

# Federal Welfare Reform: Answers to the 21 Questions You Wanted to Ask

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## OVERVIEW

The majority of states have lobbied Washington for some time for freedom to create state cash assistance programs that would be both effective and cost efficient. Many states have asked for and have been granted waivers in hopes that changes implemented would, in effect, create a form of state welfare reform. After granting waivers to numerous states, Congress and the President took a bold step forward in passing and signing legislation which created federal welfare reform. This legislation, entitled the ***Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (HR 3734)***, will have a major impact on funding for public assistance programs throughout the nation. This Act repeals the long-standing entitlement program, Aid to Families with Dependent Children (AFDC), and consolidates funds for AFDC, Job Opportunities and Basic Skills (JOBS), and the Emergency Assistance programs into a single capped block grant referred to as Temporary Assistance for Needy Families (TANF). What this means is that even in time of economic hardships, a state can only get from the federal government the amount available under the block grant. What this also means is ... watch what you ask for, you just might get it.

The new law also amends several other entitlement programs, including Supplemental Security Income (SSI), Food Stamps, and Medicaid that will result in significant changes in the costs and eligibility for these programs. In addition, substantial revisions occurred in the Child Care and Development Block Grant (CCDBG), the Social Services Block Grant (SSBG), Child Support, and Child Nutrition programs.

This Fiscal Focus answers questions primarily relating to TANF, the Child Care and Development Block Grant, and the Social Services Block Grant -- the three major federal funding streams that directly affect the state of Michigan's budget. Also discussed are changes affecting benefits to immigrants and the potential impact of federal reform on the Medicaid program.

While many questions remain about the impact of federal welfare reform, it is possible to conclude that:

- Each year, from FY 1997 through FY 2002, Michigan will receive \$775.4 million in federal TANF funding. The state has the flexibility to create and administer simpler grant programs, but it must show accountability through detailed statistical reporting.
- The required annual state spending or maintenance-of-effort (MOE) amount necessary to receive the entire TANF block grant is \$499.8 million. This amount represents 80% of the state's expenditure level for similar programs during FY 1994.
- The federal Child Care and Development Block Grant will increase in successive years as long as the state increases its child care funding. In FY 1997, Michigan will receive \$87.5 million in federal child care funding.
- The federal Social Services Block Grant will be fixed at \$87.4 million per year for the six-year reform horizon. If expenditures on programs funded by the SSBG continue to increase, GF/GP dollars must make up the difference.
- Although major Medicaid reform was not adopted, Medicaid eligibility for certain population groups will be affected by federal welfare reform. As a result, the Family Independence Agency's efforts to simplify the Medicaid eligibility process may be hampered.

In the following pages, you will find answers to many inquiries about federal welfare reform and particularly how it affects the state of Michigan.

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## **1. WHAT MAJOR CHANGES WERE INCLUDED IN THE FEDERAL WELFARE REFORM PACKAGE?**

In addition to the changes in the AFDC (i.e., from entitlement to block grant), Child Care and Social Services Block Grant programs, all of which are described in subsequent questions, the Federal Welfare Reform Act included changes in Food Stamp, Supplemental Security Income (SSI), Nutrition programs, and Child Support Enforcement, as well as strict limitations on immigrant benefits.

- Food Stamps -- The Food Stamp program remains an entitlement, but it has been modified. All able-bodied recipients between the ages of 18 and 50 must participate in work, workfare, or training in order to retain eligibility for food stamps. States can waive work requirements in times of high unemployment, and may disqualify individuals delinquent in child support payments.
- Supplemental Security Income (SSI) -- Eligibility requirements for the SSI program change. The (broader) individual functional assessment disability determination method for children will be eliminated for new cases. Open cases that qualified using this method will go through a more limited redetermination process that may result in a loss of benefits.
- Nutrition -- Nutrition programs that subsidize food for children and adults in day care change as follows: Tier I providers, those who themselves have low income or service low-income families, will receive nutrition reimbursements at the current rate. All other providers will receive a lower reimbursement.
- Child Support -- States must operate a child support enforcement program meeting federal requirements. Recipients of family assistance must assign to state welfare agencies their rights to child support and must cooperate with paternity establishment efforts.
- Immigrants -- The federal package denies most legal immigrants' eligibility for SSI and food stamps, and continues the prohibition of benefits to illegal immigrants. States now have the option of denying Medicaid, TANF, and SSBG benefits to certain legal immigrants

who are already in the United States. The law denies Medicaid for the first five years after entry into the country to most future legal immigrants.

## **2. WHAT WAS LEFT OUT OF THE FINAL FEDERAL PACKAGE?**

Child Protection programs were not block granted as had been originally sought. These programs will continue as matching entitlement. Also, block granting of food stamps and consolidation of nutrition programs, including WIC, was not pursued as in earlier versions of welfare reform. Additionally, comprehensive federal Medicaid reform, originally thought to go hand-in-hand with federal welfare reform, never materialized.

## **3. WHAT HAPPENS TO THE AFDC PROGRAM?**

The Federal Act repeals the Aid To Families With Dependent Children program and replaces it with the Temporary Assistance to Needy Families (TANF) block grant. In fact, the TANF block grant not only includes the former AFDC program, it also combines funding for Emergency Assistance and JOBS into a single capped amount to the states.

## **4. WILL MORE OR LESS FEDERAL MONEY BE AVAILABLE TO THE STATE OF MICHIGAN UNDER TANF?**

Under the TANF block grant, the state of Michigan will receive approximately \$775.4 million from the federal government in each year beginning with FY 1997 through FY 2002. It is estimated that this amount represents some \$181 million more than received in FY 1996 (*see CHART 1 in published document*). The Family Independence Agency (FIA) has indicated that it will request the federal government to "hold" \$50 million of this windfall in a rainy day fund for future use. However, this TANF grant amount can be reduced by as much as 5% the first year and 2% each year thereafter if work participation requirements are not met. The amount of penalty imposed on the states by the Secretary of Health and Human Services would be applied in the following fiscal year and would be based on the states' severity of failure in meeting work participation requirements goals. If federal TANF funding is reduced, states are required to replace this funding on a dollar-for-dollar basis.

## **5. WILL MICHIGAN BE REQUIRED TO SPEND MORE OR LESS STATE MONEY UNDER TANF?**

Under the TANF block grant, each state's required spending amount is called maintenance-of-effort (MOE). The state of Michigan's base MOE amount is \$499.8 million, which represents 80% of the State's expenditure level for similar programs during FY 1994. This MOE amount is required to be met each year starting in FY 1997 through FY 2002. However, it can be lowered in any one year to 75% of the FY 1994 expenditure level, providing the state meets federal work participation rate requirements. The penalty for failure to maintain the required MOE amount is a dollar-for-dollar reduction in TANF funding (*see CHART 2 in published document*).

## **6. WHAT ARE WORK PARTICIPATION REQUIREMENTS?**

Under the TANF block grant, the states have been given work participation goals that, if met, would allow Michigan's maintenance-of-effort amount to be reduced as noted in question #5. If goals are not met, however, the state's TANF award can be reduced as discussed in question #4.

A simplified look at the state's work participation requirements under TANF is as follows:

<b>Table 1</b>
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	<b>All Families</b>		<b>Two-Parent Families</b>	
Fiscal Year	Work Participation Rate	Required Hours Per Week	Work Participation Rate	Required Hours Per Week
1997	25%	20	75%	35
1998	30%	20	75%	35
1999	35%	25	90%	35
2000	40%	30	90%	35
2001	45%	30	90%	35
2002	50%	30	90%	35

## **7. WHAT ACTIVITIES WILL COUNT TOWARD FULFILLING THE WORK REQUIREMENT?**

Work activities are defined as:

- (1) unsubsidized employment;
- (2) subsidized private sector or public sector employment;
- (3) work experience (including work associated with the refurbishing of publicly assisted housing) if sufficient private sector employment is not available;
- (4) on-the-job training;
- (5) job search and job readiness assistance (limited to 6 weeks);
- (6) community service programs, including the performance of child care services for participants;
- (7) vocational educational training (not to exceed 12 months);
- (8) satisfactory attendance at secondary school or in a course of study leading to a certificate of general equivalency;
- (9) education directly related to employment, in the case of a recipient who has not received a high school diploma or a certificate of high school equivalency; and
- (10) job skills training directly related to employment.

It should be noted that in order to satisfy the work participation requirements under TANF as identified in Table 1, the client must be engaged in one of the work activities listed as numbers 1 through 7 above. Activity number 8, if engaged in by a minor parent, would also satisfy the work requirements of the TANF. Otherwise, number 8, as well as 9 and 10, are only counted toward the fulfillment of the work participation requirement in excess of 20 hours.

## **8. WILL ALL WELFARE RECIPIENTS HAVE TO WORK?**

No. Under the TANF block grant, the states can opt to allow a single custodial parent caring for a child who has not attained 12 months of age to be exempted from participating in work activities. Further, that individual is not included in the work requirement percentages listed in Table 1. However, in Michigan, this exemption is limited to a child up to 3 months of age under the Social Welfare Act (as amended by Public Act 223 of 1995).

Although individual states have the option to define who within their domain are exempt from work participation, many of these individuals so identified must nonetheless be

counted when calculating federal work requirement percentages. In the state of Michigan, the following individuals are exempt from work participation:

- A child under the age of 16;
- A child 16 or older, or a minor parent, who is attending elementary or secondary school full-time;
- An individual age 65 or older;
- A recipient of SSI, Social Security Disability or medical assistance due to disability or blindness;
- An individual suffering from a physical or mental impairment that meets SSI disability standards, except that no minimum duration is required;
- The spouse who is the full-time care giver of an individual suffering from a physical or mental impairment which meets federal SSI requirements, except that no minimum duration is required;
- A parent or caretaker of a child suffering from a physical or mental impairment which meets federal SSI requirements, except that no minimum duration is required.

In addition, an individual who is suffering from a documented short-term mental or physical illness, limitation, or disability may be granted a 90-day exemption by the FIA. It should be noted that an individual is not disabled if substance abuse is a contributing factor material to the determination of disability. Finally, the federal legislation recognizes the inability to secure day care as a legitimate exemption from work requirements.

#### **9. IS THERE A TIME LIMIT AS TO HOW LONG A FAMILY CAN RECEIVE CASH ASSISTANCE UNDER TANF?**

Yes. Under TANF, recipients are allowed to receive cash assistance for up to five years. However, there is a "hardship exemption" under the TANF block grant. This exemption allows a state to exempt up to 20% of its TANF caseload from case closure after the five year period has been reached. State funds, however, must be used to extend benefits beyond the five year period. In Michigan, many of the cases that are anticipated to be exempt from closure are the aged and disabled recipients noted in Question #8 above.

#### **10. WHAT OTHER SIGNIFICANT POLICY CHANGES OCCUR UNDER THE TANF BLOCK GRANT?**

##### **Key prohibitions:**

- States must reduce the family's grant by at least 25% if the parent fails to cooperate in **establishing paternity** or establishing and enforcing a support order without good cause.
- As a condition for receiving assistance, **unmarried teen parents** must participate in educational activities directed toward receiving a high school diploma or GED, or participate in a state-approved alternative education/training program.
- Those **convicted of a felony drug possession, use, or distribution** are permanently banned from receiving cash assistance or food stamps. States may opt out or limit the time of prohibition.

##### **State Options:**

- States may deny an increase in the family grant for additional children born while the parent is on public assistance. This is often referred to as the family cap. States may use SSBG funds to provide vouchers for the excluded children.
- States may deny assistance to unmarried teens and their children.

- States may require school attendance of parent and children without a high school degree and sanction families that do not comply.
- States may require recipients to sign personal responsibility contracts (Family Independence Contract in Michigan).

### **11. WHAT HAPPENS IF THERE IS AN ECONOMIC DOWNTURN AND THE WELFARE CASELOAD STARTS TO RISE?**

In the event of an economic downturn, there is a total of \$2 billion in *federal contingency funds* available to the states for the period of FY 1997-2001. These funds are intended to be requested by the states only in times of "economic hardship". To be eligible to receive *federal contingency funds*, states must have expended 100% of historic FY 1994 state expenditures in the year in which the funds are sought. Historic state expenditures (which for Michigan approximate \$548.7 million) represent the state's nonfederal FY 1994 expenditures under Titles IV-A (AFDC benefits, Administration, Emergency Assistance, AFDC Child Care, At-Risk Child Care), and IV-F (JOBS).

Once eligibility has been established, one of two "triggers" must be met in order to access funds:

- *The unemployment trigger* - a state must have an unemployment rate of at least 6.5% and the average rate must be at least 10% higher than the same quarter in either of the two preceding years.
- *The food stamp trigger* - the number of food stamp recipients from the three most recent months for which data are available is 10% greater than the monthly average number of individuals that participated in the food stamp program in FY 1994 or FY 1995 (whichever is lower) in the corresponding three-month period. The state of Michigan would be using FY 1995 for this comparison.

**Grant amount:** The grant amount cannot exceed 20% of the state's total block grant in a fiscal year. For the state of Michigan, this amount approximates \$155 million in any one year and is limited to approximately \$12.9 million for any one month.

### **12. WITH SO MANY ADDITIONAL WELFARE RECIPIENTS GOING TO WORK, WILL THERE BE ADDITIONAL CHILD CARE FUNDING AVAILABLE?**

Yes. In creating the welfare reform package, Congress understood that before parents can work, day care needs must be met. To this end, they attempted to simplify the current child care funding system by creating a single block grant, the Child Care and Development Block Grant (CCDBG), and making additional dollars available. The CCDBG is intended to provide day care assistance to working families on cash assistance, to those who have recently left the welfare roles, and to the working poor.

### **13. WILL THERE BE MORE OR LESS FEDERAL FUNDING AVAILABLE TO THE STATE OF MICHIGAN UNDER THE CCDBG?**

More federal funding will be available to the state of Michigan under the CCDBG. The amount of additional money depends in part on how much state money Michigan spends. If Michigan meets its MOE requirements, the state will receive approximately \$87.5 million in FY 1997, \$18.7 more than in FY 1996. In 2002, the final year covered by the Welfare Reform Act, Michigan is eligible to receive up to \$118.5 million in federal day care funds (*see CHART 3 in published document*).

### **14. ARE THERE RESTRICTIONS ON HOW FEDERAL FUNDING CAN BE SPENT UNDER THE CCDBG?**

Yes. The CCDBG has three components--base, discretionary, and matching--that have

varying use restrictions and state spending requirements. In FY 1997, Michigan's total CCDBG allocation is \$87.5 million. The base and discretionary components total \$32.1 million and \$29.2 million, respectively. The state does not have to spend any GF/GP dollars in order to receive these funds. To access the remaining \$26.2 million the state must maintain child care spending at the FY 1995 level, after which point federal dollars will be matched at a rate of 56.84%. At least 70% of the base and matching funds must support current welfare recipients or those at risk of going on welfare. The discretionary funds may be used to assist low-income working families with their child care needs.

In addition to CCDBG funds, up to 30% of the TANF grant can be used for child care services. During FY 1997, Michigan has budgeted \$24.9 million in TANF funds to support child care.

**15. WILL MICHIGAN BE REQUIRED TO SPEND MORE OR LESS STATE MONEY UNDER THE CCDBG?**

State spending on child care has increased steadily over the past four years. This trend will continue under the federal CCDBG. In fact, the CCDBG maintenance of effort and matching funds requirements will not cause the state to expend more money than initially budgeted. In FY 1997, the state must spend as much as it did in FY 1995 --\$24.4 million-- before receiving any federal matching funds. In order to receive the maximum federal match of \$26.2 million, the state must spend an additional \$19.9 million. The FY 1997 budget appropriation for child care included \$77 million in GF/GP, well above the \$44.3 million required to get the full CCDBG award.

**16. WHO IS ELIGIBLE FOR CHILD CARE ASSISTANCE?**

The Family Independence Agency (FIA) provides child care assistance to several types of families, including public assistance recipients who are working or engaged in job search activities, families transitioning off of welfare, and low-income working families "at-risk" of going on to welfare. The FIA makes the determination of which families are "at-risk" based on income level and family size; there are no federally set maximums or minimums. For a given family size, the FIA provides assistance based on a sliding income scale, covering between 25% and 95% of hourly child care charges up to a maximum hourly rate. The family makes up the remainder plus any amount above the maximum covered rate.

Table 2 below provides an example of the sliding scale in effect for low-income families and families transitioning off of welfare. To determine how much the FIA contributes toward child care for a family of three, the gross annual income must be known.

<b>TABLE 2</b>										
<b>Gross Annual Income Range for Family of Three</b>										
\$0 to 14,274	to 15,574	to 16,822	to 18,174	to 19,474	to 20,748	to 22,048	to 23,374	to 24,778	to 25,974	over \$25,975
95%	90%	85%	80%	75%	70%	65%	60%	40%	25%	0%

The FIA pays the percentage at the bottom of the table that corresponds to the income column. For example, the FIA will pay 80% of the hourly cost of care (up to a maximum market-determined rate) for a mother with two children who earns \$18,000 per year. Similar grids exist for families ranging in size from 2 to 8.



### **17. WHAT IS THE SOCIAL SERVICES BLOCK GRANT?**

The Social Services Block Grant (SSBG) funds services directed at reducing neglect and abuse, achieving self-sufficiency, and eliminating dependence on government programs. Programs funded by the SSBG include: adoption, child and adult foster care, child and adult protective services, child day care, and prevention/intervention services. Appropriations for these programs may encompass several line items or be a subset of a single line item in the FIA budget.

### **18. WILL THERE BE MORE OR LESS FEDERAL FUNDING AVAILABLE TO THE STATE OF MICHIGAN UNDER THE SSBG?**

In the FY 1997 budget, Michigan appropriated \$101.6 million in federal funds for these programs. During welfare reform deliberations, Congress cut the nationwide appropriation for the SSBG by 15%, leaving Michigan's share at \$87.4 million, \$14.2 million less than anticipated. Due to a change in the distribution formula, Michigan's FY 1997 grant will increase \$900,000 over the \$86.5 million for FY 1996 (*see CHART 4 in published document*).

### **19. WILL MICHIGAN BE REQUIRED TO SPEND MORE OR LESS STATE MONEY UNDER THE SSBG?**

The SSBG is a capped entitlement so Michigan is not required to spend GF/GP dollars in order to receive federal funds; however, the state has made considerable expenditures on SSBG-funded programs in recent years. In fact, in each year since FY 1993, GF/GP spending on SSBG programs has risen while the federal grant has declined (*see CHART 4 in published document*).

It is unclear how much GF/GP Michigan will contribute toward SSBG programs in FY 1997 because this amount is not directly budgeted; however, the Family Independence Agency estimates that FY 1997 GF/GP spending will be roughly equal to projected FY 1996 GF/GP spending which is at the \$88.3 million level (*see CHART 5 in published document*).

### **20. HOW DOES WELFARE REFORM AFFECT IMMIGRANTS?**

In general, newly-arriving legal immigrants who are qualified aliens are barred from all means-tested, federally-funded public benefits for the first five years they are in the country. This includes food stamps and cash assistance. There are exceptions for refugees, asylees, veterans and active duty military (including dependents), and Cuban-Haitian entrants.

For current legal immigrants, states have the option of continuing TANF cash assistance, Medicaid, and services under the SSBG beyond January 1, 1997. **Michigan will not terminate these benefits for current legal immigrants.** As of April 1, 1997, noncitizens will be barred from receiving SSI and food stamps until they become citizens. Listed below are programs that will continue to be available to legal immigrants:

- Emergency medical assistance
- Public health assistance for immunizations
- In-kind community services (e.g., soup kitchen)
- Child nutrition act
- School lunch act
- In-kind disaster relief
- Higher education

- Head Start
- Foster care
- Adoption assistance
- Job Training (JTPA)

## **21. WHAT HAPPENS TO MEDICAID UNDER FEDERAL REFORM?**

The recently passed federal welfare reform law does not specifically address the issue of Medicaid reform, but it has significant implications for Medicaid eligibility. In contrast to current law, eligibility for cash assistance (formerly AFDC) will no longer result in automatic qualification for Medicaid under the federal welfare reform legislation.

- The new federal law limits the state's ability to modify Medicaid eligibility for cash assistance recipients from the income and resource requirements in effect as of July 16, 1996. This may prove to be administratively complex and potentially costly for the department at a time when it is attempting to simplify the eligibility process across programs and reduce the paperwork requirements for the Family Independence Specialists.
- Most new legal aliens will be ineligible for five years after entering the country. The state has the option of terminating Medicaid to legal aliens who will no longer qualify for cash assistance. Based on the eligibility provisions in Public Act 223 of 1995, the Family Independence Agency intends to continue providing Medicaid coverage to the estimated 10,000 legal aliens currently receiving such benefits. At a minimum, emergency medical services must still be provided for this population under the new federal requirements.
- Supplemental Security Income restrictions will reduce eligibility for children and legal aliens that could jeopardize their Medicaid coverage as well.
- The elimination of Medicaid for cash assistance recipients who fail to meet work requirements is another state option under the new federal welfare reform law. It is anticipated that Michigan will terminate Medicaid benefits for the adults in such cases, but the children would maintain Medicaid coverage.
- The proposed policies in the June 1996 federal waiver package intended to simplify the Medicaid eligibility process and to make eligibility policies more consistent with those for cash assistance may still be necessary. The proposed changes in income and resource standards for qualifying for Medicaid and the Buy-In plan could potentially increase the Medicaid costs, and it is unclear whether federal approval will be forthcoming.