

## EXECUTIVE SUMMARY

In 1996, Congress created the Temporary Assistance for Needy Families (TANF) program. This \$16.5 billion a year block grant was established under the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), which replaced Aid to Families with Dependent Children (AFDC) and other related welfare programs. Fostering self-sufficiency through work was the major goal of the 1996 reform, which requires States to meet minimum levels of work participation and offers bonuses for high performance in specific areas. States have been given significant flexibility in designing their own eligibility criteria and benefit rules, which require work in exchange for time-limited assistance.

Since the enactment of TANF, millions of families have avoided dependence on welfare in favor of greater independence through work. Employment among low-income single mothers (incomes below 200 percent of poverty), reported in the U. S. Census Bureau's Current Population Survey (CPS), has increased significantly since 1996. Overall, earnings in female-headed families remain significantly higher than in 1996 despite the brief economic downturn. In addition, child poverty rates have declined substantially since the start of the program. States are using their flexibility to focus an increasing portion of welfare dollars on helping individuals retain jobs and advance in their employment.

This report describes the characteristics and financial circumstances of TANF recipients and presents information regarding TANF caseloads and expenditures, work participation and earnings, State High Performance Bonus awards, child support collections, two-parent family formation and maintenance activities, out-of-wedlock births, and child poverty. In addition, it documents specific provisions of State programs, summarizes current TANF research and evaluation, and provides profiles for each State. Below is a short summary of each chapter in this report.

### **Caseload**

The national TANF caseload continued to decline in Fiscal Year (FY) 2003. Some States have moved TANF recipients who have reached the Federal time limit to Separate State Programs (SSPs), but the combined caseload still continued to decline in FY 2003. This decline has also occurred even though some States have modified their eligibility criteria to include more low-income families.

Child-only cases continue to comprise a large fraction of the total TANF caseload. These are cases where no adult is included in the benefit calculation and only the children are aided. In FY 2003, child-only cases represented 38.6 percent of the total TANF caseload. Of these child-only cases, 53 percent involve children living with a caretaker relative who has sufficient income not

to receive assistance, 19 percent are families in which the parent is disabled and receiving Supplemental Security Income, and 18 percent are families in which the parent is ineligible for TANF because of his or her citizenship status.

In FY 2003, 23 percent of TANF adult recipients were employed. Although this is a small decrease from FY 2002, it appears that welfare reform continues to be effective in sustaining TANF clients' connections to the workforce, even when overall unemployment has increased.

FY 2002 was the first year that families in each State could have reached the Federal five-year lifetime limit on assistance. Case closure data for 38 States show that less than one half of one percent of cases had been closed due to the five-year limitation during FY 2003. In addition, although up to 20 percent of the State caseload can be exempted from this limit, only 1.7 percent of families were receiving assistance beyond the 60-month limitation. In FY 2003, families receiving TANF had accrued an average of 29 months of assistance countable toward the Federal five-year time limit (over one or more spells of welfare receipt).

### **Expenditures and Balances**

In fiscal year (FY) 2003, combined Federal and State expenditures for the Temporary Assistance for Needy Families (TANF) program totaled \$26.3 billion, an increase of \$926 million from FY 2002. States spent \$10.1 billion, or 41.8 percent of their total expenditures, on cash assistance. They also spent significant amounts on various non-cash services designed to promote work, stable families, or other TANF objectives, including work activities (\$2.6 billion), child care (\$3.5 billion), transportation and work supports (\$543 million), administrative and systems costs (\$2.5 billion), and a wide range of other benefits and services (\$6.3 billion). This latter category includes \$1.2 billion in expenditures on activities designed to either reduce the incidence of out-of-wedlock pregnancies or encourage paternal involvement in the lives of their children—up \$220 million from FY 2002. These expenditure patterns represent a significant shift since the enactment of TANF, when spending on cash assistance amounted to 73.1 percent of total expenditures.

In addition to these expenditures, States also can transfer up to 30 percent of their TANF block grant into the Child Care and Development Fund (CCDF) or the Social Services Block Grant (SSBG). In FY 2003, States transferred \$1.8 billion into the CCDF and \$927 million into the SSBG (including adjustments made to prior year spending).

At the beginning of FY 2003, States had \$5.7 billion in unspent TANF funds—\$2.6 billion in unobligated funds and \$3.1 billion in unliquidated obligations. By the end of the year, the amount of unspent funds declined to \$3.9 billion—\$2.3 billion in unobligated funds and \$1.6 billion in unliquidated obligations.

### **Work Participation Rates**

All States (except Nevada) met the overall participation rate standard in FY 2003, as did the District of Columbia, the Virgin Islands, and Puerto Rico. An average of 31.3 percent of non-

exempt TANF adults met Federal all family work participation standards by averaging monthly participation in qualified work activities for at least 30 hours per week, or 20 hours per week if they had children under age six. This represents a decline from FY 2002, when average participation was 33.4 percent. The FY 2003 rate remains above the 30.7 percent attained in FY 1997, but well below the 38.3 percent peak achieved in FY 1999. All family work rates increased in 26 States and Territories (up from 19 in FY 2002) and declined in 27.

An additional 13.4 percent of non-exempt TANF adults participated in countable work activities for at least one hour per week, but did not attain sufficient hours to qualify toward the work rate. States reported zero hours of participation in qualified activities for the remaining 58.8 percent of non-exempt adults (although some likely participated in non-qualifying activities), which is 0.5 percentage points higher than in FY 2002.

In FY 2003, the all family nominal minimum participation rate was 50 percent for single-parent families, and 90 percent for two-parent families. However, due to tremendous caseload reductions since TANF enactment, the average (weighted) effective minimum work participation requirement in FY 2003 (because of the caseload reduction credit) was only 3.9 percent for all families and 20.2 percent for two-parent families. Nineteen States and one Territory had sufficient caseload reduction credits to reduce their effective required all family rate to zero, and only nineteen States faced an effective minimum greater than ten percent.

## **Work and Earnings**

In 2003, 56.4 percent of single mothers with children under 18 that had income below 200 percent of poverty were employed. Although the employment rate of those with children under 18 declined from 59.3 percent in 2002, it is still 5 percentage points higher than in 1996—a remarkable achievement, particularly because of the brief recession in 2001. Among single mothers with children under age six—a group particularly vulnerable to welfare dependency—employment rates are over 9 percentage points higher than in 1996.

Overall, earnings in female-headed families remain significantly higher than in 1996 despite the brief economic downturn. For the one-fifth of families with the lowest income, single mother families fell to an average of \$1,989 in 2003 but remain above the average of \$1,823 in 1996; this reflects the decline in employment of lower income single mothers. For the next 20 percent of families, earnings remained well above their 1996 levels when the average was \$5,313; in 2003 the average earnings for the second quintile was \$9,800.

In FY 2003, 28.1 percent of adult recipients were working or engaged in work preparation activities, down slightly from 30.1 percent in FY 2002. Seventy-five percent of recipients who were working were doing so in paid employment; the remainder were involved in work experience, community service, and subsidized employment. State-reported data for welfare recipients show that the average monthly earnings of those employed increased in nominal dollars from \$466 per month in FY 1996 to \$647 in FY 2003, a 39 percent increase.

In FY 2003, about 17.9 percent of case closings were reported as closing due to employment. These data likely underestimate the true proportion by a large margin. An additional 23.9

percent of closed cases did so for failure to comply with program requirements, many of whom are clients who left for employment. Characteristics data show that 30 percent of adults in closed cases were employed.

### **High Performance Bonus**

The TANF High Performance Bonus (HPB) program provides cash awards to States for high relative achievement on certain measures related to the goals and purposes of the TANF program. These measures include a job entry rate, a success-in-the-workforce rate (measured by combining a job retention rate and an earnings gain rate), and the change in each of these rates over the prior year.

In 2000, changes were made to the HPB measures and these changes apply to award years 2002 and 2003. First, four new non-work indicators were added: participation of low-income working families in the Food Stamp Program, participation of former TANF recipients in the Medicaid Program and in States' Children's Health Insurance Programs (SCHIP), a child care subsidy measure, and a family formation and stability measure. Second, a major change was made in the source of the employment data used to calculate performance under the work measures. In performance year FY 2003, 50 States and the District of Columbia competed for at least one of the 80 individual awards; 37 States and the District of Columbia received awards.

### **Child Support Collections**

Single parents receiving TANF are required to cooperate with child support enforcement efforts. FY 2003 efforts produced a one percent increase in the percentage of current assistance cases that had orders established, and a two percent increase in the percentage of former assistance cases that had orders established. This means that over 51 percent of current assistance cases had orders established, and about 78 percent of former assistance cases had orders established.

In FY 2003, about \$21.2 billion was collected for children by the Child Support Enforcement (IV-D) Program, an increase of five percent from FY 2002, and a 33 percent increase since FY 1999. Total collections included almost \$1.6 billion in overdue child support intercepted from Federal tax refunds. In addition, the Passport Denial Program collected nearly \$12 million in calendar year (CY) 2003, double the \$6 million collected in CY 2002. There were also over 1.5 million paternities established in FY 2003.

In FY 2003, over 50 percent of the total child support cases had a collection, significantly more than the 38 percent achieved in FY 1999. About 70 percent of the cases with orders established reported a collection, an increase over the 64 percent achieved in FY 1999. Nationally, about \$2,653 was collected per case for those with a collection. In FY 2003, as in FY 1999, States collected about \$4 in child support for every \$1 spent. Of the 15.9 million child support cases served by IV-D agencies, only 2.8 million are currently receiving public assistance, 5.8 million have never received assistance, and 7.4 million formerly received assistance.

## **Formation and Maintenance of Married Two-Parent Families**

State governments have explored many different strategies for helping couples form and sustain healthy marriages as part of an effort to help families achieve self-sufficiency and improve child well-being. These strategies include how States can and are spending TANF dollars and shaping TANF policy to support the formation and maintenance of married two-parent families. The Administration for Children and Families, and specifically the Office of Family Assistance, has provided ongoing support for the Healthy Marriage Initiative, including the creation of the National Healthy Marriage Resource Center. These and other strategies, as well as a summary of State efforts, are described in the chapter.

## **Out-of-Wedlock Births**

The Department of Health and Human Services (HHS) is required to rank States based on a ratio of the total number of out-of-wedlock births in TANF families to the total number of births in TANF families and to show the net changes in the ratios between the current year and the previous year. HHS is also required to award, for FY 1999 and subsequent years, a “Bonus to Reward Decrease in Illegitimacy Ratio” to as many as five States (and three Territories, if eligible) that achieve the largest decrease in out-of-wedlock births without experiencing an increase in their abortion rates above 1995 levels. In FY 2003, the District of Columbia, the Virgin Islands, Colorado, Texas, Maryland, and Wyoming received awards.

## **Child Poverty and TANF**

The 2003 child poverty rate stood at 17.6 percent, up from 16.7 percent in the prior year but well below the 1996 level of 20.5 percent and the 1993 peak of 22.7 percent. The reduction in poverty since 1996 is even more marked for specific groups: the African American child poverty rate was 33.6 percent in 2003 compared to 39.9 percent in 1996 and the Hispanic child poverty rate was 29.7 percent in 2003 down from 40.3 percent in 1996. There are also significant differences in the child poverty rate by marital status. In married, two parent families, about one child in twelve is poor (8.6 percent), while two in five or 42 percent of the children living in female-headed, single parent families are poor.

If a State experiences an increase in its child poverty rate of five percent or more as a result of the TANF program(s) in the State, it must submit and implement a corrective action plan to reduce the State’s child poverty rate. To date, based on child poverty rates for 1996 through 2002, no State was required to submit a corrective action plan or any additional information for these child poverty assessment periods.

## **Characteristics and Financial Circumstances of TANF Recipients**

The average monthly number of TANF families was 2,027,600 in FY 2003. The estimated average monthly number of TANF recipients was 1,249,000 adults and 3,737,000 children. The average monthly number of TANF families decreased in 24 States and reflects an overall 1.6

percent decrease from 2,060,300 families in FY 2002. During FY 2003, an average of 166,700 TANF families had their assistance terminated each month.

There has been little change in the racial composition of TANF families since FY 2002. African-American families comprised 38 percent of TANF families, white families comprised 32 percent, 25 percent were Hispanic, 2.0 percent were Asian, and 1.5 percent were Native American. Of all closed-case families, 33 percent were African-American, 37 percent were white, and 24 percent were Hispanic.

The racial distribution of TANF recipient children has not significantly changed when compared to FY 2002. African-American children continued to be the largest group of welfare children, comprising about 39 percent of recipient children. About 27 percent of TANF recipient children were white, and 28 percent were Hispanic.

Eighty percent of TANF families received Food Stamp assistance, which is consistent with previous levels. These families received average monthly Food Stamp benefits of \$247. Of closed-case families, about 79 percent received Food Stamp benefits in the month of closure. In addition, almost every TANF family was eligible to receive medical assistance under the State plan approved under title XIX of the Social Security Act.

Ninety-eight percent of TANF families received cash and cash equivalent assistance, with an average monthly amount of \$354. Monthly cash payments to TANF families averaged \$296 for one child, \$365 for two children, \$437 for three children, and \$521 for four or more children. Some TANF families who were not employed received other forms of assistance such as child care, transportation and other supportive services.

In FY 2003, one in every five TANF families had non-TANF income. The average monthly amount of non-TANF income was \$560 per family. Twelve percent of the TANF families had earned income with an average monthly amount of \$655, while eight percent of the TANF families had unearned income with an average monthly amount of \$336. Of all closed-case families, 36 percent had non-TANF income with an average monthly amount of \$860.

Of TANF recipient adults, 20 percent had earned income with an average monthly amount of \$647. Seven percent of adult recipients had unearned income averaging about \$341 per month. Three percent of recipient children had unearned income with an average monthly amount of \$236.

### **Tribal TANF**

By the close of FY 2003, 40 Tribal TANF plans were approved to operate on behalf of 184 Tribes and Alaska Native villages. All together, Tribal TANF programs are funded to serve approximately 29,000 assistance units or families. State TANF programs serve American Indian and Alaska Native families not served by Tribal TANF programs. State governments in FY 2003 also served about 29,000 American Indian families, up from 27,000 in FY 2002. Of the 9,983 Tribal TANF families reported, 6,483, (64.9 percent) were single parent families and 2,291 (22.9 percent) were child-only cases.

FY 2003 funds available to Tribes with approved TANF plans totaled \$110,645,560; this was the prorated portion of the approved Tribal TANF grants, which totaled \$116,761,376 annually. This prorating occurred because not all Tribal TANF programs were operational for the full fiscal year. The amount of the approved grants is based on American Indian families served under State AFDC programs in FY 1994 in the Tribal grantee's service area.

Seventy-nine Indian Tribes, Alaska Native organizations, and Tribal consortia operated Native Employment Works (NEW) programs during Program Year (PY) 2002-2003 (July 1, 2002 – June 30, 2003). The most frequently provided NEW program activities were job search, classroom training, and work experience. The most frequently provided supportive and job retention service was transportation.

NEW programs coordinated education, training, work experience, job search, and job referral with other Tribal programs and with local educational institutions and employers. They provided intensive case management, behavioral and health counseling, and life skills training. Many Tribes with NEW programs located training, employment, and social services in “one-stop” centers where staff assessed clients’ needs and then provided targeted activities and services to meet those needs. Information/resource centers and learning centers containing resource materials, classrooms, and computer labs provided job preparation services, including individual needs assessments, case management, and classroom instruction.

### **Specific Provisions of State Programs**

The tables in Chapter XII were derived from information from each State’s TANF plan and amendments and have been reviewed by each State prior to submission of the report. These tables include State-by-State information on benefit levels, work requirements, waiver rules, eligibility and benefit determination, Individual Development Accounts, sanction policies, cash diversion programs, time limits, domestic violence provisions, and family cap policies. In general, they show little change in State policy from FY 2002.

### **TANF Research and Evaluation**

HHS undertakes several research and evaluation initiatives each year. Major research reports include a child outcome synthesis report discussing the impact of welfare reform on children in five States and a final synthesis paper on all six States that participated in the TANF caseload study. Final reports were issued on the characteristics of the District of Columbia’s, Colorado’s, Maryland’s and South Carolina’s TANF caseload, the profile of families that cycle on and off of welfare, work participation and full engagement strategies, the use of TANF work-oriented sanctions, the effects of fiscal capacity on State spending choices on programs to support low-income populations, the differences among single and married parent families in the TANF and Food Stamp programs, and a literature review on the effectiveness of services to strengthen marriage. Studies continue on devolution and urban change, interventions to increase the well-being of children through provision of voluntary healthy marriage education services, evaluating fragile families demonstrations, gathering more complete marriage and divorce data, the effectiveness of different approaches to promoting healthy marriage, documentation of State

policies to promote marriage, and a compendium of existing measures and tools to measure couple relationships across a broad range of categories.

This report also presents information about the progress of ACF's latest major initiative related to increasing employment among welfare recipients, *The Employment Retention and Advancement Evaluation*. Fifteen intervention strategies have been implemented in eight States in this multi-year demonstration and evaluation project. Reports issued in 2004 and early 2005 detailed lessons learned, the relationship of TANF and Workforce Investment Act agencies in the provision of retention and advancement services for low-income workers, and early impact findings of four of the longest operating interventions.

### **State Profiles**

The final chapter of this report contains individual TANF profiles for each State and the District of Columbia. These TANF profiles contain information on program administration, funding, expenditures, caseload, benefit structure, participation rates, and High Performance Bonus earnings performance rates.

### **Format**

The format of the TANF Seventh Annual Report to Congress follows the format established in the TANF Sixth Annual Report to Congress. The chapters provide descriptions, trend analysis, and national data on the highlights of TANF in FY 2003, not historical information available in earlier reports. In addition, the report tables are grouped together into one appendix which may be found at end of the report.



