

# Welfare Reform

## BACKGROUND

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Welfare is complicated: There are many programs, many sectors of government are involved, and the changes during the last decade have been enormous.

### GLOSSARY

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#### **Aid To Families With Dependent Children (AFDC)**

A cash assistance program for families in which death, disablement, unemployment, or an absent deprived the children of financial support; replaced in 1996 with Temporary Assistance to Needy Families (TANF).

#### **Block grant**

A lump sum allocated by the federal government to the state to administer a given program, usually with only limited federal oversight. Block grants embody devolution—that is, with them the federal government gives the states and local government more decision-making authority and increased program flexibility.

#### **Entitlement**

A government program that provides benefits to anyone who is eligible. Social Security, food stamps, Medicaid, and Medicare are entitlement programs; AFDC was, TANF is not.

#### **Family Independence Agency (FIA)**

State agency that administers the Family Independence Program (FIP) and To Strengthen Michigan Families (TSMF). Formerly the Department of Social Services.

#### **Family Independence Program (FIP)**

Michigan's Temporary Assistance to Needy Families program.

#### **Federal poverty level (or guidelines)**

Minimum annual income required by a family to meet food, shelter, clothing, and other basic needs: in 1998, \$13,650 for a family of three.

#### **Aid to Families with Dependent Children (AFDC)**

Welfare as it commonly is understood began in 1935 with Aid to Dependent Children (ADC), which was part of the legislation creating the Social Security system. ADC provided cash grants to needy children living with their mother in poverty. It was funded then—as it was until the program ended in 1997—by state and matching federal dollars. ADC's sponsors saw it as a small program for widows with children, but after World War II this began to change. By the 1960s, Aid to Families with Dependent Children (AFDC), as the program was renamed, was assisting a growing number of mothers who never had married, were divorced, or had been deserted. In 1993, 87 percent of women receiving AFDC were single, divorced, or separated. AFDC was an *entitlement* program: Anyone who was eligible was entitled to receive it, and funds would be provided. The states, however, were allowed to set their own benefit level.

In 1998 the maximum cash grant under the Family Independence Program (FIP), Michigan's name for the program that replaced AFDC, was \$459 a month. Eligibility depends on having few assets and low monthly income. For example, a household of three (adult and children) in Wayne County becomes eligible for FIP if its monthly net income (earnings less \$200, then less 20 percent of the remaining amount) does not exceed \$459. The grant amount is the difference between net income and \$459. If the household's earnings exceed \$775 per month, the family of three is ineligible for FIP. The current fiscal year (FY 1997–98) state appropriation for FIP is about \$721 million.

#### **Supplemental Security Income (SSI)**

The 1935 Social Security Act included cash assistance programs for needy aged and blind persons. In 1950 the program was extended to individuals with disabilities. Administered by state and local governments with partial federal funding, these programs became increasingly complex and divergent. In 1972 Congress made these programs a federal responsibility and established national eligibility and benefit standards. The array of benefits became known as Supplemental Security Income (SSI). The basic monthly SSI check in all states is identical: \$494 for one person and \$741 for a couple. Michigan, one of several states

that supplement these payments, offers those on SSI an additional \$14 a month. From 1974 to 1995, federal SSI grew from about \$5 billion to \$27 billion. Approximately 208,000 Michigan residents received SSI in January 1998.

### Food Stamps

This program began during the Depression to help needy families. In 1964 it was replaced by the modern program, which was dramatically expanded in 1974. All states must offer food stamps to low-income households; the amount a household receives depends on household size and family income.

A family of three may receive up to \$321 in coupons. Nationally, the 1997 individual average was \$71 monthly, and an average of 23 million people a month were served at an annual cost of \$26 billion. Michigan's January 1998 food stamp caseload was almost 322,000 (more than 764,000 people).

### Changes to Welfare

Changes to welfare in the last two decades have centered on whether recipients should be required to work, attend school or training programs, or perform community service in exchange for their cash grant. Incentives to work include

- reducing the grant amount or not indexing grants to inflation (the maximum AFDC grant in Michigan declined as a percentage of the poverty level between the late 1970s and the mid 1990s—it now is 42 percent of the federal poverty level);
- allowing recipients to keep more earned income without reducing their grant amount;
- providing “transitional” child care and Medicaid coverage, so that adult recipients would not be discouraged from working because they couldn't afford child care or would lose their health care coverage; and
- enhancing federal funding for work-training programs.

In the 1990s the federal government began giving states waivers to deviate from federal strictures in running AFDC programs. In 1992 Michigan received a series of waivers and implemented a comprehensive state welfare reform initiative, To Strengthen Michigan Families (TSMF), which requires recipients to work, attend school or job training classes, or perform community service for 20 hours a week or face a reduction in their benefits.

In 1991 Governor Engler eliminated General Assistance, a state cash-assistance program for 83,000 childless adults. This action did not require federal approval.

#### Food stamps

*Federal program in which eligible individuals and families receive coupons redeemable for food at many retail stores.*

#### Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA)

*Federal law signed in 1996 that dramatically overhauled the country's welfare system. It ended AFDC and started Temporary Assistance to Needy Families.*

#### Temporary Assistance to Needy Families (TANF)

*Program created by the federal government in 1996 to replace AFDC and give states more administrative/program flexibility; offers funding to states, which in turn provide cash grants to some single parents with children and some low-income families.*

#### To Strengthen Michigan Families (TSMF)

*Michigan welfare initiative started in 1992 to encourage employment, give financial support to families, and require welfare recipients to assume personal responsibility; it has evolved into the state plan required under the federal PRWORA.*

#### Supplemental Security Income (SSI)

*A federal assistance program for people aged 65 and older who meet certain asset and income requirements; also assists the blind or extremely visually impaired and those suffering from severe physical or mental disability.*

#### Welfare (public assistance)

*Government programs that offer cash and other assistance to certain low-income adults and children.*

*Usually refers to Temporary Assistance to Needy Families (formerly AFDC), food stamps, and Supplemental Security Income (SSI).*

## WELFARE REFORM

In 1994, when debate about federal welfare reform again intensified, the demographics of the national welfare population were as follows:

- From 1960 to 1994, the number of people receiving AFDC had grown almost five-fold, from about 3 million to 14 million
- In 1993, 87 percent of mothers receiving AFDC did not have a husband present (48 percent were single, 23 percent were widowed or divorced, and 17 percent were separated)
- In 1993, 5 percent of mothers receiving AFDC were aged 15–19
- In 1993, 55 percent of mothers receiving AFDC were white and 39 percent black
- From 1969 to 1994 the size of the average welfare household had fallen, from 4.0 members to 2.9
- From 1970 to 1994, federal and state welfare spending combined and adjusted for inflation had climbed from \$16 billion to more than \$25 billion; the peak was \$27 billion, in 1977

### *Personal Responsibility and Work Opportunity Reconciliation Act*

In 1992 President Clinton vowed to “end welfare as we know it.” Governors found federal welfare laws/regulations overly prescriptive; most would opt for more flexibility, even if it meant less federal funding. In 1996 President Clinton kept his promise by signing the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA). The PRWORA

- established the Temporary Assistance to Needy Families (TANF) block grant program, and
- ended the AFDC entitlement that guaranteed cash assistance to all eligible adults and children.

With TANF, the governors received exactly what they wanted—more flexibility and authority over their programs. Responsibility for welfare had devolved to the states. Federal funding for TANF—which also subsumed Emergency Assistance to Families (EAF) and JOBS, the federal work program that Michigan called MOST (Michigan Opportunity Skills Training)—has

been capped at an estimated \$19.4 billion annually until 2003. Each state annually is allotted a block grant based on its combined AFDC, EAF, and JOBS expenditures in 1992–94 (average), 1994, or 1995, whichever is greater. The Michigan Family Independence Agency (FIA) estimates that Michigan will receive \$775 million annually, a windfall of roughly \$150 million more a year than the state would have received under the old system. (This is because caseloads are dropping, which under the old system would have meant that the federal funding dropped too.) States must spend on the new TANF program at least 80 percent of what they spent in FY 1993–94 for AFDC, AFDC-related child care, EAF, and JOBS.

The PRWORA also

- limits lifetime federally funded assistance to a maximum of five years, allowing states to exempt 20 percent of their caseload from the time limit, based on hardship, battery, or extreme cruelty; Michigan has not yet decided if it will impose the lifetime limit on its recipients, but if it does not, those who remain on FIP for more than five years will have to be supported solely by state funds;
- requires able-bodied adults to participate in work activities (working, job training, others) within two years (60 days in Michigan) of starting to receive aid, exempting parents who cannot find child care for their children aged under six;
- exempts women who have been on assistance for two years (60 days in Michigan) from work requirements for another year (12 weeks in Michigan) after they give birth;
- requires parents or caretakers receiving assistance for two months—and not working or exempt from work requirements—to participate in community service;
- requires states to achieve specific work-participation rates for all families on assistance (25 percent of all families in 1997; 50 percent in 2002 and beyond), and these rates decline if a state’s caseload declines;

- requires minor parents to live under adult supervision and attend school;
- permits states to deny assistance to (1) additional children born or conceived while the parent is receiving aid, (2) unmarried teen parents and their children, (3) most immigrants living legally in the United States (Michigan has chosen to do none of these, but it has not made eligible for FIP legal immigrants who have come to the state since the law's passage);
- refuses TANF benefits to anyone convicted of a felony drug offense, but a convicted person's *family* still may receive benefits at the state's option (Michigan gives benefits to the family if the convicted parent fully complies with probation requirements); convicted pregnant women and adults in treatment are exempt;
- preserves the food stamp program as an entitlement, but reduces spending by \$28 billion over six years, mostly from cuts in food stamps for immigrants who are legal U.S. residents;
- limits issuance of food stamps, to three months in three years, to eligible people aged 19–50 who are not the custodial parent of a minor, unless they are working or participating in a work-finding or employment and training program;
- repeals the current guarantee of child care assistance for welfare recipients who work, participate in a work program, or leave welfare for work (converts the funding into a consolidated block grant with the Child Care and Development Block Grant); an additional \$6.6 billion over six years is provided to the states for child care (under Michigan law, a parent cannot be required to work if child care is not available); and
- makes it harder for children with disabilities to be eligible for SSI.

States are allowed to set shorter limits on the program restrictions (for example, Michigan exempts women with a newborn from work requirements for less time than does the federal law). They also may apply for a waiver to deviate from federal requirements regarding certain aspects of the program.

Nationally, the number of families on welfare has dropped from a peak of 5 million in 1994 to 3.7 million in July 1997. It is unclear how much of this is attributable to welfare reform and how much to such other factors as the healthy economy.

### *Michigan Today*

Many of Michigan's recent welfare reform efforts anticipated the PRWORA; others reflect options the states are given under federal reform. Under Michigan's Work First (WF) program, which began in 1994, a welfare recipient must participate in a job search or be working at least 20 hours a week within 60 days of joining the welfare roll. Only about 5 percent of recipients are exempt from WF. Mothers with a newborn are excused only if the child is younger than 12 weeks. Work First's activity is helping recipients to find a job. To this end, local agencies offer job placement, resume-writing help, vocational skills assessment, remedial education, on-the-job training, and other services. Recipients who fail to participate in Work First have their grant reduced; if they go four months without participating, they lose their entire cash grant and food stamp allotment.

Another state initiative, Project Zero, began in July 1996 with the object of reducing to zero the number of families on assistance without earned income. The program originally was implemented in six locations (Alpena, Menominee, Midland, and Ottawa counties and Romulus and Tireman districts in Wayne County), but in October 1997 was expanded to 12 (the new sites are Berrien, Manistee, Hillsdale, and Kent counties and the Greendale and Warren districts in Wayne County). As of January 1998, 45 percent of FIP targeted cases (that is, those required to work) had earned income in Project Zero sites.

Without question, federal and state reform has changed welfare in Michigan. The Family Independence Program, Michigan's program under TANF, has seen its caseload decline for 46 consecutive months (as of January 1998) to 129,693 (or 378,386 people—the average case size is 2.9 people), the lowest since the early 1970s. This is down more

## WELFARE REFORM

than 56,000 cases from 1995 and 68,000 cases from 1993. In January 1998 alone, the number of cases that left the Family Independence Agency system was a record 4,000. More FIP recipients are reporting earned income: In January 1998, earned income was reported by 45 percent of adults and teen heads of household who are required to work or participate in work-related activities. Since October 1992, when Michigan began implementing welfare reform, 130,541 cases have closed because they began earning too much to qualify for assistance.

## DISCUSSION

Welfare is among the most volatile issues of our time, and the former AFDC program bears the brunt of the controversy. Established during the Depression as a small program for widows with children, AFDC came under increasing scrutiny in the last three decades as its rolls swelled with single mothers, many of whom had never married. Critics of welfare contend that it breeds long-term dependency. They argue that welfare is supposed to be a temporary helping hand, but, instead, it often *causes* poverty and single motherhood by allowing recipients to obtain benefits without even attempting to find work. That position is countered by those who maintain that cash grants and food stamps rarely, if ever, are adequate to support a family, and most welfare recipients prefer work to welfare. They note that until medical, child-care, and transportation support were made available for recipients who work or leave AFDC altogether, their earned income was insufficient to cover these critical expenses.

### Work Requirements

This decade's major reforms are founded on the premise welfare should be a second chance, not a way of life. Almost all assistance recipients now are required to work, perform community service, or prepare themselves to participate in the work force by pursuing education or job training or actively seeking a job. The debate in regard to work requirements is not whether it is preferable for recipients to be working or leaving assistance because they have found

good jobs; rather, it is over the government's role in assisting or forcing recipients to find work.

### *Arguments for Work Requirements*

- Work requirements are necessary to instill self-sufficiency, especially for welfare recipients who have not been employed for years.
- Recipients may earn some income without having their cash grant reduced; furthermore, there now is more money for transitional child care, transportation, and medical care, which permits recipients to move toward work that will sustain their family. In Michigan, there has been dramatic growth in the number of recipients who are earning income and also in the number who have left welfare because they have found better-paying jobs. (A new study shows that of those who completed the mandatory Work First job-finding program in FY 1994–95 and had jobs for 90 days, more than 80 percent still were working a year later.)
- More recipients are ready and able to work than statistics suggest. They note that metropolitan newspapers are filled with classified ads for jobs that welfare recipients could take.

### *Criticism of Current Work Requirements*

- Government should do more to prepare those on assistance for today's jobs, an increasing number of which require skills that recipients do not yet possess.
- Government should recognize that some recipients never will find work; others will be unable, for various reasons, to sustain gainful employment. (A recent Kaiser Foundation study finds that nationally, women who have children with disabilities or are disabled themselves make up 30 percent of the welfare caseload.)
- The state has shifted from educating and training recipients for good jobs to forcing them into work-finding programs that do not allow them to acquire the skills necessary to find and keep good jobs. (Nationally, the Welfare to Work Partnership and the National Alliance of Business

estimate that only one-quarter of the welfare recipients are prepared to work, one-half need job training, and the last quarter require intensive training as well as substance abuse counseling and/or health care for physical or mental illness.)

- Statistics from the Michigan Jobs Commission show that welfare recipients who find jobs earn an average of \$8,560 a year, and most of these jobs have no benefits. This is well below the poverty level for a family of three, which is the average size of an assistance household. Moreover, only one-third of welfare recipients in Michigan currently qualify for the food stamp cash-out, which requires a person to earn at least \$350/month for three straight months; this is further evidence that even those recipients who work are making little.
- There simply are not enough jobs available, especially in large cities, for welfare recipients with limited skills.

### Time Limits

The PRWORA allows people to receive federally funded cash grants for a lifetime maximum of five years; the five-year clock began October 1, 1996. In Michigan, one quarter of recipients have been on assistance for more than eight years.

- Supporters of time limits argue that they underscore the temporary nature of assistance and provide clear incentives to find work. Welfare should not provide permanent support to adults who can work.
- Opponents respond that time limits may end up harming children, the recipients least able to help themselves. The children of parents who will not or cannot work will be punished through no fault of their own.

### Children on Assistance

- Critics point to an Urban Institute study that finds that the PRWORA could push 2.6 million people, including 1.1 million children, into poverty. Among the hardest hit will be 8 million working families hurt by cuts in food stamps; thus

welfare reform hampers the self-sufficiency of working families, not just those on assistance. In addition, tightening the disability definition is disqualifying at least 100,000 of the 965,000 children who receive SSI.

- Defenders respond that the Urban Institute study overestimates the effect of food stamp cuts and underestimates the earnings of working families and their drive for independence from government assistance. As for narrowing the children's disability definition, they argue that there was broad agreement before the PRWORA that many children who were not disabled were qualifying for SSI.

### Block Grants

- Reform advocates generally herald TANF block grants as essential to each state's ability to design programs that respond to its particular welfare population and needs, although some believe there still are too many federal strings attached. In Michigan, block-grant proponents point out that the PRWORA formula significantly *increased* federal funding to the state for the next five years, which will allow the state to enhance programs that will stress recipients' self-sufficiency.
- Opponents of block grants decry the end of AFDC as an entitlement and the relaxation of national strictures. They contend that the states' flexibility can work to the detriment of children and also adult recipients who may need substantial support before they are ready to work. If states can do just about anything they want, in time, opponents fear, they will do less. Two scenarios worry them: (1) a recession, when work becomes harder for recipients to find, caseloads grow, and government revenue declines, forcing cuts in TANF programs, and (2) 2003, when the windfall to states such as Michigan ends, and the caps in block grants are likely to constrain government spending on welfare programs—with no adjustments for inflation or population growth, states may have to choose *between* cash grants and work-related programs.

### Grant Size

The size of welfare grants to Michigan families has decreased over the years. In 1995 the maximum monthly grant for a three-person household in Wayne County was \$459. Many feel the grant amount is not enough to meet the needs of families on public assistance. Others, including FIP officials, respond that many grant recipients receive tax credits and have job income that along with their grant and food stamps lifts them over the poverty line. In Michigan, the FIA director currently opposes increasing the grant on the grounds that inflation and the instances of children being inadequately clothed are not substantial enough to merit an increase.

### Transportation

Transportation is very important to welfare recipients. Many live in the urban areas, and inadequate personal or public transportation inhibits their ability to get to work in suburbs. Michigan has a grant program to help offset some transportation costs to recipients: One-time \$600 payments may be used to buy and repair vehicles. In some Michigan communities, the Suburban Mobility Authority for Regional Transportation provides bus patrons with a free ride from their stop to their work site.

### Child Care and Medical Care

Transitional child care and medical care (usually through Medicaid) are key features of welfare reform.

- Proponents of reform say that government support for child and medical care will allow recipients to start and remain working.
- Critics say this support is only temporary, and moreover, the child care subsidies often are inadequate. In some areas, licensed child care is unavailable, especially for infants and children of parents working evenings and nights. They also point out that when a recipient leaves welfare, even if only for a low-paying job, s/he loses Medicaid coverage after 18 months.

### Conclusion

It is far too early to measure the true legacy of welfare reform in Michigan and across the nation. Declining caseloads may be seen positively (more recipients are

working their way off assistance) or negatively (more families and children are being forced off welfare without the means to support themselves). Welfare resonates because it focuses on a fundamental issue: the extent to which government should assist or force adults and children to become self-sufficient.

*See also* Child and Family Services; Child Care; Devolution; Job Training; Medicare and Medicaid; Substance Abuse.

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