Welfare Reform Update

ISSUE

Update on the status of Iowa’s welfare reform initiative.

AFFECTED AGENCIES

Department of Human Services (DHS)

CODE AUTHORITY

Chapter 239, 1995 Code of Iowa

Chapter 97, 1993 Iowa Acts

BACKGROUND

The 1993 General Assembly passed, and the Governor signed Senate File 268 (Chapter 97, 1993 Iowa Acts), the State Human Investment Policy, which implemented the following changes:

- Implemented Welfare Reform - including changes to the Aid to Families with Dependent Children (AFDC), the Jobs Opportunities and Basic Skills (JOBS) Program, and the federally funded Food Stamp Program.
- Created the Council on Human Investment.
- Implemented the Iowa Works Program.
- Created Workforce Development Centers.
- Created Individual Development Accounts.

This Issue Review will focus primarily on the budgetary impacts of the welfare reform initiative and the recent federal action on welfare reform.

Federal regulations contain certain requirements under which a state AFDC program must operate. To deviate from these requirements requires a waiver to continue receiving federal funding.
Due to Chapter 97, 1993 Iowa Acts, the Department requested and received several waivers from the federal government. The federal government required implementation of a control group which operates under the old AFDC program rules. Approximately 4,000 cases operate under the old AFDC program rules, while approximately 30,000 operate under the new Family Investment Program (FIP) rules. The control group is intended to facilitate an accurate comparison of the effectiveness of Iowa’s new program. The waiver was approved in October 1993, and the implementation of welfare reform policies began in January 1994.

The old AFDC rules had a variety of resource limitations which were applied to determine eligibility. Under FIP, many of these rules have changed.

- Total resource limits were $1,000 under AFDC and were changed to $2,000 for a FIP applicant and $5,000 for a FIP participant (this allows the accumulation of additional resources on FIP, while not reducing or eliminating the cash grant).
- The limit on the vehicle equity exemption was increased from $1,500 to $3,000 and the number of vehicles exempted was changed from one for the entire family to one for each adult and working teen.
- The earned income deduction was changed from $90 to 20.0% of gross earnings.
- The earned income incentive was changed from a sliding scale to a 50.0% deduction for earned income after all other deductions are allowed.
- Income limits were revised to exclude interest and dividend income.
- A four month income disregard was implemented for earnings from employment or self-employment; earnings for the first four months are not counted against the individual’s cash grant. Under AFDC earned income was counted against the individual’s cash grant the month following reporting.

CASELOADS

The number of “Regular FIP” cases prior to implementation of welfare reform in January 1994 had been relatively stable. Regular FIP assists single-parent families, and is the program in which most FIP clients participate. The Unemployed Parent (UP) FIP Program assists two-parent families in which the principal wage-earner is unemployed.

The chart below shows the increase over the past four fiscal years. During FY 1995, the average number of monthly cases decreased by 1,637 (4.6%) compared to FY 1994. While a 4.6% decrease does not seem significant, when combined with the decrease in the average cost per case, a small percentage decrease can produce large savings. The total savings from this decrease is 1,637 multiplied by the average cost per case in FY 1995 of $358.46 times 12 months equals total annual savings of over $7.0 million (all funding sources).
The trend established during FY 1994 of falling caseloads has continued over the past 18 months, into the first two months of FY 1996. The following chart shows the number of Regular FIP cases over the past 21 months. From October 1993 to July 1995 the monthly caseload has fallen by 3,884 cases (9.3%), from 35,419 to 31,535.

The number of Unemployed Parent FIP cases prior to welfare reform implementation had experienced minor fluctuations in caseload. The maximum number of cases in FY 1992 and FY 1993 was 2,432 with the lowest being 2,069. However, after the implementation of welfare reform the number of Unemployed Parent cases increased rapidly, from 1,975 in September 1994 to 4,058 in March 1994. One reason for the caseload increase was the elimination of several qualification requirements for the Unemployed Parent Program. The factor having the most impact on caseloads was the elimination of the requirement that the principal wage earner was unable to work more than 100 hours per month. The current Program requires only that wage and resource limitations apply, and not the former qualification requirements.

Since March 1994, there has been a steady decline in the number of Unemployed Parent cases. The chart below shows the recent history of the Unemployed Parent Program. The caseload began rising in October 1993 (the month of welfare reform implementation) and peaked in March...
1994 at 4,058 cases. From April 1994 to July 1995 the caseload decreased by 787 cases (19.4%). However, the Unemployed Parent caseload is not yet at the pre-welfare reform caseload.

**COST**

The General Fund cost of FIP has been decreasing since the implementation of welfare reform. Fiscal Year 1993 had the highest General Fund expenditure, but during FY 1994 and FY 1995 the General Fund cost decreased by 4.8% and 7.0% respectively. The FY 1995 expenditure includes $4.0 million of the $5.5 million transferred from the Medical Assistance Program at the conclusion of the fiscal year. The remaining $1.5 million was not expended due to expenditures in June 1995 being less than anticipated at the time of the transfer. The original FY 1995 budget for FIP was $37.1 million, however primarily due to lower than anticipated child support recoveries, additional funding of $4.0 million was required. If FIP had met the original budget established for FY 1995, the decrease in expenditures would have been 16.1%. At the time the budget was established for FY 1995, Department representatives commented that it was “ambitious.”

For FY 1996 expenditures are below the budgeted amounts. The three primary measures, overall payments, cost per case, and cases are below budget. For the first three months of FY 1996, overall payments were budgeted at $36.0 million, and actual payments were $35.2 million (99.3% of budget). For September 1995 the number of cases was budgeted at 35,455 and the actual cases were 34,617 (97.6% of budget). The average cost per case edged up slightly compared to August, but was within $0.09 of the budgeted amount.

The monthly cost per case for Regular FIP has decreased by $25.01 (6.8%) since FY 1992. The chart below summarizes the reduction in cost per case for both Regular and Unemployed Parent FIP. The decrease in the Unemployed Parent cost per case is even larger, falling $65.23 (15.3%) over the same period. It is expected that the cost per case will continue to decrease as more FIP clients have outside earnings.
While caseload figures and cost per case are important, it is the interaction between the two that provides the broadest picture of the change in total expenditures. Just reducing cost per case is not important from an overall budgetary perspective if the caseload is increasing. The increase in caseload could easily offset the reduction in cost per case or vice versa. The chart below provides a comparison of July 1993 and July 1995 annualized total expenditures (July cases multiplied by cost per case multiplied by 12 months). Although there are several pitfalls in this comparison, it is useful in that it compares two like months prior to and after implementation of welfare reform. Please note that the change may be due to factors having nothing to do with welfare reform (e.g., general economic conditions, etc.).

One of the objectives of welfare reform is to increase the percentage of employed FIP recipients. Prior to the implementation of welfare reform, 18.0% of FIP clients were working. This increased to 26.0% in January 1994 and to 34.6% in August 1995. The Department’s budget assumed that by the last quarter of FY 1995, the percentage of clients with outside earnings would have increased
to over 60.0%. While the percentage of clients with outside earnings has not kept pace with projections, leveling off at approximately 32.0% over the last six months, it appears that as long as caseload, cost per case, and total payments continue below budget, keeping within the budgeted appropriation for FY 1996 is not be a concern at this time.

Although control group and welfare reform comparison data is limited, early evidence suggests that a higher proportion of welfare reform clients are working (having outside earnings) and the cost-per-case is lower than the control group operating under old AFDC guidelines. The chart below indicates that 18.3% of the control group had outside earnings while 34.6% of the welfare reform group had outside earnings during August 1995. Whether this is due to more individuals working or to welfare reform clients being more willing to report outside income because of changes in resource limitations is not explained by the data.

**FY 1996 BUDGET**

The FY 1996 General Fund appropriation for FIP is $32.8 million, a decrease of $9.8 million (23.0%) compared to the final FY 1995 expenditure. The budget assumes a decrease in the number of cases from 37,583 to 35,473, a decrease of 2,110 cases (5.6%). For the budget to remain within the appropriated amount, cost per case and caseloads will need to continue to fall throughout the remainder of the fiscal year. Child Support recoveries for FIP clients will also need to improve compared to the FY 1995 recoveries. Part of the reason for the need of the FY 1995 $5.5 million transfer from the Medical Assistance Program was due to child support recoveries being below projections.
COMBINED FUNDING

As discussed previously, the primary strategy in Iowa’s welfare reform initiative was to make an investment in job training for FIP clients which would then result in reduced FIP expenditures. The investment was to take place in the first two years, with the payoff in the following three years. Promise Jobs is providing the training for a majority of FIP participants. In FY 1994 and FY 1995 the decrease in FIP expenditures was more than offset by the increase in Promise Jobs expenditures. If FIP expenditures stay within budget for FY 1996, net General Fund savings (Promise Jobs and FIP funding) will be $8.5 million (15.9%) compared to FY 1995. The Department is requesting a $2.6 million (5.8%) General Fund increase in Promise Jobs and FIP for FY 1997. However if the Department’s request is enacted, it would still be $5.8 million (11.8%) less than the actual FY 1995 combined expenditures. In the Human Services Appropriations Subcommittee meetings, members have expressed concern that Promise Jobs post-secondary education funding is not sufficient to meet demand. There is currently a waiting list for Promise Jobs post-secondary education, thus individuals are unable to begin post-secondary education and are not able to make progress toward self-sufficiency. According to the DHS, there are no waiting lists for other types of Promise Jobs training.

FEDERAL WELFARE REFORM INITIATIVES

The U.S. Congress is currently in the process of reconciling House and Senate versions of welfare reform bills. Under both proposals, the former AFDC would no longer be an entitlement. A single block grant of funds would be appropriated at the federal level. Distributions to states would be established through a funding formula which would be based on historical expenditures (the average of FFY 1992 to FFY 1994 expenditures in the House version and FFY 1994 expenditures under the Senate version). The total amount appropriated would be $15.3 billion in the House version and $16.8 billion in the Senate version.

One major change from current practice is the mandatory work requirement. Both bills require increasing work participation of welfare clients based on an increasing sliding scale. The following table lists the work participation requirements contained in the bills as of October 2, 1995.1

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Iowa’s Position in Federal Welfare Reform

Mandatory Work Activity Requirements: Although there are significant changes on the horizon for welfare programs nationally, Iowa seems to be reasonably well positioned for federal reform. One primary advantage is the relatively high proportion of Iowa clients that are engaged in job training or a work activity. As discussed previously, over 30.0% of clients are currently reporting outside earnings. Clients participating in other activities (on-the-job training, job search, or job training skills) would count toward the work participation requirements. Assuming current trends, Iowa should continue meeting work activity requirements until FY 1998 or FY 1999, when the number of work hours counting toward the requirement increases (originally set at 20 hours per week and increasing to 30 hours per week).

Child Care: One major issue is the availability of child care funding which has been considered essential in transitioning from welfare to work. Under the House version, federal child care funding would be capped for five years at the current expenditure level (approximately $5.0 billion). The Senate version includes an additional $3.0 billion for child care over five years.

Spending Cap: Another issue with both versions is that federal spending would be capped at the FY 1997 amount. Any expenditures in excess of a state’s allocation would be borne by the individual states and not the federal government (the Senate version does contain a contingency fund for dealing with population growth). The states would have the ability to reduce payments to meet state budgets.

Waiver Status: Department of Human Services’ officials have expressed concern about the status of the waivers granted to Iowa. The waivers contain cost neutrality provisions making Iowa liable for excess costs incurred over the five-year timeframe of the waivers. If during the five-year waiver timeframe Iowa expends more federal funds under FIP than would have been required under the old AFDC Program, the State would be liable for the difference. Since Iowa’s strategy is to make an up-front investment in job training and realize the savings in the later years, treatment of the waivers under federal reform is critical. A Department spokesperson has indicated both versions contain “hold-harmless” language, freeing Iowa from repaying excess federal funds because federal reform efforts cut short the timeframe in which to achieve savings.

Control Group: Another concern for policy makers is the release from existing federal waivers. Under current policy, Iowa is required to operate a control group under the old AFDC Program. The control group accounts for approximately 4,000 cases. If Iowa is released from the waivers, the State may no longer be required to operate the control group. However, the control group has made possible a more accurate evaluation of the performance of the Iowa program. Under both versions of Congress’ reform plans, AFDC would be block granted with performance penalties. A block grant would increase the financial risk to a state, because the federal government will no longer automatically be responsible for 62.0% of the total cost of operating the Program - whether

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<th>Work Activity Participation Requirements</th>
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<td><strong>Federal Fiscal Year</strong></td>
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<td>FFY 1996</td>
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effective or not. Going beyond a state’s block grant (or not meeting the required mandatory work requirements) means 100.0% of the cost (or the penalty amounts) would be a state responsibility. Because of that risk, it is essential that both the Legislative and Executive Branches have clear information about what is effective and what is not. Without some type of control group evaluation component, evaluations can be driven by anecdotal rather than systematic facts.

**Automated Eligibility System:** Another potential problem is the investment that Iowa has made in automated eligibility determination systems (X-PERT), which allow case workers to quickly determine program eligibility. The X-PERT system has been developed using the earnings criteria for FIP. If as a result of federal reform, Iowa changes the eligibility criteria for FIP, significant programming changes could be required leading to further delays in implementation of the system. If both Medical Assistance and AFDC are reformed on the federal level, it is possible that eligibility could be simplified so dramatically, that an X-PERT system may not be required.
Listed in the table below are some of the major aspects of each proposed version as well as how FIP handles each of these issues.

Comparison of Federal Welfare Reform Bills Pending in Congress

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<th>House Version</th>
<th>Senate Version</th>
<th>Family Investment Program</th>
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<td><strong>Block Grants</strong></td>
<td>States would receive block grants for cash welfare (AFDC), child care, foster care, adoption assistance, school meals, and Women, Infants, and Children nutritional program. States could receive food stamp funding in the form of a block grant if the benefits are provided through an electronic system. Eligibility would be primarily determined on a state-by-state basis. The bill would end the federal guarantee of cash assistance.</td>
<td>States would receive block grants for cash welfare, child care, and job training. Provides the option of receiving food stamp funding in a block grant. The bill would end the federal guarantee of cash assistance.</td>
<td>Iowa currently has one county (Linn) operating food stamps under an electronic benefits system.</td>
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<td><strong>State Funding</strong></td>
<td>State funding is discretionary.</td>
<td>States would be required to spend at least 80.0% of FY 1994 expenditures on cash welfare programs. The funds could be used for specified social services, including cash assistance and child care.</td>
<td>In FY 1994 the State expended a total of $175.3 million ($87.4 million federal funds, General Fund expenditures of $44.2 million, and $43.7 million in child support recoveries). Minimum federal funding to the State under the Senate version would be $69.8 million.</td>
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<td><strong>Work and Time Limits</strong></td>
<td>Five-year lifetime cap on cash benefits. Most recipients would be required to work within two years. States have option of exempting up to 10.0% of the caseload from the time limit.</td>
<td>Five-year lifetime cap on cash benefits. Most recipients would be required to work within two years. States have option of exempting up to 15.0% of the caseload from the time limit.</td>
<td>No lifetime cap on benefits, however each individual must have a Family Investment agreement in place which specifies the client’s approach for leaving assistance. If the client does not sign a Family Investment Agreement, sanctions can begin to cut off the client’s cash benefits.</td>
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2 Information on Senate and House versions is taken from the September 16, 1995, issue of Congressional Quarterly “Uneasy Compromise Reached on Welfare Overhaul”, p. 2084.
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<tr>
<td><strong>Family Cap</strong></td>
<td>Disallows use of federal funds for providing cash benefits for children born</td>
<td>State option whether to deny cash assistance for children born to families receiving cash assistance.</td>
<td>No family cap limitation.</td>
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<td>within ten months of a family receiving cash benefits.</td>
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<td><strong>Teen Mothers</strong></td>
<td>Disallows use of federal funds for children born out of wedlock to a mother</td>
<td>State option to deny welfare checks for child born out of wedlock to a mother</td>
<td>Senate File 268 passed during the 1995 Legislative Session requires minor parents to live with their parent or guardian. Senate File 268 also requires that minor parents must have graduated from high school or have received a high school equivalency diploma or be engaged full-time in completing high school graduation or equivalency requirements.</td>
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<td>under age 18, except in cases of rape or incest. States would be allowed to give vouchers redeemable for baby care expenses. Children would be eligible for cash benefits once the mother turned 18 years old.</td>
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<td><strong>Supplemental Security Income (SSI)</strong></td>
<td>Drug addiction and alcoholism would no longer be considered a disability for SSI purposes. Tightens eligibility for behavioral disorder children to qualify for assistance. Children who do not currently receive SSI benefits could only receive cash benefits if they require 24-hour care.</td>
<td>Drug addiction and alcoholism would no longer be considered a disability for SSI purposes. Tightens eligibility for behavioral disorder children to qualify for assistance.</td>
<td>Iowa follows current federal guidelines.</td>
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<td><strong>Immigrants</strong></td>
<td>Makes ineligible most legal immigrants (non-citizens) for SSI, cash welfare,</td>
<td>Immigrants arriving after enactment would be ineligible for low income social services for five years. Most non-citizens would be ineligible for SSI and states would have the option of denying cash welfare and food stamps.</td>
<td>Iowa follows current federal guidelines.</td>
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<td>social services block grants, Medical Assistance, and food stamps.</td>
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<td><strong>Savings</strong></td>
<td>The Congressional Budget Office estimates savings of $62.10 billion over five years and $102.00 billion over seven years.</td>
<td>The Congressional Budget Office estimates savings of $43.50 billion over five years and $70.00 billion over seven years.</td>
<td>Not Applicable</td>
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**ALTERNATIVES**

If both Medical Assistance and AFDC (as well as other human services programs) are block granted, federal funding reductions will likely be significant. The Department of Management and the Governor’s Office have indicated that in developing agency budget requests, state funds will
not be used to offset lost federal funding. This means new approaches will need to be taken to maximize the effectiveness of the remaining federal funding.

BUDGET IMPACT

The FY 1996 General Fund appropriation for FIP is $32.8 million.

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