

EXECUTIVE SUMMARY

In 1996, Congress created the Temporary Assistance for Needy Families (TANF) program. This \$16.5 billion a year block grant was enacted 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, the employment rates of current and former welfare recipients have increased dramatically. Earnings for current welfare recipients have increased, as have earnings for female-headed households in general. 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, out-of-wedlock births, and child poverty. In addition, it documents specific provisions of State programs and summarizes current TANF research and evaluation. Below is a short summary of each chapter in this report.

Caseload

The national TANF caseload continued to decline in Fiscal Year (FY) 2002. 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 2002. This decline has also occurred as 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 2002, child-only cases represented 36.6 percent of the total TANF caseload. Of these child-only cases, about half involve children living with a caretaker relative who has sufficient income not to receive assistance, about one-fifth are families in which the parent is disabled and receiving Supplemental Security Income, and approximately one-fifth are families in which the parent is ineligible for TANF because of his or her citizenship status.

In FY 2002, 25 percent of TANF adult recipients were employed. Although this is a slight decrease from FY 2001, it appears that welfare reform continues to be effective in sustaining TANF clients' connections to the workforce, even when overall unemployment increased during that period.

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 33 States show that less than one half of one percent of cases had been closed due to the five-year limitation during FY 2002. In addition, although up to 20 percent of the State caseload can be exempted from this limit, only 1.1 percent of families were receiving assistance beyond the 60-month limitation. The average length of TANF assistance in FY 2002 was 29 months.

Expenditures and Balances

Combined State and Federal spending totaled \$25.4 billion in FY 2002, a slight decrease (-\$111 million) from FY 2001. Over \$2.5 billion was available for obligation in FY 2002 from prior year funding. States can also 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 2002, States transferred 11 percent (\$1.9 billion) into CCDF and 6 percent (\$1.0 billion) into SSBG.

State spending patterns have continued to shift away from cash aid, with increasing proportions of expenditures being made on child care, work activities, and other services. In FY 2002, States spent 41 percent of their total Federal TANF and State Maintenance of Effort (MOE) funds on cash assistance. This represents a decrease from 43.6 percent in FY 2001. States spent \$2.7 billion in combined funds, or 10.7 percent, on work activities in FY 2002 (the same as in FY 2001), which includes work subsidies, education and training, and other job readiness activities. Child care spending totaled 13.8 percent of all spending in FY 2002, an increase of 4.3 percent from FY 2001 spending levels. In addition, States also spent considerable amounts of non-TANF funds on child care.

In FY 2002, States more than doubled their FY 2001 spending on activities designed to either reduce the incidence of out-of-wedlock pregnancies or encourage paternal involvement in the lives of their children.

Work Participation Rates

All States met the overall participation rate standard in FY 2002, as did the District of Columbia, the Virgin Islands, and Puerto Rico. An average of 33.4 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 2001, when average participation was 34.4 percent. The FY 2002 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 19 States and Territories and declined in 34.

An additional 8.3 percent of non-exempt TANF adults participated in work activities for at least one hour per week, but did not attain sufficient hours to qualify toward the work rate. The remaining 58.3 percent of non-exempt adults reported zero hours of participation in qualified activities (although some likely participated in non-qualifying activities), which is 1.5 percentage points higher than in FY 2001.

In FY 2002, 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, the average (weighted) effective minimum work participation requirement in FY 2002 (because of the caseload reduction credit) was only 4.5 percent for all families and 20.6 percent for two-parent families. Twenty-one States had sufficient caseload reduction credits to reduce their effective required all-parent rate to zero, and only twelve States faced an effective minimum greater than ten percent.

Work and Earnings

In FY 2002, 59.3 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 slightly from 60.1 percent in FY 2001, it is still 8 percentage points higher than in 1996—a remarkable achievement, particularly because of the brief recession in 2001. Also, among those in this group with children under six, the employment rate increased from the FY 2001 level of 55.9 percent to 57.3 percent in FY 2002.

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 have increased their earned income from an average of \$1,823 in FY 1996 to \$2,368 in FY 2002. For the 20 percent of families just above the lowest one-fifth, the increase in income from earnings is even more dramatic, having gone from an average of \$5,310 in FY 1996 to \$10,570 in FY 2002.

In FY 2002, 30.1 percent of adult recipients were working or engaged in work preparation activities, down slightly from 32 percent in FY 2001. Seventy-eight 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 from \$466 per month in FY 1996 to \$678 in FY 2002.

In FY 2002, about 17.2 percent of case closings were reported as closing due to employment. These data likely underestimate the true proportion by a large margin. An additional 25.8 percent of closed cases did so for failure to comply with program requirements, many of whom are clients who left for employment.

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 2001, 49 States and the District of Columbia competed for awards related to at least one of the 80 award measures; 42 of these States received awards.

Child Support Collections

Single parents receiving TANF are required to cooperate with child support enforcement efforts. FY 2002 efforts produced a four percent increase in the percentage of current assistance cases that had orders established, and a five percent increase in the percentage of former assistance cases that had orders established. This means that over 50 percent of current assistance cases had orders established, and about 77 percent of former assistance cases had orders established.

In FY 2002, over \$20.1 billion was collected for children by the Child Support Enforcement Program, an increase of six percent from FY 2001, and a 40 percent increase since FY 1998. Total collections included almost \$1.5 billion in overdue child support intercepted from Federal tax refunds. In addition, the Passport Denial Program collected over \$6 million in calendar year 2002. There were also over 1.5 million paternities established and acknowledged in FY 2002.

In FY 2002, nearly 49 percent of the total child support cases had a collection, significantly more than the 38 percent achieved in FY 1999. About 69 percent of the cases with orders established reported a collection, a slight increase over the 64 percent achieved in FY 1999. Nationally, about \$2,575 was collected per case for those with a collection. Total administrative expenditures were \$5.2 billion, a 28 percent increase from FY 1999. Of the 16.1 million child support cases served by IV-D agencies, only 2.8 million are currently receiving public assistance, 5.9 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 include State campaigns, commissions, proclamations, conferences, incentives for marriage preparation, marriage education, and the removal of marriage disincentives. A State-by-State comparison is presented 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 through FY 2003, 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 2002, the District of Columbia, the Virgin Islands, Michigan, Colorado, Texas, and Alabama received awards.

Child Poverty and TANF

Between 1996 and 2002, the national child poverty rate fell by almost 18.5 percent. The decline is even more marked for specific groups; the African American child poverty rate dropped from 39.9 percent to 31.5 percent, and the Hispanic child poverty rate dropped from 40.3 percent to 28.6 percent. There are also significant differences in the child poverty rate by marital status. In married, two-parent families, about eight percent of children are poor, while about 39 percent of the children living in female-headed, single parent families are poor.

If the 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, 1997, 1998 and 1999, 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 2,060,300 in FY 2002. The estimated average monthly number of TANF recipients was 1,315,000 adults and 3,835,000 children. This average monthly number of TANF families represents a decrease in 21 States and reflects an overall 2.8 percent decrease from 2,120,500 families in FY 2001. During FY 2002, an average of 168,900 TANF families had their assistance terminated each month.

There has been little change in the racial composition of TANF families from FY 2001. African-American families comprised 38 percent of TANF families, white families comprised 32 percent, 25 percent were Hispanic, 2.2 percent were Asian, and 1.4 percent were Native American. Of all closed-case families, 35 percent were African-American, 36 percent were white, and 25 percent were Hispanic.

Eighty percent of TANF families received Food Stamp assistance, which is similar to previous levels. These families received an average monthly Food Stamp grant of \$239. Of closed-case families, about 72 percent received Food Stamp assistance 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.

The racial distribution of TANF recipient children has changed slightly in recent years. African-American children continued to be the largest group of welfare children, comprising about 40 percent of recipient children. About 27 percent of TANF recipient children were white, and 27 percent were Hispanic. The percentage of Hispanic children on TANF remains unchanged, the percentage of white TANF recipient children is up 1.2 percentage points from FY 2001, and the rate for African-American children is down one percentage point from the same year.

Ninety-nine percent of TANF families received cash and cash equivalent assistance, with an average monthly amount of \$355. Monthly cash payments to TANF families averaged \$295 for one child, \$365 for two children, \$435 for three children, and \$533 for four or more children. Some TANF families who were not employed also received other forms of assistance such as child care, transportation, and other supportive services.

In FY 2002, one in every five TANF families had non-TANF income. The average monthly amount of non-TANF income was \$586 per family. Fourteen percent of TANF families had earned income with an average monthly amount of \$683, while seven percent of the TANF families had unearned income with an average monthly amount of \$323. Of all closed-case families, 34 percent had non-TANF income with an average monthly amount of \$866.

Of TANF recipient adults, 22 percent had earned income with an average monthly amount of \$678. Seven percent of adult recipients had unearned income averaging about \$355 per month. Three percent of recipient children had unearned income with an average monthly amount of \$184.

Tribal TANF

At the end of FY 2002, 36 Tribal TANF plans were approved to operate on behalf of 175 Tribes and Alaska Native villages. All together, Tribal TANF programs are serving approximately 25,000 assistance units or families. American Indian and Alaska Native families not served by Tribal TANF programs continue to be served by State TANF programs. State governments in FY 2002 served about 27,000 American Indian families, up from 17,000 in FY 2001. 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 2002 funds awarded to Tribes with approved TANF plans totaled \$101,383,376; this was the prorated portion of the approved Tribal TANF grants, which totaled \$101,739,418 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 Aid to Families with Dependent Children (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) 2001-2002 (July 1, 2001 – June 30, 2002). The most frequently provided NEW program activities were job search, classroom training, and work experience. The most frequently provided supportive and job retention services were transportation and child care.

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 2001.

TANF Research and Evaluation

HHS undertakes several research and evaluation initiatives each year. Major new research reports include a synthesis report discussing the impact of welfare reform on children in five States, reports by the District of Columbia and Illinois on the characteristics of their TANF caseload, a study of the TANF application process, findings on devolution and urban change in four large urban areas, determinants of marriage and cohabitation among disadvantaged individuals, documentation of State policies to promote marriage, a summary of State experiences and perspectives on reducing out-of-wedlock childbearing, reports on special populations, an evaluation of the Welfare-to-Work grants program, and a study discussing the dynamics of poverty and the privatization of welfare services.

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 designed to gain knowledge about how best to help low-income families sustain attachment to and advance in the labor market.

State Profiles

This chapter 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 Annual Report to Congress has changed this year. In the TANF Sixth Annual Report to Congress, the chapters provide descriptions, trend analysis, and national data on the highlights of TANF in FY 2002. You will note that many chapters are now shorter and that they focus on what happened in FY 2002, not on historical information available in earlier reports. In addition, tables previously included immediately after each chapter have now been grouped together into one appendix, and this has been moved to the end of the report.

To assist those who may wish to compare information between the TANF Fifth and TANF Sixth Annual Reports to Congress, we have annotated as appropriate each table or graph in the TANF Sixth Annual Report with its corresponding number from the TANF Fifth Annual Report. You will also find a comprehensive cross-reference table at the end of the appendix to assist in comparison.

Finally, for the first time, we present individual State TANF profiles. These can be found in the new Chapter XIV.

