time in month 13 of assistance[a]	Minimum hourly work requirement	Reduction in benefit for initial sanction[b]	Reduction in benefit for most severe sanction[b]
Virginia	$1,280	No	$320	30	100%	100%
Washington	$1,500	No	$323	30[e]	19%	40%
West Virginia	$1,359	No	$185	30	33%	100%
Wisconsin	$1,600	Yes	—[m]	40	Varies[n]	100%
Wyoming	No diversion	No	$94	30[e]	100%	100%

Source: Rowe with Versteeg (2005).

Notes: The calculations in this table represent the amounts for a family of three with one adult (21 years old or older) and two school-age children. The unit has no unearned income and has been receiving assistance continuously since it entered the system. The adult found a job immediately after application.

[a] The amounts apply to units in which the head has both been receiving assistance and working for 13 months.

[b] We assume that before the sanction, the family was receiving the maximum benefit for a family of three with no earnings. All reductions are a percentage of this amount.

[c] Counties have the option to vary their diversion programs. These policies refer to Los Angeles County.

[d] Counties have the option to vary their diversion programs. These policies refer to Denver County.

[e] The state stresses that recipients are required to work 40 hours a week, but in cases where the recipient is unable to work the full 40 hours, caseworkers have the option to scale back the number of hours (not to go below 30).

[f] Although it still exists in the law, Louisiana's diversion program has not received funding since September 2002 and is not included in this table.

[g] The majority of families in the state are exempt from work requirements. Those families not exempt are required to work a minimum of 20 hours a week.

[h] The majority of families in the state are exempt from work requirements. Those families not exempt receive a 100% reduction in benefits for not complying with work requirements multiple times.

[i] The state combines food stamps and TANF benefit calculations. The food portion of the benefit is subtracted first and any remaining amount is given to the family in cash. The cash portion of the benefit is $340.

[j] Job search is not an eligibility requirement but many applicants will be assigned job search and a labor market test (a labor market test consists of a structured and assisted job search designed to assess the applicant's employability).

[k] The sanction applies to recipients sanctioned during their first 24 months of assistance.

[l] The sanction applies to recipients sanctioned after their first 24 months of assistance.

[m] Units with earnings will not receive a cash benefit in the state. However, recipients may earn up to $1,462 and still be eligible for nonfinancial assistance.

[n] The amount of the sanction depends on the number of hours the recipient has not participated. The sanction is equal to the minimum wage times the number of hours of nonparticipation.

Job Search

Most TANF recipients who are not employed or who do not qualify for a work exemption (based on factors such as illness or caring for a young child) must search for a job. Some states are now expanding this policy to applicants. About a third of all states ask that a non-working parent search for a job either before the family's application is reviewed or while it is processed (table 1). The job search specifics, however, vary from state to state. In Alabama, for example, applicants are required to register with the local employment office and apply for positions at any business in the region with job openings. Nevada, on the other hand, requires an applicant to apply for a minimum of 10 jobs a week.

Two-Parent Eligibility

Some states impose special work-related eligibility rules on two-parent, nondisabled families that single-parent families are not required to pass. These rules include requiring that the principal earner must have worked at least 6 of the prior 13 calendar quarters but must also have been unemployed or underemployed for at least 30 days. These types of rules disqualify many two-parent families from receiving benefits that would otherwise qualify purely on financial grounds. Although the work-related eligibility rules were required under AFDC, states may impose, lift, or modify these rules under TANF.

As of 2003, 37 states have removed all special eligibility requirements for two-parent families (Rowe with Versteeg 2005). Of the 13 states that continue to impose restrictions, 9 impose a modified set of eligibility rules—less restrictive than the AFDC rules but still more restrictive than those for single-parent families. One state, North Dakota, provides no assistance to two-parent, nondisabled families, regardless of their work history or effort.

Staying On

Families receiving TANF must continue to pass eligibility tests, although the financial tests tend to be more generous for recipients than they are for applicants. In addition, most states require adults receiving TANF to participate in work activities, unless exempt.

Ongoing Income Eligibility

To encourage families to work, many states have increased the portion of a recipient's earned income that they may "disregard" for the financial eligibility tests. Some states even disregard 100 percent of earned income for a few months after recipients find new jobs, allowing them to earn as much income as possible without lowering their TANF benefits. More generous disregards also make it more likely that TANF recipients will continue to receive benefits after obtaining a part-time job.[7]

All states except three have changed (most expanded) their earned income disregard policies from those used under AFDC. These changes mean that as of 2003, a family of three with a parent working 20 hours a week at the federal minimum wage—earning $446 a month—still receives TANF in the majority of states. The number of states in which this family would be eligible changes, however, as earned income disregards become less generous over time. The family of three with a 20-hour minimum-wage worker remains eligible in every state in the second month of combining work and TANF. By the 7th month, the same family remains eligible in 48 states, and by the 13th month, the family can collect benefits in 46 states.[8]

In addition, the amount of the TANF benefit an eligible working family retains varies widely by state. Benefits for a 20-hour minimum-wage worker vary from $7 in Mississippi to $755 in Alaska, with a median benefit of just over $200 (table 1). Note that the median benefit for a family of three with no income in 2003 is $396, which means that, on average, recipients working half-time retain over half the maximum benefit they could receive if not working.

Work Activities

The federal government requires that a percentage of a state's caseload participate in work activities for at least 30 hours a week. What constitutes work varies greatly by state. Who is required to participate can also vary considerably. Further, states have leeway to exempt some recipients from work, based on demographic or individual characteristics.

As of 2003, over half of states require recipients to participate in work-related activities for a minimum of 30 hours a week. One in four states requires recipients to participate for fewer than 30 hours, most for 20 to 25 hours a week or a number determined on a case-by-case basis. Nine states exceed the federal level, with requirements ranging from 32 hours of work activities in Alabama, California, and Hawaii to 40 hours in Iowa, Michigan, Tennessee, and Wisconsin.[9]

Most states provide exemptions to families that have a barrier to work, such as recipients who are ill or incapacitated, caring for an ill or incapacitated relative, elderly, pregnant, or caring for a young child. Only four states do not provide any of these exemptions. Thirty states provide exemptions for at least four of these work barriers.

Getting Off

As the program's name makes clear, TANF is intended as a temporary benefit. Some families stop receiving TANF benefits by choice. Other families lose benefits due to sanctions or time limits.

Sanctions

Under TANF, states must sanction families that fail to comply with work requirements. The sanction amount and duration, however, vary considerably by state. Generally, states sanction a portion of the benefit (typically the adult portion of the benefit) for a set period for the first instance of noncompliance. Each subsequent episode of noncompliance typically results in either a larger reduction in benefit and/or a longer sanctioning period. Full-family sanctions—

sanctions that eliminate the entire benefit—are most often applied only after multiple instances of noncompliance and do not tend to be permanent.[10]

Over half of states reduce a family of three's benefit by 25 percent or less for the initial instance of noncompliance. Most sanctions remain in place until the sanctioned individual complies with their work requirements, while some states impose the sanction for one to three months. A few states reduce benefits by 26 to 50 percent, usually only until the recipient is compliant. About a quarter of states reduce the entire family's benefit for not complying with work requirements for the first time. However, as with most of the initial sanctions, the majority of those states eliminate the benefit only until the sanctioned individual is compliant (table 1).

The story is quite different, however, for recipients who have been noncompliant multiple times. Only 5 states reduce the benefit by 25 percent or less for multiple instances of noncompliance, whereas 41 states impose sanctions that remove a family's entire benefit. The majority of states with full-family sanctions impose the sanction for only 1 to 3 months; several states, however, sanction the benefit for 6 to 36 months (most are 6 months). Currently, 6 states impose permanent sanctions on the entire benefit (table 1).

Time Limits

Time limits are the most fundamental change embodied in welfare reform. The 1996 law limits the number of months families can receive federal TANF assistance to 60 months—five years—with exceptions for "child-only" cases. However, states may impose shorter limits, extend benefits to families that qualify for a "hardship" exemption, or use state funds to extend benefits beyond the 60 months. States can also impose "intermittent" limits that do not permanently terminate benefits and that may be applied instead of or in addition to lifetime limits.

As of 2003, 35 states impose a 60-month lifetime time limit. Three of these states impose the limit on the adults in the family only and continue to provide benefits to the family's children. Eight states set shorter limits ranging from 21 months to 48 months, with one of those states applying the limit only to adults. Another eight states do not impose any lifetime limits (figure 2).

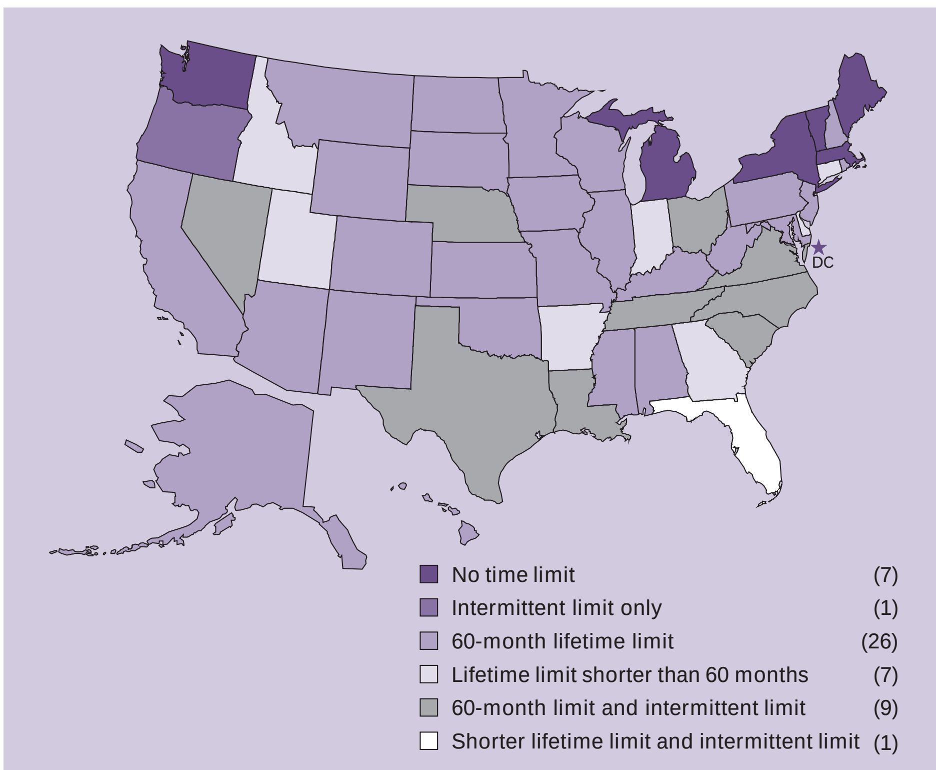
Eleven states currently impose intermittent time limits. Five of those are periodic limits—such as allowing benefits for only 12 out of 24 months—and six are benefit-waiting period limits—such as imposing 24 months of ineligibility after receipt of 12 months of benefits. Of the 11 states with intermittent limits, 10 also impose lifetime time limits. Seven states—D.C., Maine, Massachusetts, Michigan, New York, Vermont, and Washington—do not impose any type of limit on assistance (figure 2).

Although almost all states have time limit policies, most offer exemptions or extensions to the time limits. These policies mitigate the effects of time limits for some families. As of 2003, 31 states provide some type of exemptions and 44 states provide some type of extensions. Typically, states allow exemptions or extensions for many different circumstances, not just one or two.

Conclusion

Most people talk in generalities when discussing the TANF program—recipients must work 30 hours a week to be eligible, families may only receive assistance for 60 months, recipients working part time still receive TANF benefits, and so on. Although these broad statements are useful for discussion, they do not fully represent states' policies. For example, only 30 states actually require recipi-

FIGURE 2. *State Time Limit Policies, July 2003*



Source: Rowe with Versteeg (2005).

Notes: States that provide benefits after 60 months to families are included as "no time limit," even if the benefits are in-kind or vouchers (New York). Also, the time limits in six states (Arizona, California, Indiana, Maryland, Rhode Island, and Texas [the intermittent limit only]) apply only to the adults in the unit; children continue to receive assistance after the limit is imposed.

ents to work 30 hours (about a quarter require fewer hours and one-sixth require more), only 35 states impose a 60-month time limit (8 states impose a shorter time limit and 7 have no limit), and recipients working 20 hours a week at the minimum wage would not be eligible for a TANF benefit in 6 states (after their 13th month of assistance).

Understanding not just the broad outline of the program but some of the nuances of how individual states have implemented their policies is important for both policymakers and low-income families. As noted earlier, the 2006 changes to federal rules will affect states very differently. Congress not only increased the work participation rate—the percentage of the state's TANF caseload that must participate in work activities—under the new legislation, but also mandated that families included in state-funded separate programs will no longer be excluded from the federal participation rate and that new regulations specifying which work activities count toward federal participation (which are forthcoming) will be imposed. States with the most minimal work requirements and those that allow broad exemptions will need to make more drastic changes to their programs than states that currently apply work requirements to their entire caseload. In addition, states with work participation rates substantially lower than the new targets will need to develop new state policies, reallocate funding to work programs, retrain caseworkers, and introduce clients to the new rules. The complexity of current TANF policies highlights the challenges facing the states as they strive to comply with the new requirements.

Notes

1. The *Sixth Annual TANF Report to Congress* describes the FY 2002 effective caseload participation rates (actual participation rates minus caseload reduction credits) for the 50 states and D.C. http://www.acf.hhs.gov/programs/ofa/annualreport6/chapter03/chap03.htm.
2. PRWORA also reduced state flexibility and increased uniformity among the states on certain policies (e.g., child support enforcement, immigrant eligibility, and time limits).
3. For information on variations across all key TANF policies, including those not specifically discussed in this brief, see Rowe with Versteeg (2005).
4. The Department of Health and Human Services, Administration for Children and Families, and the Office of the Assistant Secretary for Planning and Evaluation fund the WRD project.
5. Throughout this brief, we use the WRD data as of July 2003—the most recent data publicly available. Also, the term "states" refers to the 50 states and the District of Columbia.
6. The initial eligibility threshold is calculated for a family of three assuming that the unit is employed at application, has only earned income, has no child care expenses, contains one adult and no children subject to a family cap, has no special needs, pays for shelter, and lives in the most populated area of the state. The amounts represent the maximum amount of earnings an applicant can have and still be "technically" eligible for assistance in each state. Technical eligibility does not mean the unit will necessarily receive a cash benefit, but it will have passed all the eligibility tests and is eligible for some positive amount. Most states only distribute a cash benefit if it is over $10.
7. State eligibility tests and payment standards also determine whether a family with earnings remains eligible.
8. The results for month 25 are virtually identical to the results for month 13.
9. Washington and Wyoming require a 40-hour workweek when possible.
10. This section discusses the state sanction policies as written; keep in mind, however, that the application of sanctions in practice often varies from state to state and sometimes even within states. Two states with similar policies may sanction families at very different rates.

References

Rowe, Gretchen, with Jeffery Versteeg. 2005. *The Welfare Rules Databook: State Policies as of July 2003.* Washington, DC: The Urban Institute.

The Welfare Rules Database. 2003. http://anfdata.urban.org/WRD. Washington, DC: The Urban Institute.

About the Authors

Gretchen Rowe is a research associate with the Urban Institute's Income and Benefits Policy Center. Her research has focused on a variety of issues related to the TANF and Food Stamp programs. As the principal investigator for the Welfare Rules Database, she manages the collection and analysis of data on AFDC/TANF policy across states and time.

Linda Giannarelli is a senior research associate in the Urban Institute's Income and Benefits Policy Center. Her research focuses on government programs for low-income families. She directs the Urban Institute's Welfare Rules Database project and is the project director for the development and maintenance of the TRIM3 microsimulation model.

THE URBAN INSTITUTE
2100 M Street, NW
Washington, DC 20037

For more information,
call Public Affairs:
202-261-5709
or visit our web site,
http://www.urban.org.
To order additional copies
of this publication, call
202-261-5687
or visit our online bookstore,
http://www.uipress.org.

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. Olivia A. Golden 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.

The *Assessing the New Federalism* project is currently supported by The Annie E. Casey Foundation, the Robert Wood Johnson Foundation, the W. K. Kellogg Foundation, the John D. and Catherine T. MacArthur Foundation, and the Ford Foundation.

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.

THE URBAN INSTITUTE
2100 M Street, NW
Washington, DC 20037

Phone: 202-833-7200
Fax: 202-293-1918
E-mail: pubs@ui.urban.org

The authors would like to thank Sheila Zedlewski and Olivia Golden for their helpful comments on drafts of this brief.