

Chapter I. Introduction and Overview

The Welfare Indicators Act of 1994 (Pub. L. 103-432) directed the Secretary of Health and Human Services (HHS) to publish an annual report on welfare dependency. This 2006 report, the ninth annual indicators report, gives updated data on the measures of welfare reciprocity, dependency, and predictors of welfare dependence developed for previous reports. Much of this report reflects changes that have taken place since enactment of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) in August 1996.

The purpose of this report is to address questions concerning the extent to which American families depend on income from welfare programs. Under the Welfare Indicators Act, HHS was directed to address the rate of welfare dependency, the degree and duration of welfare reciprocity and dependence, and predictors of welfare dependence. The Act further specified that analyses of means-tested assistance should include benefits under the Aid to Families with Dependent Children (AFDC) program (now the Temporary Assistance for Needy Families (TANF) program), the Food Stamp Program, and the Supplemental Security Income (SSI) program.

This 2006 report provides updated measures through 2003 for dependency measures based on the Current Population Survey (CPS), Annual Social and Economic Supplement, with one preliminary estimate for 2004. Although more recent administrative data provide some information on reciprocity through 2004, the survey data needed to examine overall welfare reciprocity are not available past 2003 for the CPS-based and SIPP-based measures and are even less current for measures based on the Panel Study of Income Dynamics (PSID). As in the 2005 report, measures updated annually are presented at the front of each chapter, followed by the figures that are derived from data sources that are updated less frequently.

Organization of Report

This introductory chapter provides an overview of the specific summary measure of welfare dependence proposed by a bipartisan Advisory Board¹ and adopted for use in this annual report series. Also it discusses summary measures of poverty, following the Advisory Board's recommendation that dependence measures not be assessed in isolation from other measures of economic well-being. The introduction concludes with a discussion of data sources used for the report.

Chapter II of the report, Indicators of Dependence, presents ten indicators of welfare dependence and reciprocity. These indicators include dependence measures based on total income from all three programs – AFDC/TANF, SSI and food stamps – as well as measures of reciprocity for each of the three programs considered separately. Labor force participation among families receiving welfare and benefit receipt across multiple programs also are shown. The second half of the chapter includes longitudinal data on transitions on and off welfare programs and spells of program reciprocity, including spells of TANF receipt among persons in families that have no

¹ The first annual report was produced under the oversight of a bipartisan Advisory Board on Welfare Indicators, which assisted the Secretary in defining welfare dependence, developing indicators of welfare dependence, and choosing appropriate data. Under the terms of the original authorizing legislation, the Advisory Board was terminated in October 1997, prior to the submission of the first annual report.

attachment to the labor market. Also, this section includes a measure of long-term program receipt of up to 10 years, and a measure of events associated with the beginning and ending of program spells.

Chapter III, Predictors and Risk Factors Associated with Welfare Receipt, focuses on predictors of welfare dependence – risk factors believed to be associated with welfare receipt. These predictors are shown in three different groups:

- (1) **Economic security** – including various measures of poverty, receipt of child support, food insecurity and health insurance coverage – is important in predicting dependence because families with fewer economic resources are more likely to rely on welfare programs for their support.
- (2) Measures of the **work status** and potential barriers to employment of adult family members also are critical, because families must generally receive an adequate income from employment in order to avoid dependence without severe deprivation.
- (3) Finally, data on **nonmarital births** are important since a high proportion of long-term welfare recipients first became parents outside of marriage, frequently as teenagers.

Additional data and technical notes are presented in four appendices. Appendix A provides basic program data on each of the main welfare programs and their recipients; Appendix B shows how dependence is affected by the inclusion of benefits from the SSI program; Appendix C includes additional data on nonmarital childbearing; and Appendix D provides background information on several data and technical issues. The main welfare programs included in Appendix A are:

- The **Aid to Families with Dependent Children (AFDC)** program, the cash assistance program serving the largest number of persons, provided monthly cash benefits to families with children, until its replacement by the **Temporary Assistance for Needy Families (TANF)** program, which is run directly by the states. Data on the AFDC and TANF programs are provided in Appendix A, with AFDC data provided from 1977 through June 1997, and TANF data from July 1997 through 2004.
- The **Food Stamp Program** provides monthly food stamp benefits to individuals living in families or alone, provided their income and assets are below limits set in federal law. It reaches more poor people over the course of a year than any other means-tested public assistance program. Appendix A provides historical data from 1970 to 2004.
- The **Supplemental Security Income (SSI)** program provides monthly cash payments to elderly, blind or disabled individuals or couples whose income and assets are below levels set in federal law. Though the majority of recipients are adults, disabled children also are eligible. Historical data from 1974 through 2004 are provided in Appendix A.

Measuring Welfare Dependence

As suggested by its title, this report focuses on welfare “dependence” as well as welfare “reciency.” While reciency can be defined fairly easily, based on the presence of benefits from AFDC/TANF, SSI or food stamps, dependence is a more complex concept.

Welfare dependence, like poverty, is a continuum, with variations in degree and in duration. Families may be more or less dependent if larger or smaller shares of their total resources are derived from welfare programs. The amount of time over which a family depends on welfare might also be considered in assessing its degree of dependence. Nevertheless, a summary measure of dependence to be used as an indicator for policy purposes must have some fixed parameters that allow one to determine which families should be counted as dependent, just as the poverty line defines who is poor under the official standard. The definition of dependence proposed by the Advisory Board for this purpose is as follows:

A family is dependent on welfare if more than 50 percent of its total income in a one-year period comes from AFDC, food stamps and/or SSI, and this welfare income is not associated with work activities. Welfare dependence is the proportion of all individuals in families who are dependent on welfare.

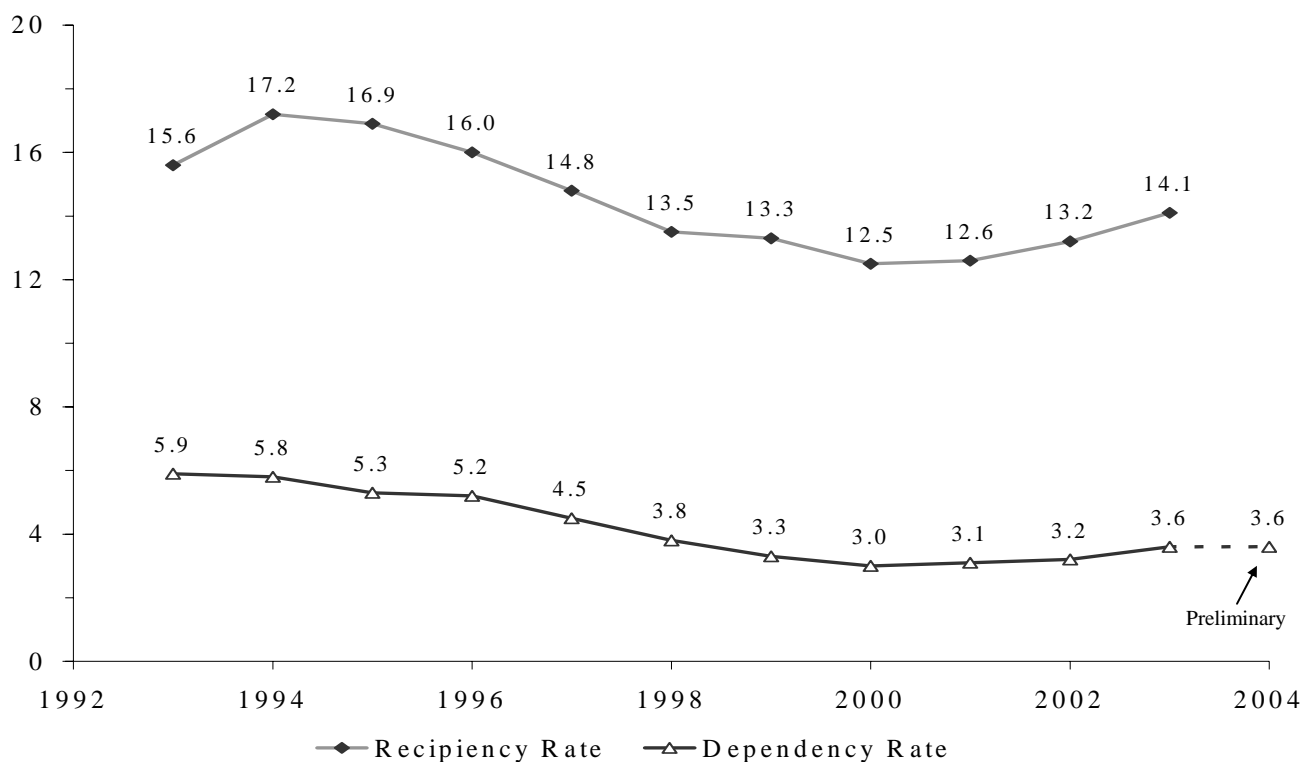
This measure is not without its limitations. The Advisory Board recognized that no single measure could capture fully all aspects of dependence and that the proposed measure should be examined in concert with other indicators of well-being. In addition, while the proposed definition would count unsubsidized and subsidized employment and work required to obtain benefits as work activities, existing data sources do not permit distinguishing between welfare income associated with work activities and non-work-related welfare benefits. As a result, the data shown in this report overstate the incidence of dependence (as defined above) because welfare income associated with work required to obtain benefits is classified as welfare and not as income from work. This issue may be growing in importance under the increased work requirements of the TANF program. In FY 2003, 30 percent of welfare recipients were working (including employment, work experience and community service), compared to only 7 percent in 1992.²

This proposed definition also represents an essentially arbitrary choice of a percentage (50 percent) of income from welfare beyond which families will be considered dependent. However, it is relatively easy to measure and to track over time, and is likely to be associated with any very large changes in total dependence, however defined. For example, dependence under this definition declined as policy changes under welfare reform moved more recipients into employment.

² This 30 percent includes just over 20 percent in unsubsidized employment and 9 percent in work preparation activities (including subsidized jobs, on-the-job training, work experience or community services). The earnings of those in unsubsidized employment would be correctly captured as income from work in national surveys. Any welfare benefits associated with work experience, community service programs or other work activities, however, would be counted as income from welfare in most national surveys, a classification incompatible with the proposed definition.

As shown in Figure SUM 1, 3.6 percent of the population would be considered “dependent” on welfare in 2003 under the above definition. This is one-quarter of the percentage (14.1 percent) that lived in a family receiving at least some TANF, food stamp or SSI benefits during the year. Although data are not yet available to show a clear trend in dependency rates through 2004, available data suggest the rate may remain the same between 2003 and 2004.³

Figure SUM 1. Reciprocity and Dependency Rates: 1993-2003



Note: Reciprocity is defined as living in a family with receipt of any amount of AFDC/TANF, SSI or food stamps during year. Dependency is defined as having more than 50 percent of annual income from AFDC/TANF, SSI and/or food stamps. Dependency rates would be lower if adjusted to exclude welfare assistance associated with working. The estimate for 2004 is preliminary.

Source: Unpublished tabulations from the Current Population Survey, Annual Social and Economic Supplement, 1994-2005, analyzed using the TRIM3 microsimulation model.

Dependency and reciprocity rates follow fairly similar trends, falling fairly dramatically during the 1990s to lows of 3.0 percent for dependency and 12.5 percent for reciprocity in 2000. While rates have increased somewhat between 2000 and 2003, the 2003 dependency and reciprocity rates remain significantly lower than the peak rates of 5.9 and 17.2 percent, occurring in 1993 and 1994, respectively. The overall drop in reciprocity rates in this time period is consistent with administrative data showing declining TANF caseloads, especially after enactment of welfare reform in 1996. What is not apparent from administrative records, but is shown in the national survey data, is that dependency also declined after 1993, with the sharpest decline occurring after

³ While TRIM-adjusted CPS data for 2004 are not yet available, non-adjusted estimates from the Annual Social and Economic Supplement to the CPS, indicate no change in the level of dependence between 2003 and 2004.

enactment of the 1996 welfare reform legislation. While 13.74 million individuals were dependent in 1996, only 10.35 million were dependent in 2003 – representing a decline of 3.39 million people.

Reciprocity and dependency rates are higher for non-Hispanic blacks and Hispanics than for non-Hispanic whites, as shown in Table SUM 1. Reciprocity and dependence also are higher for young children than for adults, and for individuals in female-headed families than for those in married-couple families. However, both reciprocity and dependency rates are much lower for non-Hispanic blacks, Hispanics, children and individuals in female-headed families in 2003 compared to 1993.

Measures of welfare dependency also vary based upon which programs are counted as “welfare programs.” Dependency would be much lower – 1.9 percent – if only AFDC/TANF and food stamp benefits were counted (as shown in Appendix B and as is done in some measures in this report). Moreover, the drop in dependency is even larger under this alternative definition of dependence than usually reported. For example, between 1995 and 2003, dependency declined from 3.6 percent to 1.9 percent under the alternative definition.

Another factor affecting dependence is the time period observed. The summary measures shown in Figure and Table SUM 1 focus on reciprocity and dependency rates measured on an annual, cross-sectional basis. Longitudinal measures of program receipt (both annual and monthly) show that program spells are typically short and long-term reciprocity is more rare (see Chapter II). Indicator 9, for example, shows that among individuals receiving AFDC/TANF at some point over a ten-year period ending in 2000, 18 percent received some welfare during six or more years. Another 31 percent were recipients in three to five years, and more than half (51 percent) received welfare in only one or two years.

Measuring Economic Well-Being

To assess the social impacts of any change in dependence, changes in the level of poverty should be considered. This chapter focuses on the official poverty rate, the most common poverty measure. Additional measures of poverty and need also are included under the Economic Risk Factors found in Chapter III.

The poverty rate in 2004 remains much lower than in 1993, when poverty reached its highest peak since the early 1980s. The official poverty rate for 2004 was 12.7 percent, compared to 15.1 percent in 1993. This difference in the poverty rate indicates that 2.3 million fewer people are in poverty and 2.7 million fewer children are in families with incomes below poverty than in 1993. There was an increase in the overall and child poverty rates between 2000 and 2003, but the poverty rate among adults over age 64 continued to decline for the second consecutive year (see Table ECON 1 in Chapter III).

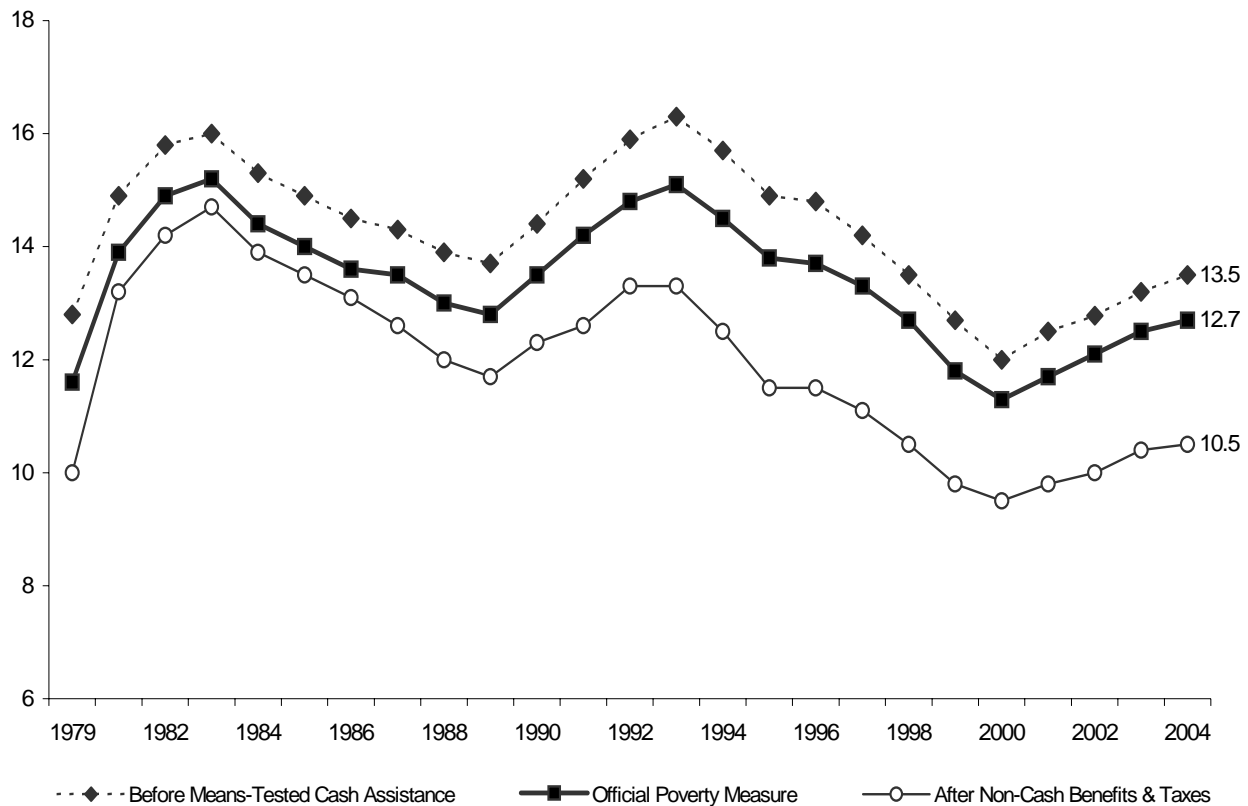
Table SUM 1. Reciprocity and Dependency Rates: Selected Years

	1993	1996	1999	2000	2001	2002	2003
Reciprocity Rates (Rates of Any Amount of AFDC/TANF, Food Stamps or SSI)							
All Persons	16.6	16.0	13.3	12.5	12.6	13.2	14.1
Racial/Ethnic Categories							
Non-Hispanic White	10.3	9.9	8.4	8.2	8.2	8.8	9.2
Non-Hispanic Black	38.0	35.6	29.8	27.0	26.3	27.7	31.3
Hispanic	34.6	32.0	23.4	21.0	21.6	21.7	22.5
Age Categories							
Children Ages 0-5	30.5	28.2	21.5	19.8	20.8	21.4	24.2
Children Ages 6-10	24.9	24.2	19.8	18.0	18.4	18.8	20.5
Children Ages 11-15	22.1	21.1	17.3	16.3	16.1	16.8	19.7
Women Ages 16-64	16.4	16.0	13.6	12.5	12.5	13.4	14.0
Men Ages 16-64	11.5	11.7	9.6	9.2	9.6	10.3	10.6
Adults Ages 65 and over	11.2	10.3	10.0	10.4	9.6	9.7	9.9
Family Categories							
Persons in:							
Married-Couple Families	10.5	9.6	7.9	7.2	7.4	7.5	8.2
Female-Headed Families	47.8	46.0	39.9	37.1	36.4	37.7	39.9
Male-Headed Families	27.6	25.3	19.3	21.8	21.2	21.2	22.2
Unrelated Individuals	9.7	11.5	10.0	10.1	10.0	11.5	11.6
Dependency Rates (More than 50 Percent of Income from AFDC/TANF, Food Stamps or SSI)							
All Persons	5.9	5.2	3.3	3.0	3.1	3.2	3.6
Racial/Ethnic Categories							
Non-Hispanic White	3.0	2.6	1.8	1.9	1.8	1.8	2.1
Non-Hispanic Black	17.8	13.8	9.1	7.7	8.8	8.7	10.1
Hispanic	11.8	10.9	5.4	4.5	4.5	4.9	5.2
Age Categories							
Children Ages 0-5	13.9	11.2	6.2	6.0	5.9	6.0	7.5
Children Ages 6-10	11.2	9.5	6.1	5.1	5.4	5.1	5.8
Children Ages 11-15	9.3	8.1	4.5	4.0	4.4	4.0	5.0
Women Ages 16-64	5.9	5.2	3.5	3.0	3.3	3.4	3.6
Men Ages 16-64	2.7	2.7	1.9	1.9	2.0	2.0	2.3
Adults Ages 65 and over	2.4	2.4	2.0	2.1	1.9	2.0	2.2
Family Categories							
Persons in:							
Married-Couple Families	1.8	1.7	1.0	0.9	1.0	1.0	1.1
Female-Headed Families	25.7	21.1	13.6	11.4	11.9	11.7	13.2
Male-Headed Families	6.8	5.4	3.0	4.4	4.0	3.8	4.9
Unrelated Individuals	3.8	4.2	3.4	3.8	3.8	4.1	4.4

Note: Reciprocity is defined as living in a family with receipt of any amount of AFDC/TANF, SSI or food stamps during the year. Dependency is defined as having more than 50 percent of annual family income from AFDC/TANF, SSI and/or food stamps. Dependency rates would be lower if adjusted to exclude welfare assistance associated with working. Spouses are not present in the Male-Headed and Female-Headed family categories. Persons of Hispanic ethnicity may be of any race. Beginning in 2002, estimates for Whites and Blacks are for persons reporting a single race only. Persons who reported more than one race are included in the total for all persons but are not shown under any race category. Due to small sample size, American Indians/Alaska Natives, Asians and Native Hawaiians/Other Pacific Islanders are included in the total for all persons but are not shown separately.

Source: Unpublished tabulations from the Current Population Survey, Annual Social and Economic Supplement, 1994-2004, analyzed using the TRIM3 microsimulation model.

Figure SUM 2. Percentage of Total Population in Poverty with Various Means-Tested Benefits Added to Total Cash Income: 1979-2004



Source: Unpublished Congressional Budget Office tabulations from the Current Population Survey, Annual Social and Economic Supplement, 1980-2005. Additional calculations by DHHS. See ECON 4 in Chapter III for underlying table and further notes.

Figure SUM 2 shows poverty estimates under both the official poverty rate and two other measures that adjust income to take into account cash benefits, non-cash benefits and taxes. The three measures in the graph are based on analyzing three different concepts of income against the poverty threshold:

The solid line with filled squares shows the official poverty rate, based on total cash income, including earned and unearned income. The official poverty rate was 12.7 percent in 2004.

The dotted line shows what the poverty rate would be if means-tested cash assistance (primarily AFDC/TANF and SSI) were excluded from cash income. Income in this measure includes earnings and other private cash income, plus social security, workers compensation and other social insurance programs, as income. The poverty rate under this measure would be higher than under the official measure, or 13.5 percent in 2004.

The lowest line shows that the poverty rate would be lower if the cash value of selected non-cash benefits (food and housing) and taxes, including refunds under the Earned Income Tax Credit (EITC), were counted as income.⁴ Under this definition, poverty rates in 2004 would be more than two percentage points lower than the official measure, or 10.5 percent.

⁴ The effects of selected non-cash benefits (food and housing) are shown separately from the effect of taxes in Figure ECON 4 in Chapter III. Prior to 1993, taxes increased poverty. Since 1993, taxes and tax credits (including refunds

Data Sources

The primary data sources for this report are the Current Population Survey (CPS), the Survey of Income and Program Participation (SIPP), the Panel Study of Income Dynamics (PSID) and administrative data for the AFDC/TANF, Food Stamp and SSI programs. Beginning with the 2001 report, there was a shift to using CPS rather than SIPP data for several indicators and predictors of welfare reciprocity and dependence. This change was necessary because CPS data are updated annually, while SIPP updates are available much less frequently.

If it were not for the lags in data availability, the SIPP would be considered the most useful national survey for measuring welfare dependency. It was used most extensively in the first three annual dependence reports. Its longitudinal design, system of monthly accounting and detail concerning employment, income and participation in federal income-support and related programs, make the SIPP particularly effective for capturing the complexities of program dynamics. It continues to be an important source of data in this report, particularly for measures related AFDC/TANF and poverty spell duration, transitions in and out of program dependency and reasons for entering or leaving the AFDC/TANF program.

This year we refined Indicator 8,⁵ a SIPP-based indicator that tracks month-by-month duration of TANF receipt when there is no labor force participant living in the recipients' family during that month. In prior volumes we identified individuals in families without a labor force participant only at the start of the panel period and then tracked their month-by-month spells of welfare receipt over the next three to four years. Under the previous methodology, a welfare spell would continue with each new month of benefit receipt even if someone in the recipient's family joined the labor market at a later point. Under the new measure, a welfare spell would end if the recipient or another family member enters the labor market, regardless of whether TANF benefits continue. Tracking both TANF receipt and family labor force participation each month is particularly important given increasing rates of employment among welfare recipients and their families (see Table IND 2b). The revised methodology results in somewhat shorter spells.

For measures of receipt, dependency and poverty at a single point in time, the report primarily uses the Annual Social and Economic Supplement to the CPS, which measures income and poverty over an annual accounting period. As stated above, the CPS data are available on a timelier basis than the SIPP, and have been widely used to measure trends since the welfare reform legislation of 1996. However, because the CPS does not collect income in the same detail as the SIPP, it has been subject to criticism for underreporting of income, particularly welfare income. To address this concern, some of the indicators in this report are based on CPS data that have been analyzed by the Transfer Income Model (TRIM3), a microsimulation model developed by the Urban Institute under contract to the Office of the Assistant Secretary for Planning and Evaluation. Although its primary purpose is to simulate program eligibility and the impact of policy proposals, the TRIM model also has been used to correct for underreporting of welfare receipt and benefits. Welfare caseloads in TRIM3 are based on CPS data, adjusted upward to ensure that total estimates of recipients equal the total counts from administrative data. To maintain consistency in data trends, we present estimates based on CPS data analyzed

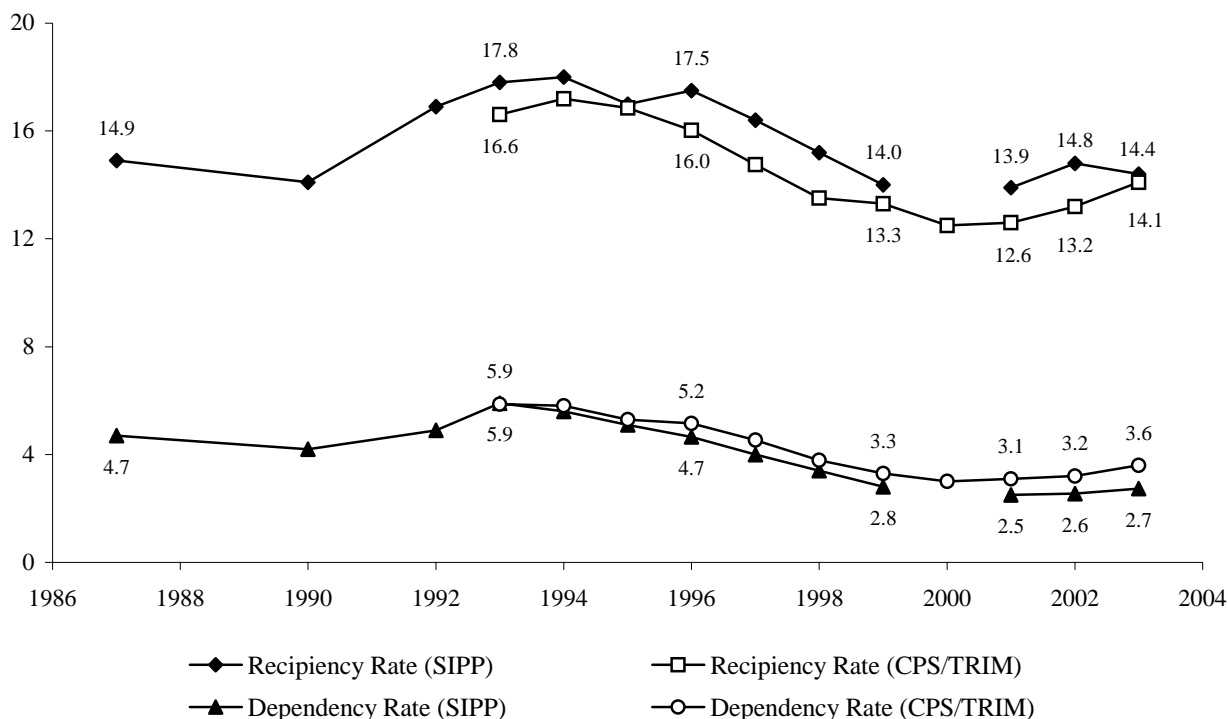
through the Earned Income Tax Credit) have had the net effect of reducing poverty rates.

⁵ Indicator 8, Welfare Spell Duration with No Labor Force Attachment, was formerly Indicator 7, Dependence Spell Duration, in previous reports.

by TRIM3 beginning in 1993, the first year the TRIM3 microsimulation model became available.

As shown in Figure SUM 3, the overall measures of dependency and reciprocity have not been greatly affected by the change in data sources. Both data sources show a decline in dependence between 1996 and 1999 and a small increase in dependence between 2001 and 2003. Still, readers are cautioned against comparing measures for 1987-1995 from the SIPP data in the first three annual reports with the measures for 1993-2003 from the TRIM-adjusted CPS data.

Figure SUM 3. Reciprocity and Dependency Rates from Two Data Sources: 1987-2003



Note: Reciprocity is defined as receipt of any amount of AFDC/TANF, SSI or food stamps during year. Dependency is defined as having more than 50 percent of annual family income from AFDC/TANF, SSI and/or food stamps. Dependency rates would be lower if adjusted to exclude welfare assistance associated with working. While only affecting a small number of cases, veterans pension benefits are included in means-tested assistance income for SIPP-based receipt and dependency estimates prior to 2001.

Source: Unpublished tabulations from the Current Population Survey, Annual Social and Economic Supplement, 1994-2004, analyzed using the TRIM3 microsimulation model, and unpublished tabulations from the Survey of Income and Program Participation, 1987, 1990, 1992, 1993, 1996 and 2001 panels.

The Panel Study of Income Dynamics (PSID) is another source of data used in this report. Like the SIPP it provides longitudinal data, but over a much longer time period than the three- to four-year time period of the SIPP. With annual data on program receipt since 1968, the PSID provides vital data for measuring longer-term welfare use over periods of up to 10 years. Because the PSID indicators cover time spans as long as a decade, they are updated less frequently than the CPS-based and SIPP-based measures.

Finally, the report also draws upon administrative data for the AFDC/TANF, Food Stamp and SSI programs. These data are largely reported in Appendix A. Like the CPS data, administrative data are generally available with little time lags; these data are generally available through fiscal year (FY) 2004. To the extent possible, TANF administrative data are reported in

a consistent manner with data from the earlier AFDC program, as noted in the footnotes to the tables in Appendix A. The fact remains that assistance under locally designed TANF programs encompasses a diverse set of cash and non-cash benefits designed to support families in making a transition to work, and so direct comparisons between AFDC receipt and TANF receipt must be made with caution. This issue also affects reported data on TANF receipt in national data sets such as the CPS and SIPP.

For further technical information about the data presented in the report, specifically for information on race and ethnicity, unit of analysis and annual versus monthly measures, please see Appendix D.