



A DECADE OF WELFARE REFORM: FACTS AND FIGURES

Assessing the New Federalism
June 2006

The passage of welfare reform law in August 1996 signaled the end of “welfare as we know it.” The legislation transformed Aid to Families with Dependent Children (AFDC) into the Temporary Assistance for Needy Families (TANF) program, dramatically changing the nation’s approach to supporting needy families with children. Reform was intended to end dependence on government cash assistance by promoting job preparation and work. Benefits now carry a time limit and most recipients must meet work activity requirements. The 1996 law gave states new flexibility to implement their welfare programs, while creating incentives to encourage work and the formation of two-parent families and penalties to reduce out-of-wedlock childbearing. It also changed numerous other safety net programs, such as child care and child support. During the period just before and just after welfare reform, other federal programs that affect the work and earnings of low-income families were enacted or modified as well, including the Earned Income Tax Credit (EITC), food stamps, and Medicaid.

Given these changes and a robust economy in the mid-1990s, many recipients left welfare and went to work or combined welfare benefits with paid work. This transition from welfare to work brought new challenges for families faced with low wages and few benefits. The first decade of the landmark welfare reform legislation is examined here through the experiences of low-income families.

Overview

- *Following the passage of the 1996 reform law, welfare caseloads sharply declined as fewer eligible families entered the program and more families left.* Caseloads were cut in half between 1996 and 2000 and slowly continued their decline during the 2001 recession, with a decrease from 4.6 million families receiving cash benefits in 1996 to 2.1 million families in 2002. The share of eligible families enrolled in the program dropped from about 80 percent in 1996 to 48 percent in 2002.^a
- *Participation in work and work-related activities by welfare recipients increased considerably.* Six out of 10 adults receiving welfare in 2002 reported that they had either worked or engaged in activities to prepare for work during the previous 12 months. The share of welfare recipients working during the preceding 12 months rose from 31 percent in 1997 to 44 percent in 1999, before falling to 39 percent in 2002.^b
- *Income among welfare recipients increased substantially between 1997 and 2002.* The median income for a family receiving welfare benefits was \$11,820 in 2002, compared with \$7,196 in 1997. While poverty among these families remained high—over two-thirds (69 percent) lived in poverty in 2002—deep poverty (income below 50 percent of the federal poverty level) declined by 18 percentage points between 1997 and 2002, from 60 to 42 percent.
- *The economic picture for families who leave welfare is mixed.* In both 1997 and 1999, about two-thirds of former welfare recipients that had not returned to welfare were working. In the tougher 2002 labor market, however, work by welfare leavers declined to 57 percent from 63 percent in 1999. Many former welfare recipients work in low-wage jobs, with median hourly wages hovering around \$8.00 in 2002,

and one-third of these workers have health insurance through their jobs. The likelihood of returning to welfare within two years from exit increased from 20 percent in 1997 to 26 percent in 2002.

Hard-to-Serve

- *Many welfare recipients possess significant barriers to employment.* In 2002, 42 percent of welfare recipients had not finished high school, 35 percent reported being in very poor health, and 30 percent had not worked in recent years. Other potential barriers to employment include the presence of an infant, language barriers, and the need to care for a child with disabilities. About two out of five welfare recipients (44 percent) had two or more barriers to work in 2002. The share of recipients with multiple barriers remained fairly constant between 1997 and 2002.
- *The work effort of recipients with barriers to employment increased after welfare reform.* Between 1997 and 1999, the share of welfare recipients who worked despite facing two or more barriers quadrupled, from 5 to 20 percent. In 2002, in a weaker economy, that number dropped to 14 percent.
- *Among those who leave welfare, a greater share of low-income individuals has multiple barriers to employment.* The share of low-income leavers (incomes below 200 percent of the federal poverty level) with no barriers fell from 38 percent in 1997 to 29 percent in 2002 and the share with three barriers increased from 4 percent to 14 percent. Whether these individuals were able to move into employment—or were cut from TANF assistance—is unclear.
- *Some that leave welfare are “disconnected” from both the labor market and the welfare system, and the size of this group has grown over time.* Individuals with no employment income, no working spouse, and no cash welfare or disability benefits increased from 10 percent of those leaving welfare in 1999 to 14 percent in 2002. People in this group are substantially more likely to be in poor physical and mental health, and to be less ready for employment, than those who left welfare for jobs.

Marriage and Childbearing

- *In the last decade, the share of low-income children living in single-mother families has declined.* Between 1997 and 2002, the share of low-income children living in single-mother families declined from 38 to 35 percent. The trend for all children, not just low-income children, is similar. In recent years, however, the share of all children living in single-mother families has begun to rise (up 0.9 percentage points between 2001 and 2004); the trend for low-income children is likely quite similar.^c
- *The proportion of children in low-income families living with unmarried cohabiting parents has increased, rather than the proportion living with married parents.* Eight percent of low-income children lived in a cohabiting family in 2002, up from 6 percent in 1997. The share of low-income children living in married-parent families remained relatively constant over this period at about 48 percent. There was also a small but statistically significant increase in the share of low-income children living in families with no parents, from 4.7 to 5 percent.
- *Significantly more low-income families received child support in 2001 than in 1996.* Thirty-six percent of poor children (incomes below the federal poverty level) eligible for child support, living with their mothers and having fathers living elsewhere, received support in 2001, up from 31 percent in 1996. The average child support for these families provides 30 percent of annual income, or about \$2,550. Significant gains in child support were also made among children with family incomes between 100 and 200 percent of the poverty level: 50 percent received support in 2001, up from 45 percent in 1996. Despite this progress, receipt rates remain low with over 60 percent of poor eligible children and 50 percent of near-poor children without support.

Status of the States

- *States substantially changed their welfare programs by focusing on such goals as employment rather than simply reducing benefits in a “race to the bottom,” but the specifics of state policies vary greatly.* States moved quickly to design welfare-to-work policies that emphasized getting recipients into jobs by shifting to “work-first” welfare systems, modifying program rules to allow more earned income, imposing shorter lifetime limits, and adopting tougher sanctions for families that do not comply with work requirements. As of 2003, most states required recipients to participate in work-related activities for a minimum of 30 hours a week, reduced a family of three’s benefit by up to 25 percent for an initial sanction, and imposed a 60-month lifetime limit on benefits. But policies vary considerably by state; for instance, eight states set shorter lifetime limits ranging from 21 months to 48 months, and another eight states do not impose any lifetime limits.
- *All but three states have changed their earned income “disregard” policies to increase the amount of income recipients may earn without lowering their TANF benefits.* 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 benefits in the majority of states. The amount of the benefit varies widely by state, however, and in some states, earned income disregards and eligibility for benefits become less generous over a recipient’s time in the program.
- *As caseloads declined, states gradually shifted TANF resources away from benefit payments and toward work supports.* Between 1996 and 2000, the share of TANF dollars spent to provide cash benefits fell from 76 to 41 percent. In 2000, 19 percent of TANF dollars funded child care, and 22 percent funded other activities designed to support work and family independence, such as transportation, tax credits, marriage incentives, and individual development accounts.
- *In 2001, states faced a recession, which affected their fiscal context for TANF spending. As employment fell, state spending needs increased and revenues fell. The TANF block grant amount from the federal government did not change.* Looking across all state revenues and expenditures for all purposes, states collectively received \$1.8 trillion in revenues, and spent \$2.1 trillion in state fiscal year 2002, leaving a gap of \$0.3 trillion. Reports from organizations that track state policies indicate recent or projected reductions to cash assistance and other TANF-funded programs, including welfare-to-work programs, assistance for hard-to-serve families, and child care programs.^d

Low-Income Working Families

- *The proportion of low-income single-parent families with an employed parent has increased significantly.* In 2002, the proportion of children in low-income single-parent families with an employed parent was 61 percent, an increase of 5 percentage points from 1997. Full-time employment, and full-time employment with employer-provided health insurance, did not significantly increase in this group between 1997 and 2002.
- *Former welfare recipients who take advantage of government supports after leaving welfare are less likely to return to welfare.* Even in the tougher 2002 labor market, 28 percent of former recipients who did not receive government child care assistance returned to TANF, compared with 20 percent of those who did receive assistance. Similarly, 33 percent of families without Medicaid or SCHIP returned to welfare compared with 22 percent of families with this coverage. More families that left welfare received government health insurance and food stamps in 2002 than in 1999. Food stamp receipt among welfare leavers rose from 28 percent to 35 percent, and adult Medicaid and SCHIP receipt increased from 40 percent to 48 percent.

- *Spending on work supports has increased since the 1996 federal welfare reforms.* In 2002, federal and state governments spent \$131 billion on Medicaid and SCHIP, food stamps, child care subsidies, and the EITC, 28 percent more than in 1996 (in real terms). Medicaid and SCHIP accounted for about half the 2002 spending and for the lion's share of the spending increase over this period. Considering only the nontax benefits in this set of work supports, most low-income families receive only one support or none at all. About one-third (35 percent) receives none of these supports, and one-third receives either food stamps, Medicaid/SCHIP, or help with child care (with the vast majority reporting only receipt of Medicaid/SCHIP). Only 5 percent of all low-income families report receiving all three benefits.
- *For the most part, the characteristics of jobs held by former welfare recipients do not differ from the jobs held by low-income women who have not received welfare.* Low-income families that received welfare benefits within the last two years and those that have not received benefits have similar median hourly wage rates (\$7.75 and \$8.15 in 2002) and do not have significantly different levels of benefits, including access to paid leave (57 percent and 65 percent) and unpaid or paid maternity/paternity leave (78 percent and 83 percent).

Family and Child Well-Being

- *Despite a dramatic reduction during the 1990s, child poverty increased in the United States from 2000 to 2004.* A decomposition of changes in child poverty rates suggests that the drop in poverty during the 1990s was largely due to improvements in the job market, especially for less-educated workers. The work status of families seems to have played less of a role in the increase of child poverty since 2000 than it did in the decrease of child poverty during the 1990s, while the minimum wage (especially for less-educated families) and local unemployment rates have been more important.
- *Even though their parents are working more, children in low-income families are faring about the same as they were before welfare reform.* Measures of children's behavior and emotional problems among young children (age 6 to 11) and older children (age 12 to 17) remained fairly constant for low-income families currently receiving benefits and those that recently exited the program. However, the rate of parental aggravation among recent welfare families tripled between 1997 and 2002 (from 10 to 32 percent), while the rate for current welfare recipients declined and the rate for low-income families with no history of welfare benefits remained about the same. The result suggests that parents with children age 6 to 10 who are struggling to balance new work responsibilities with childrearing may feel more stress as a result.
- *Children in low-income families—whether receiving welfare or not—consistently fare worse than children in more affluent families on measures of child well-being, family environment, and sociodemographic risk.* For example, in 2002, the percentage of low-income children with fair or poor health was over twice that for higher-income children (8 percent versus 3 percent). The proportion of children whose parent reported symptoms of poor mental health was also about twice as high for low-income as for higher-income children (26 percent versus 11 percent).

This fact sheet draws on facts and figures from the following reports, among others:

Assessing the New Federalism: Eight Years Later by Olivia Golden and the ANF research team (2005); *The Changing Role of Welfare in the Lives of Low-Income Families with Children* by Pamela Loprest and Sheila R. Zedlewski (forthcoming); "Understanding Changes in Child Poverty Over the Past Decade" by Austin Nichols (2006); "Getting On, Staying On, and Getting Off Welfare: The Complexity of State-by-State Policy Choices" by Gretchen Rowe and Linda Giannarelli (2006); *Welfare Reform: The Next Act* edited by Alan Weil and Kenneth Finegold (2002); *Children in Low-Income Families: Change and Continuity in Family Context and Measures of Well-Being* by Martha Zaslow, Gregory Acs, Cameron McPhee, and Sharon Vandivere (forthcoming); *Is There a System Supporting Low-Income Working Families?* by Sheila

Zedlewski, Gina Adams, Lisa Dubay, and Genevieve Kenney (2006); and “Child Support Gains Some Ground” by Elaine Sorensen (2003).

The views are those of the authors and do not necessarily represent those of the Urban Institute, its board of trustees, or its sponsors. 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.

For further information, contact the Office of Public Affairs at (202) 261-5709 or e-mail paffairs@ui.urban.org.

Notes on Methods and Terminology

All estimates, unless otherwise noted, are calculated from the 2002 National Survey of America’s Families. Data use the social definition of family and include married partners and their children, as well as unmarried partners, all their children, and members of the extended family. Data on family income are for the previous calendar year (2001). “Poor” refers to families with incomes below the federal poverty level, while “low-income” refers to families with incomes below twice the federal poverty level.

^a AFDC/TANF participation rates tabulated by the TRIM3 microsimulation model. See *Indicators of Welfare Dependence, 2005 Annual Report to Congress*, U.S. Department of Health and Human Services, <http://aspe.hhs.gov/hsp/indicators05/index.htm>.

^b Findings rely on individuals’ reports of activity, include only the activities among adults receiving welfare who are the primary caretakers of the children in the family (usually mothers), and include all work activity during the past year even if it occurred while the mother was not receiving welfare.

^c Tabulated using data from the Current Population Survey.

^d State revenues and expenditures calculated by the U.S. Bureau of Census. For reports on state policies, see “States Are Cutting TANF and Child Care Programs: Supports for Low-Income Working Families and Welfare-to-Work Programs Are Particularly Hard Hit” by Sharon Parrott and Nina Wu, Center on Budget and Policy Priorities (2003); and “Child Care Assistance in 2004: States Have Fewer Funds for Child Care” by Hannah Matthews and Danielle Ewen, Center for Law and Social Policy (2005).

###

For further information, contact the Office of Public Affairs at (202) 261-5709 or e-mail paffairs@ui.urban.org.