~~Plan Conference~~ re:
Call w/ Tom Dalton
re 7/13 Speech

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File


# Arkansas Department of Human Services

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Jim Guy Tucker
Governor


MEMORANDUM

DATE: November 29, 1993

TO: Governor Jim Guy Tucker

FROM: Tom Dalton

SUBJECT: WELFARE REFORM

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Division of Economic and Medical Services staff, Marcie Gibson and I are currently working on welfare reform proposals for your consideration. The work should be completed and a product sent to you in the next four weeks. I am urging staff to be as bold as possible in this process. Anything less will result in nothing more than minor tinkering and hence no real change.

By way of background I have written the attached concept paper that attempts to add some definition to the issue. Once work is completed I will schedule a long enough meeting through Sandy to provide us the time needed for our briefing and your ultimate decisions.

TD/pb

Attachment

cc: Kenny Whitlock
Marcie Gibson

## Welfare Reform

[Background Paper re: Current Problems]

The general public largely holds negative views about welfare. People believe that while the goals of welfare were once noble, the implementation has been flawed. It appears designed to encourage dependency. Current rules sap individual spirit and, in fact, discourage rather than foster work:

Example: a welfare mother with two children works part-time and earns $200 per month. This amount is reported. How is the recipient's welfare payment effected?

| | | |
|---|---|---|
| Client receives | $204/month | AFDC |
| | $295/month | Food Stamps |
| | $499 | AFDC/Food Stamps |
| Income earned | $200/month | |
| | -30 | An allowance allowed by AFDC free from any reduction |
| | $170 | |
| | -57 | Another allowance of 1/3 of the remaining earned income free from reduction |
| | $113 | Remaining amount is to be reduced from welfare payment |

AFDC is now $204 - $113 = $91/month
Food Stamp payment is now $295 - $44 = $251/month (for every $32 earned, $6-8 is reduced from food stamps)

| | |
|---|---|
| Old AFDC/FS Payment | $499 |
| New AFDC/FS Payment | 342 |
| | $157 |

Therefore of the $200 earned the client will "realize" $43 ($200 - 157)

[For a more indepth analysis of the impact of work on welfare recipients, see Attachment A]

Welfare payments (while steady) offer only a bleak standard of living (see Attachment B). In Arkansas AFDC payments represent only twenty-one (21%) percent of the national poverty level designation. When food stamp values are added that percentage becomes fifty percent of poverty levels.

On the one hand, the welfare "safety net" appears to offer little quality of life to recipients. The reverse view, however, is that while welfare doesn't necessarily promote usage, it clearly seems over past years to have sustained an "underclass" of poor Arkansans. Attachment C shows the number of active welfare caseloads in Arkansas. Notice that the number of active caseloads is highest under 24 months and decreases as five to ten year periods are approached. This information is misleading, however, since "active cases" cannot be equated with welfare recipients. If a single mother is on welfare for a period of time and goes off welfare because of a change of status (e.g. temporary employment) only to later return to the welfare rolls, she will be counted as a new active case. In reality, however, she is a longer standing welfare recipient when the total number of months on assistance are counted. Since three years is the longest period of time in which records are kept after a case becomes inactive, we don't have actual data of the true periods of time people have been on welfare.

Nothing better demonstrates welfare's failures than the fact that this program originally designed to be transitional help now crosses generations. Dependency, rather than self-sufficiency, is being sustained nationally and in Arkansas.

The only thing that is truly positive for the poor on assistance is the health coverage through Medicaid. Ironically, it is this program that may break the system through its often uncontrolled and increasing costs. In SFY 1994 Medicaid alone will exceed $277 million in GRE; 12+% of the State budget; over 60% of the DHS budget.

* * *

While it is easy to say that moves must be made toward reforms that will make welfare a bridge to self reliance, there are costly societal innovations outside the welfare system that must be addressed before this is truly possible. A universal health care program is needed to protect against the loss of Medicaid coverage as a recipient moves off welfare, and there is a need to augment low wages in this country so that welfare recipients aren't being pushed simply into a higher level of poverty e.g. the working poor.

Trends working against welfare reform are:

1. A long term decline in wages at the bottom end of the labor market making it less advantageous to leave welfare roles.

Average Weekly Earnings
By Years of School Completed*

| | Women | | | Men | | |
|---|---|---|---|---|---|---|
| | 12+ yrs School | 12 | -12 | 12+ yrs School | 12 | -12 |
| 1969 | 330 | 250 | 200 | 680 | 515 | 415 |
| 1989 | 405 | 275 | 200 | 685 | 470 | 350 |

*Northwestern University study reported in "New York Times" 7/26/92

2. A spectacular rise in out-of-wedlock births increasing the population that could face term dependency.

Out of Wedlock Birth Rates*

| | Black | White | Total |
|---|---|---|---|
| 1960 | 21.6% | 2.3% | 5.3% |
| 1970 | 37.6 | 5.7 | 10.7 |
| 1980 | 55.3 | 11.0 | 18.4 |
| 1989 | 65.7 | 19.2 | 27.1 |

*National Center for Health Statistics reported in "New York Times" 7/26/92

One interesting note in the birth rates above is that the current rate for out-of-wedlock births among whites has now reached the level that it was among black families when Daniel Patrick Moynihan wrote his famous report in the mid-60's on the decline of the black family.

The two trends identified are most telling when the age groups of single mothers are evaluated and projected into the future (see Attachment D). Younger mothers in the twenty-five and below range will increase thirty-three (33%) by the year 2010. The majority of these women will be teenage high school dropouts with few employability strengths.

* * *

A number of welfare reform efforts are being tried in various states:

- new requirements for schooling
- job training or community service work
- financial carrots to encourage marriage
- financial sticks to discourage childbearing
- stronger collection efforts from absent fathers

The above will be too little if not properly funded and will ultimately impact only a small number of recipients. A recent national finding is that one fifth of all the nation's children (including 2/3 of black children) will spend time on welfare by the age of 18. This is not an indictment of the welfare system as much as it is a symptom of a vast social ill. William Julius Wilson of the University of Chicago argues that the two driving forces of dependency - worsening wages and out-of-wedlock births - are related. The economic status of young males (especially minority males reaching unemployment rates of 30+%) is directly associated with the problem of marriage.

* * *

Since welfare payments have always been low and their purchasing power has steadily declined since the mid-70's a most sinister effect has occurred. Welfare recipients have been forced to lie and cheat in order to survive. We have created a welfare system whose rules have no moral legitimacy in recipients' eyes. Since the welfare system seldom gives mothers who follow its rules enough money to pay for necessities, they feel entitled to break the rules.

This feeling is not confined to second generation welfare recipients in poor neighborhoods - the so called underclass. It is shared by mainstream women who have finished high school, held jobs, married, had children, and ended up on welfare only when their husbands left them. It is a feeling bred by a system whose rules are incompatible with everyday American morality, not by the peculiar characteristics of welfare recipients.

Historically:

- most training programs for welfare mothers have been part-time, short term and inexpensive

- most programs raised welfare recipients' annual earnings enough to justify their modest cost

- while programs were usually cost effective, their absolute benefits were small

- because their absolute benefits were small, low-cost training programs did not move many mothers off welfare rolls.

Our societal thrust has been wrong. The only politically viable strategy for significantly improving the economic conditions of single mothers is to concentrate on helping those who work at low-wage jobs.

(as opposed to the view of helping the neediest by increasing AFDC payments)

"The Legislature's failure to help single mothers with low-wage jobs has turned the American welfare system into a political and moral disaster. It has made welfare synonymous with helping people who do nothing to help themselves. In addition, it has created a system in which unskilled single mothers cannot improve their situations by working harder. Such a system will never have many political supporters, even among hard core liberals. Welfare benefits will remain low, single mothers will remain poor and we will turn another generation of recipients into welfare cheaters." Rethinking Social Policy, 1992, Christopher Jencks

The issue of welfare cheating and fraud has another interesting aspect in Arkansas. While much has been made out of the "urban myths" of welfare recipients and their Cadillacs and the overall system abuse people think is occurring, the questions have to be asked: How real is widespread fraud? What are we spending in our attempts to curtail fraud?

The following data shows the amounts of AFDC grants made in the years 1989 through 1993, how much we spent on fraud and non-fraud collection and finally how much money was actually recovered from fraud.

| State Fiscal Yr | Total AFDC Grants (75/25 Fed/St) | Fraud $ Captured (% of Total) | Total Expenditures in AFDC Collection |
|---|---|---|---|
| 1989 | $54,840,750 | $68,173 (0.12%) | $116,672 |
| 1990 | 56,640,499 | 83,232 (0.15%) | 338,966 |
| 1991 | 58,784,110 | 71,290 (0.12%) | 570,898 |
| 1992 | 60,713,068 | 81,103 (0.13%) | 672,638 |
| 1993 | 59,903,232 | 68,237 (0.11%) | 618,709 |

The State of Arkansas spent $2.3 million in five years to recover $1.5 million in fraud and non-fraud collections. That amount recovered due to fraud amounted to approximately $372,035 (one-tenth of one percent) of total AFDC payments. That is a condemning statement as to our program priorities and it clearly is not good economic policy. See Attachment E for total collections data.

Attachment A

Family of three in Arkansas as of November 1993:

Maximum monthly benefits for AFDC and food stamps:
$499/$5,988/year
Approximately 50% of poverty level income e.g.
$991/month or $11,892/year

The Family Support Act of 1988 will not save taxpayers any money. Nor will it move many single mothers off the welfare roles. Why?

Single mothers do not turn to welfare because they are pathologically dependent on handouts or unusually reluctant to work - they do so because they cannot get jobs that pay better than welfare. The new law will not do much to change that fact.

| INCOME | MTR NOT EMPLOYED | MOTHER EMPLOYED 1638 HRS @ $5/HR |
|---|---|---|
| AFDC Benefits | $204 | |
| Food Stamps | 295 (1) | $212 |
| Earnings | --- | 682.50 (8190/yr) |
| Earned Inc Tax Credit | | 119 |
| less SSA, St and Fed Taxes | | <52.21> (2) |
| Gross Income After Taxes | | $961.29 |
| less related expenses | | |
| Trans (234 days @ .15/mi) (3) | | <88.70> |
| Clothing (4) | | <30> |
| Medical Expenses (5) | | <50> |
| Net Income After Taxes | | 792.59 |
| less paid child care | | <266> (6) |
| Net Income after Child Care | | 526.59 |
| Net Income After Taxes and work related expenses if Father pays $125 in Child Support (7) | $549* | 651.59 |

*This individual can earn up to $234 per month of outside income without having her AFDC benefits reduced for a 4-month period. After the four months she may earn up to $120/month without reduction.

(1) This assumes that the mother does not receive a shelter deduction. If she paid $175 in shelter and utilities, for example, then she would receive a shelter deduction which

would zero out her income and she would receive maximum FS benefits of $292 per month.

(2) This is a Social Security deduction only, according to Payroll, with 3 dependents and the above wages, no State and Federal taxes would be withheld.

(3) Transportation of 15 cents per mile is used in this example since this is the reimbursement rate used by Project Success and we used 20 miles per day as an average number of miles traveled - this is just an estimate for a mileage expense of $58.50. We have also added in $28.17 for insurance and $2.03 for taxes per month.

(4) A monthly closing expense of $30 is being shown. This amount is just an estimate, we have nothing in our programs which relates to this. This amount assumes the employed mother dresses casually ($5.00 hr job probably calls for casual dress).

(5) If the children were born after 9-30-83, they would be eligible for Medicaid, using the above income. So the medical expenses listed are for the mother only and the amount is only an estimate.

Also, it should be noted that if the working mother is a former AFDC recipient, whose case was closed due to earnings, then she is probably eligible to receive up to 12 months of Transitional Medicaid for herself and the children. The 12 months starts counting from the first month of AFDC ineligibility.

(6) This assumes one child is preschool age and one child is school age but under 10. Project Success would allow a maximum of $250 for the preschooler and $130 for the school age child, while school is in session, as a maximum. The average would be less, so we computed the average as 70% of the maximum (the 70% is an estimate).

Also, it should be noted that if the working mother is a former AFDC recipient, whose case was closed due to earned income, then she is probably eligible to receive Transitional Child Care (for up to 12 months from the date of ineligibility). There are also child care programs available through DCFS (IV-A At Risk Child Care, Child Care and Development Block Grant and Title XX Child Care). These programs may pay all or a portion of the child care and generally on a sliding fee scale.

(7) Only 18% of the Absent Parents in the AFDC caseload pay Child Support; of those who pay, the average amount paid per month is $125. AFDC recipients generally receive up to $50 per month of the Child Support collected.

Attachment B

AFDC/UP Payment Levels, Food Stamp Allotments, and Total AFDC/Food Stamp as Percent of Poverty by Family Size

| Number of Persons in AFDC Unit | AFDC Payment As a % of Poverty | Food Stamp Allotment | Total AFDC/FS Payment | Monthly Poverty Level | AFDC/FS Total as % of Poverty |
|---|---|---|---|---|---|
| 1 | $ 81 (14%) | $206* | $ 287 | $ 581 | 49% |
| 2 | 162 (21%) | 206 | 368 | 786 | 46% |
| 3 | 204 (21%) | 295 | 499 | 991 | 50% |
| 4 | 247 (21%) | 371 | 618 | 1,196 | 52% |
| 5 | 286 (20%) | 424 | 710 | 1,401 | 51% |
| 6 | 331 (21%) | 493 | 824 | 1,606 | 51% |
| 7 | 373 (21%) | 530 | 903 | 1,811 | 50% |
| 8 | 415 (21%) | 596 | 1,011 | 2,016 | 50% |
| 9 or more | 457 (21%) | 663** | 1,120 | 2,221*** | 50% |

*Includes a 2 person household for Food Stamp purposes since the AFDC child is living with an adult relative. The remainder of the amounts in this column include only the AFDC unit members in the Food Stamp budget.

**The Food Stamp allotment will increase for each additional member above 9. For exmaple, an AFDC unit of 10 will receive $748.00 in Food Stamps.

***For each additional member, add $205.

Attachment C

OPEN AFDC CASES
DISTRIBUTION OF LENGTH OF
TIME ON AFDC

| Range | Number of Records | Percentage |
|---|---|---|
| 3 months or less | 3,878 | 16% |
| 4-6 months | 3,396 | 14% |
| 7-12 months | 4,551 | 18% |
| 13-24 months | 4,806 | 19% |
| 25-36 months | 2,570 | 10% |
| 37-48 months | 1,464 | 6% |
| 48-60 months | 989 | 4% |
| 61-120 months | 2,252 | 9% |
| Over 120 months | 1,010 | 4% |
| Total | 24,916 | |

MODE = 2 months (most frequent age of case)
MEDIAN = 14.0 months (midpoint of distribution of records by age)

Attachment D

## SINGLE MOTHERS TO 2010

(numbers in thousands and percent of single-mother households, by age of householder, 1990-2010, and percent change 1990-2000 and 2000-2010

| | 1990 | | 1995 | 2000 | | 2005 | 2010 | | Percent Change | Percent Change |
|---|---|---|---|---|---|---|---|---|---|---|
| | number | percent | number | number | percent | number | number | percent | 1990-2000 | 2000-10 |
| otal | 6,599 | 100.0% | 7,233 | 7,473 | 100.0% | 7,607 | 7,779 | 100.0% | 13.2% | 4.1% |
| ounger than 25 | 786 | 11.9 | 831 | 931 | 12.5 | 1,091 | 1,234 | 15.9 | 18.4 | 32.5 |
| 5 to 34 | 2,625 | 39.8 | 2,721 | 2,605 | 34.9 | 2,637 | 2,834 | 36.4 | -0.7 | 8.8 |
| 5 to 44 | 2,341 | 35.5 | 2,800 | 2,966 | 39.7 | 2,852 | 2,675 | 34.4 | 26.7 | -9.8 |
| 5 to 54 | 707 | 10.7 | 769 | 851 | 11.4 | 891 | 879 | 11.3 | 20.4 | 3.3 |
| 5 to 64 | 99 | 1.5 | 92 | 93 | 1.2 | 109 | 127 | 1.6 | -6.0 | 36.6 |
| 5 to 74 | 31 | 0.5 | 18 | 17 | 0.2 | 17 | 20 | 0.3 | -43.9 | 13.9 |
| 5 and older | 8 | 0.1 | 7 | 9 | 0.1 | 10 | 10 | 0.1 | 7.7 | 16.8 |

Note: Numbers may not add to total due to rounding.)

ource: American Demographics Magazine - December 1993, page 37

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ATTACHMENT E

30-Nov-93

## DHS FRAUD EXPENDITURES VS. COLLECTIONS
## TOTAL DOLLARS - FEDERAL AND STATE

| | AFDC | | | | FOOD STAMP | | | | MEDICAID | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | COLLECTIONS | | | | COLLECTIONS | | | | COLLECTIONS | | |
| FISCAL YEAR | EXPEND. | FRAUD | NON-FRAUD | TOTAL | EXPEND. | FRAUD | NON-FRAUD | TOTAL | EXPEND. | FRAUD | NON-FRAUD | TOTAL |
| 1989 | 116,672 | 68,173 | 140,637 | 208,810 | 1,269,362 | 308,533 | 320,129 | 628,662 | N/A | 19,882 | 71,434 | 91,316 |
| 1990 | 338,966 | 83,232 | 167,182 | 250,414 | 1,478,804 | 344,494 | 364,753 | 709,247 | N/A | 28,153 | 188,691 | 216,844 |
| 1991 | 570,898 | 71,290 | 180,567 | 251,857 | 1,502,631 | 367,686 | 402,917 | 770,603 | N/A | 18,727 | 162,266 | 180,993 |
| 1992 | 672,638 | 81,103 | 288,659 | 369,762 | 1,511,690 | 424,980 | 475,511 | 900,491 | N/A | 23,494 | 179,315 | 202,809 |
| 1993 | 618,709 | 68,237 | 333,860 | 402,097 | 1,355,196 | 785,854 | 741,129 | 1,526,983 | N/A | 23,951 | 178,079 | 202,030 |

NOTES: The Food Stamp Tax Intercept Program began in 1993 and reflects the collection of backlogged cases.
A portion of the Medicaid collections are a direct result of closing an AFDC fraud case.

Jim Guy Tucker
Governor

# Arkansas Department of Human Services
## Office of the Director

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**MEMORANDUM**

**DATE:** January 5, 1994

**TO:** Governor Jim Guy Tucker

**FROM:** Tom Dalton

**SUBJ:** Welfare Reform

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As I advised you in my memorandum of November 29, 1993, concerning welfare reform, my staff and I have been working on a proposal to dramatically reform our current welfare system.

Attached is a concept outline of a program which I believe addresses the identified problems of the current system in a bold and aggressive manner. More importantly, though, DEMS staff believe, and I agree, that the program is workable and, given sufficient resources, can be successful in moving families from welfare to employment and self-sufficiency.

The main feature of the program is its transitional (i.e. time-limited) nature. During a two year period of time, the parent is prepared to take responsibility for the family's future by engaging in intensive employment activities with the goal of obtaining full-time employment by no later than the end of the two year cash assistance period. Failure to do so will result in the termination of cash assistance. For those who are employed, the transitional support services of child care and Medicaid will be extended from one to three years.

If you concur with the concepts attached, we then obtain federal approval of the program as well as state funding for it. We are projecting an implementation date in selected pilot counties of July 1, 1995.

I am looking forward to discussing the program with you.

TD:KW:llg

Attachment

# DRAFT

WELFARE REFORM PROPOSAL

OUTLINE

I. PROBLEMS WITH THE CURRENT WELFARE SYSTEM

II. MISSION

III. CONCEPTUAL DESIGN OF PROGRAM

IV. RISKS

V. REWARDS

VI. PROGRAM SCOPE

VII. AUTHORITY

VIII. DEVELOPMENT OF FORMAL PROJECT PROPOSAL

# DRAFT

## I. PROBLEMS WITH THE CURRENT WELFARE SYSTEM

### A. Encourages dependency.

#### 1. Discourages work.

In Arkansas, a family's AFDC grant is reduced almost dollar for dollar of gross wages. In many cases, even low-wage work causes the family's ineligibility for AFDC and consequently, ineligibility for other assistance (Medicaid, child care, supportive services).

#### 2. Discourages individual responsibility.

As long as an individual receives AFDC, the current system provides the family's basic needs through the AFDC cash grant, Food Stamps, Medicaid eligibility, and reimbursement for employment or educational expenses. The focus is on moving the family totally off welfare without, necessarily, transitioning the adult to assume more of the responsibility for the family's needs. Even in the transitional programs, e.g., Medicaid, full Medicaid benefits are provided during the transitional period. Then they are totally cut off. Nothing is done during the transitional time to prepare the adult to assume the full responsibility of meeting the family's medical needs.

#### 3. Discourages the reuniting of families and marriage.

Many two-parent families are in need but are not eligible for AFDC due to the Unemployed Parent rules. This discourages parents who have separated from reuniting since it could mean the loss of all benefits for the children. Also, due to federal income deeming rules, many families in which a stepparent is employed are ineligible even though, in Arkansas, a stepparent has no legal responsibility for the support of stepchildren. The potential loss of benefits discourages the marriage.

#### 4. Encourages families to adapt to a dependent lifestyle.

A recent study in Washington state revealed that, once on AFDC, many clients adapt their individual circumstances in order to continue to meet complicated eligibility rules. This has the effect of changing the family's focus from moving towards self-sufficiency and off the program to further dependency to remain on the program. For example, a client disposes of a car which has an equity value in excess of the resource limit in order to remain eligible. She now, though, has no means of transportation to look for work and is now more dependent on the system.

### B. An alternative lifestyle to some.

The current system is viewed by some as a lifestyle choice rather than as temporary assistance to help the family overcome a crisis situation which is preventing it from being self-sufficient. Although small, a certain percentage of all AFDC families have received long term assistance and in some families, the receipt of assistance is multi-generational.

# DRAFT

## II. MISSION

To design a program which will help meet a family's immediate basic needs while addressing the problems which exist in the current welfare system.

The design approach should be to make significant changes to the current system or even, ideally, abandon the current system and start fresh. While abandoning the current system may not be possible at this time, the goal is definitely **not** to make only minor alterations to the current system which will have little if any impact on actually making families self-sufficient and eliminating their need for welfare.

The intent of the new program will continue to be to provide assistance to needy families so that the children may remain in their own homes rather than be placed in foster care or other institutionalized settings. The focus of the new program, though, will change from merely maintaining the family's basic needs indefinitely to meeting those needs while transitioning the family to self-sufficiency within a set period of time.

# DRAFT

## III. CONCEPTUAL DESIGN OF PROGRAM

### A. Main Components

1. **Provide for family's basic needs in the simplest form possible**

> Initial eligibility based on current rules except one motor vehicle may be disregarded totally.

> Once initial eligibility established, then continuing income eligibility based on Full Need standard by family size and gross income used. No deductions.

> If income eligible, 3 payment levels -
  - 1 child only units
  - units of 2 - 5 members
  - units of 6 or more

> Resource determination simplified and limit increased after initial eligibility established.
  - 1 car disregarded (regardless of value or equity)
  - Income producing real property disregarded
  - Homestead disregarded
  - Resource limit for other countable resources increased to $5000 (initially $1000)

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> Basic eligibility requirements established at initial application (including deprivation of parental care or support) but then reestablished only when a change occurs such as job start, pay raise, etc. No six-month re-evaluations and no grant adjustments. If still eligible after change, grant continues at same level.

> If absent parent returns, eligibility reestablished based on income and new family size but if still income eligible, no effect on case. If client marries stepparent, no effect on eligibility unless at client request.

# DRAFT

2. **Make work pay**

> Compare gross earnings to the Full Standard of Need and then if eligible, grant stays the same as it was. No reduction in amount.

> Will allow client to earn more and retain eligibility.

> Will allow client to make up past bills if any or get a little ahead so that when AFDC is over, family is in better financial shape to deal with the loss of that income.

> If ineligible on earnings, grant is terminated but medical benefits, child care, and some other supportive services continued for up to additional 3 years with client assuming more of the responsibility for these needs throughout the 3 year period. For example, throughout the period at set intervals, the client's share of her child care cost would increase so that by the end of the period, the client is already nearly paying all of the cost herself.

3. **Fraud Determinations**

The program is designed to support those that wish to become independent of the welfare system. The program will offer substantial help and assistance to those who are motivated to get a job and improve the future for themselves and their children. For those that wish to "take advantage" of the system, the penalties will be harsher than they have been in the past. A fraud determination can be made in one of two ways:

- by a court of law
- by an administrative hearing

If a recipient is determined to have committed fraud, the penalties will be as follows:

> first offense - barred from program until money repaid (interest charged at market rate)
> second offense - barred from the program permanently.

# D R A F T

4. **Transitional program from day one**

   All assistance provided under the program, including the cash grant, will be considered transitional benefits with set maximum time periods a family may receive each one.

   a. **Transition 1 - Cash, medical, & employment related services (Two years)**

      > These benefits will be provided for a maximum of two years.

      > This period will begin with the month the family is certified for grant assistance, or the month the family's employability assessment is made, whichever is later.

      > For those who do not become employed or otherwise self-sufficient by the end of this period, eligibility for other assistance programs, e.g. Food Stamps, other categories of Medicaid, etc., will not be affected. However, the family will **not** be eligible for continued cash assistance.

   b. **Transition 2 - Medical, child care & some employment related services (Three years)**

      > For those who become employed during the first two years of the transitional program, medical and child care benefits will be extended for up to three years with the amount of assistance provided decreased over those years. ?

      > Other employment related supportive services will be extended for at least one year.

5. **Extended Medicaid**

   Extended Medicaid will be available to those who become employed during the two year transitional period and who

   > remain employed at the end of the two year period, or

   > become ineligible for cash assistance before the end of the two year period due to income in excess of the 100% need standard.

   The major tenants of this aspect of the program are enumerated below:

   > **Year 1** - Basic Medicaid services (plan that would compare to those offered by most employers). Limited copay but no premium.
   > **Year 2** - Basic Medicaid services, copay, plus premium.
   > **Year 3** - Basic Medicaid services, increased copay, plus increased premium (plan would compare in all respects to plan an employer might offer.)

This program will permit the extended Medicaid benefits to act as an incentive for participants as well as an incentive for employers to hire program participants.

It also will mimic "real life" in that the range of services will be basic in nature (to primarily guard against significant medical expenses) and a copay will be required to help protect against abuse of the services available under the extended program. Also, the cost of the program to the participant will increase over time to a point where the employer's plan may be competitive with our program enticing some to migrate to the employer's plan.

The plan is also simple in that it will not require much maintenance from the standpoint of county offices nor will it present new difficulties for employers.

6. **Increased emphasis on child support enforcement**

In coordination with the Department of Finance & Administration, Child Support Enforcement Unit, child support enforcement activities will be strengthened under the new program. Focus will be placed on -

> Paternity establishments, particularly at birth.

> Soliciting better cooperation from clients in enforcement activities, perhaps using positive reinforcements for cooperation and goal attainment.

> Increasing collections from absent parents.

7. **Intensive employment activities during transitional grant period**

The employment aspect of the program will be the primary aspect of the welfare reform initiative. It is imperative that resources and effort be channeled to employment related activities since the AFDC recipient will have only two years to find a way to permanently support his/her family.

The primary philosophy that was used to construct this aspect of the program and that will serve as a guiding principle for subsequent program decisions is **"the recipient must take personal responsibility for his/her future and the future of his/her children."** It is believed that recipients must take responsibility for their actions and, in order to take advantage of the range of services and benefits offered under this aspect of the new program, they must overtly volunteer for the program. There will be both long-term and short-term incentives to do so and both short-term and long-term disincentives for not doing so.

Since the employment dimension of the program is very critical, more detail is provided for this piece. Several points are enumerated below:

**Employment Related Services.** Delivery of employment related services will be the focus during the two-year transitional grant period. Component activities that will best prepare the recipient for unsubsidized job placement will be utilized. Emphasis will be shifted away from pure educational activities and toward job club, job search, work experience, OJT, and skills training. Education will be utilized when literacy services and a GED can demonstrably assist the individual to obtain employment. Post secondary education (e.g., college) will not be a permitted program activity although recipients may pursue such a goal concurrent with (but not in lieu of) program activities.

**Case Management.** With less emphasis on reestablishing the family's continued eligibility throughout the two-year period, the responsibilities of caseworkers currently allocated to the AFDC eligibility process will be shifted to include case management activities. Instead of subsequent reevaluations of eligibility, counseling sessions will occur focused on progress the participant is making toward planned milestones and employment.

**Positive and Negative Reinforcement.** Positive and negative reinforcement will be utilized to encourage program participation and attainment of goals in the following ways:

> The current Project SUCCESS reimbursement system that encourages long-term payments will be replaced by an incentive-based system.

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> Payments will be made as incentives for participation provided the client meets defined milestones. The payments may be used by participants to arrange transportation and other supportive services. No other direct reimbursements for program related expenditures (other than day care) will be made. The participant will be expected to manage the incentive money in a manner to ensure s/he is able to participate in the program and find employment.

> Incentive payments will be reduced if performance is marginal and they will be discontinued if no progress at all is made. Incentive payments can be reinstated if and when the participant meets the level of progress stipulated by the milestone.

> The cash assistance payment will be reduced at one year if the participant has made no effort to participate. Benefits will be discontinued at 18 months if there has been no evidence of participation plus the recipient will loose entitlement to transitional benefits.

> One-time bonus payments will also be made to clients who accept full-time non-subsidized employment. Larger bonuses may be offered to those who find employment quickly.

**Streamlined Program.** The Project SUCCESS program will be streamlined eliminating onerous federal requirements such as 1) the 20 hour rule, 2) focus on participation, 3) mandatory components, 4) predefined target groups, and 5) cumbersome and low value federal reporting.

Instead, the program will 1) focus on outcomes (employment rather than participation), 2) empower local staff by providing substantial flexibility and autonomy in designing processes they may use to move customers from welfare to employment, 3) provide some services through local contracts, and 4) measure program, county, and staff performance as a function of program outcome goals.

**Funding Mechanisms.** In order to achieve the desired level of effort and to direct sufficient resources to the short term AFDC population, the funding mechanisms will be modified in the following ways:

> Use federal AFDC administrative and program dollars to help fund additional Project SUCCESS efforts.

> Since the focus of the AFDC workers' job role will be diversified (primarily doing PS case management), AFDC administrative monies will be used to support case management activities.

fundamental institutional change requiring [illegible] amount of retraining (cost?)

> Consolidate the State AFDC and Project SUCCESS appropriations to enable complete flexibility of use of program funds toward employment goals for the AFDC population. As funds are saved in AFDC expenditures (grants), more funds will be utilized to move greater numbers of recipients from dependency to employment.

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**Voluntary Program.** The program will focus most resources and assistance on those that want help and assistance transitioning off welfare. Effort, however, will be directed at those who do not volunteer for the program, although the intensity and scope of these activities will be more limited. A brief description of activities to be applied to both of these groups is outlined below:

> **Non-Participants** - A major portion of the initial eligibility interview will focus on explaining the nature of the time limited program, the services and incentives that can be offered, etc. Motivational group activities will be conducted to encourage program participation.

This process will be repeated at minimum every six months for those that have not "volunteered" for program participation. These clients will be counseled and every opportunity will be given for them to ask questions and volunteer for the program. If they do not volunteer, however, they will receive no program services. The idea is that we will spend most of our time and money on those who are both willing and motivated to take advantage of available program services. If a recipient has not volunteered and achieved at least one milestone by the end of the first year, then the assistance grant will be reduced. At the end of 18 months if the recipient has still not volunteered and/or achieved at least one milestone, benefits will be terminated and no transitional benefits will be provided.

> **Volunteers - Program Participants** - The full range of services will be offered this group, including the financial incentives and employment bonus referenced above.

**Teen Parents.** All teen parents who do not already have a high school diploma or equivalency, including those under age 16, will be expected to engage in educational activities. Necessary supportive services will be provided to help ensure the teen's success in those activities.

**Incentive for Exceptional Staff Performance.** An annual financial bonus will be provided to staff who achieve an exceptional level of performance for the year (e.g., exceeds the annual employment outcome goal by 50%)

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8. **Families Exempted From the Two-Year Transitional Period**

There will be a portion of the caseload for whom transition off welfare and into employment may not be possible. These families can be categorized into two groups.

a. **Disabled Parents**

The only parent in a single parent family or, in two-parent families, both parents or the former wage earning parent, is physically or mentally unable to work.

b. **Child Only Cases With Non-Parent Adult Relatives**

The adult caretaker relative of the child(ren) receiving assistance is not the child's parent but is a non-legally liable relative (e.g. grandparent, aunt, uncle) who has taken the child into his/her home to raise in the absence of the parent(s). In some situations, the child has been placed in this relative's home by DCFS as an alternative to foster care placement.

Since only the child or children are receiving assistance in these cases, there will be no adult to work with to transition off welfare and into work.

The above two groups will be exempted from the two-year limit on receiving cash assistance and from the penalty for failure to participate in employment related activities. **These are the only two groups who will be exempted.**

For purposes of determining a disabled parent, Social Security criteria will be used (i.e. must be disabled for at least 12 months) rather than current AFDC criteria (disability expected to last 30 days).

A disabled parent may voluntarily participate in employment activities (e.g. Rehab services) but will not be required to. Also, a teenage child in a child only case may volunteer for employment activities. In either case, though, the two-year limit will still not apply.

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9. **Two-Year Transitional Period Extensions**

The two-year cash assistance period may be extended on a case-by-case basis when the State is unable to provide a necessary employment service, e.g. child care, and the lack of that service precludes the individual from any type of active participation.

In this instance, the two-year period will be extended by one month for each month in which the individual could not participate for at least two full weeks.

10. **Effect of the Transitional Time Limits on Future Eligibility**

**Cash Assistance/Employment Activities.** Each eligible family will be entitled to receive cash assistance with intensive employment activities for a total of two years (24 months).

This two-year transitional period may be 24 consecutive months or may be broken by periods of non-receipt. The total number of months a family may receive cash assistance, though, will not exceed 24 unless the family has **not** received cash assistance for a period of at least four consecutive years. The family may, however, return to the program after four years only if no family member has quit a job. In addition, the range and time period of benefits available to the family will be reduced.

**Medical Benefits and Child Care Assistance.** Each family who ceases to receive cash assistance due to employment reasons will be entitled to receive extended Medicaid and child care assistance for a total of three years (36 months).

This period may run a continuous 36 months or may be interrupted by a return to cash assistance. If a family does return to cash assistance before the end of the three-year extended benefit period, then the family will be entitled to the remainder of the 36 months when the new cash assistance period ends provided the adult is employed at that time.

If a family returns to cash assistance following a period of non-receipt which lasted at least four years, then a new period of extended benefits will be provided.

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**B. Potential Program Impact on Economic Development**

As AFDC savings are realized in future years, consideration should be given to adding program dimensions that will better assist with moving even more recipients into employment. It is anticipated that some problems will be encountered in eastern and south-eastern Arkansas due to lack of available jobs. The ultimate success or failure of the program will be measured against how well we moved recipients into employment. Hopefully, the jury will stay out on this question long enough for us to put the full program in motion and to gain insights from a strict evaluation of the pilot. Even if the pilot is successful, large questions will still loom regarding the effectiveness of such an approach in counties with very high unemployment rates (some of these counties are also counties with high concentrations of AFDC families).

Consideration could be given to plowing short term program savings into additional efforts that will ensure long term program viability. In particular, consideration could be given to special OJT arrangements with employers in some parts of the states (where we would use AFDC funds to pay a significant portion of salaries of recipients for a period of time). More generous arrangements could be set up for new businesses or additional hires for existing companies. Tax incentives, etc., could be utilized as well as a comprehensive economic development effort in some of these counties. It is important to consider an extension of the welfare reform effort to include factors such as job creation and additional incentives to hire recipients.

Our success in the eyes of the public, the legislature, and congress will depend on our ability to take this effort beyond the welfare context, to include the economic development context. We must ensure, when the recipient walks through the vestibule that forms the demarcation between welfare and self-sufficiency, that there is a job waiting on them.

**C. Issues to be Resolved**

**1. Selection of Pilot Counties**

> How many

> Which ones

**2. Determining Program Costs**

> Establishing the three payment level amounts.

> Establishing the recipient incentive and bonus payment amounts.

> Establishing the formula for the staff incentive payment.

> Determining total program and administrative costs.

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## IV. RISKS

The new program as designed is significantly different from our current welfare system. The two main differences are -

1. Eligibility for payment and the amount of payment are not used as deterrents to work but are viewed as a means of support and encouragement to the recipient to achieve full self-sufficiency.

2. The period for which payment may be made to a family is limited rather than open-ended and is not dependent on whether the family has made progress in becoming self-sufficient.

As with any type of change, there are risks. With major changes such as these, the risks also have the potential to be major.

>> **Increased costs.**

The cost of providing assistance and services to the families under the new program will most likely exceed the cost of providing those benefits to families under the current system. However, since assistance will be time limited under the new program, we expect to realize net savings per family in the long run.

Initially, though, we should be prepared for the program to be more expensive than the current one.

>> **Families who are not self-sufficient at the end of the transitional grant period.**

Ideally, every family in the new program will have an employed adult member by the end of the two year transitional grant period. Realistically, though, we know there will be some who will not and who will have no other source of income to pay rent, utilities, etc. How large that number is will be dependent on several factors including the state of the economy and the type of job opportunities available in the community.

The primary factor, though, to success or failure will be the program's ability to work effectively with and motivate each recipient family. If sufficient resources (e.g. staff, financial, etc.) are not committed to the program, we should be prepared for the failure rate to be unacceptably high.

A family's failure to achieve self-sufficiency due to inadequate program resources will be program failures, not recipient failures. The result of a program failure, though, will be the same as a recipient failure.

That is, the family will have no means of financial support which could result in **an increase in homeless families and/or increased foster care placements.**

## V. REWARDS

Although the risks associated with the changes proposed in the new program are significant, so will be the rewards of a successful program. The changes proposed in this program were not designed simply for the sake of change. They are based on a real expectation that both recipient families and the taxpaying public will benefit by them in several ways.

### > Recipients

More families will become employed families under the new program and will leave welfare for employment reasons.

Employed families will become stable in that situation before benefits are totally terminated, resulting in less likelihood that the family will become in need of assistance sometime in the future.

The children in these families will ultimately be raised in a family with at least one working adult, thereby establishing a work ethic in the children rather than a "welfare ethic" and reducing the likelihood that they will become adult welfare recipients.

### > The Public

Tax dollars will be saved in the long run. Although initially the new program may be more expensive than the current one, it will eventually save tax dollars by reducing the amount of time a family receives benefits.

Savings will also be eventually realized in many other tax supported programs as recipients who are successful in the new program increase their earning potential over a period of years and thus reduce their need for other forms of assistance such as Food Stamps, housing assistance, health related programs, etc.

Tax revenues will increase from the taxes which will be paid by the families who become employed through the program. These will be not only income taxes but also sales and property taxes resulting from the increased spending power of the program families.

The public's perception of welfare and welfare recipients will become more positive as the program becomes more of an employment program and less a traditional welfare program.

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## VI. PROGRAM SCOPE

For the reasons listed below, it is recommended that we pilot the program in several selected counties before attempting statewide implementation of it. The pilot should run for five years to adequately assess the effectiveness of the two-year transitional grant period and the additional three-year transitional period in eliminating a family's need for future assistance.

> **Facilitate the required control group aspects of the program.**

Implementation of the program will require federal approval of it as a Section 1115 demonstration project. As such, a control group to whom all current policies apply will be required.

> **Lessen the State's financial liability for the program.**

As a Section 1115 project, we must guarantee cost-neutrality to the federal government over the life of the project, i.e. federal spending across programs (AFDC, Food Stamps, Medicaid, etc.) cannot exceed what would have been spent under current policies. The State must assume all excessive costs. A limited program will lessen the State's financial liability in this regard in the event overall savings per family do not equal or exceed the increased costs.

> **Concerns of potential for success in counties with high unemployment rates.**

Much of the success of the program will be dependent on the available job opportunities within the area in which the family lives. We may be successful in preparing a client for employment and she may be very motivated to go to work at the end of the two year transitional grant period. No amount of job preparation or motivation, though, will place that client in a job which does not exist.

Therefore, it is recommended that we test the concepts of this program in counties which do not have a depressed job market and already high unemployment rates. We think less dependency on the area's job market will provide a better test of the program's concepts.

> **Magnitude of the changes warrant testing on a limited basis.**

Although the rewards of success will be great, the risks of failure will be devastating to the individual families, particularly the children. We do not mean to minimize the impact on even one child in a pilot county who may become homeless or enter the foster care system as the result of the program. However, we believe to place the entire state's AFDC population at risk before testing these concepts would be a grave mistake, both ethically and politically.

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## VII. AUTHORITY FOR PROGRAM

### A. Section 1115 Demonstration Project

The general framework of this program is in direct conflict with many of the AFDC and JOBS requirements specified in federal law (Titles IV-A & IV-F of the Social Security Act) and federal regulations. Therefore, to continue federal funding at the AFDC and JOBS rates, federal approval of the program will be required.

The only authority for federal approval is under Section 1115 of the Social Security Act which allows the Secretary of DHHS to waive sections of the Act or regulations to permit a State to operate a demonstration project.

Two requirements of a Section 1115 project are -

> Experimental design and evaluation.

> Cost-neutrality to the federal government.

### B. Arkansas State Legislative Involvement

Legislative support for our reform concept will be critical for success.

The Division's biennial budget will contain an outline of the proposed reform measures. It is anticipated that additional funding will be required during the first several years of implementation. Later, grant savings will be realized from the time limited feature which can be utilized to offset increased costs for supportive services. Sufficient resources will have to be available to ensure all program participants have the necessary support during the initial two year period to permit them to leave the welfare system permanently.

It is also anticipated that appropriations 897/76 (AFDC) and 898/93 (Project SUCCESS) will need to be consolidated to permit shift of resources during the biennium from the AFDC "grant" program to the Project SUCCESS "employment" program.

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## VIII. DEVELOPMENT OF FORMAL PROJECT PROPOSAL

As a Section 1115 project, the program must be submitted to the federal Department of Health and Human Services for approval in a specific format, including detailed information about the program as specified by DHHS.

The following outlines the milestones which must be reached in the development of the formal project proposal and target dates for reaching each one. These dates are based on a proposed program implementation date of July 1, 1995.

**A. Decision Made to Pursue the New Program (1/15/94)**

> As designed.

> With alterations.

**B. Pilot Counties Chosen (2/15/94)**

**C. Program Concepts Expanded to Program Details (3/1/94)**

> Policies and some procedures.

> Staff needs and other necessary resources.

**D. Determination of Costs and Savings (3/1/94)**

**E. Research (5/15/94)**

> Identification of all sections of law and regulations requiring waivers.

> Other data and information for Narrative and Budget sections of Project Proposal.

**F. Formal Project Proposal Drafted For Comment (5/15/94)**

**G. Final Project Proposal Approved at State Level and Submitted to the Department of Health and Human Services (6/30/94)**

**H. Program Implementation (7/1/95)**

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# WELFARE REFORM PROPOSAL

## ADDENDUM A

**Problem: How to make the program work in economically depressed counties.**

Some counties have historically had high unemployment rates, attract few, if any, new industries, and seldom see existing industries expand. In these counties, preparing and motivating participants for employment is not the total answer. Obviously, the causes of high unemployment, low wages, etc. cannot be solved quickly, indeed, some causes for depressed economic conditions have roots that run very deep and permeate the very economic and political fabric in some parts of the state. It may be possible to cap receipt of welfare benefits in such counties, but such will not affect the numbers of recipients that flow onto the program every year since the economic condition in these counties propel many to apply for benefits. There is also some risk that strict application of the two year cap in such counties could shift the burden of support for AFDC families to the local community, churches, etc. In order to garner support for the proposal we must demonstrate to our client population, local politicians, community leaders, advocates, the state legislature, and the federal government that our total approach is feasible, doable, and potentially effective. We must ensure that our welfare reform program generally improves the lives of those who currently, or who may in the future, receive welfare, otherwise, the program will not succeed.

In order to address these issues, both short and long range objectives must be defined to solve the dilemma created by the two year time limit and limited availability of jobs in some counties. The proposal will require all individuals, non-exempt from the two year time limit, to leave the program at the end of two years without regard to local factors such as unemployment rate, job availability and access, wage rates, etc. Since AFDC benefits will be discontinued at the end of two years, we must ensure that this two year investment in training, incentives, etc. will return dividends through jobs for recipients. This problem will be attacked from two different directions - 1) provide program participants access to jobs elsewhere in the state (short term), and, 2) foster economic development in economically depressed counties (long term).

### Relocation Assistance

In areas of limited job opportunities, assistance to enable a client to relocate his/her family to an area of better job opportunities will be available within certain restrictions.

The goal of relocation assistance will be to enable families to move to another part of the state to obtain employment. However, since there are many ramifications to relocating a family (cost being a primary one), relocation assistance will be limited to those who exhibit a high likelihood for success in obtaining employment and in establishing family stability in the new area.

Relocation assistance will include:

> Cash payments, up to established maximums, to enable a recipient to visit a potential relocation area for the purpose of looking for a

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job and/or arranging housing for the family.

> Cash and/or vendor payments to move the family and its personal belongings (furniture, etc.) to the new area.

> Cash and/or vendor payments to establish the family in housing in the new area (rental deposits, utility deposits, etc.).

> Supportive services to help establish family stability in the new area (counseling, help in enrolling children in school, if needed, etc.).

Relocation assistance for a family will require approval at a higher level. The Case Manager will recommend a family for relocation assistance on a case-by-case basis, taking into account factors such as the following:

> The education and skills of the adult in relation to the available job opportunities in the new area.

> The adult's motivational level and attitude towards relocation.

> Available transportation to ensure the client can get around the new area to find employment and keep a job, once found. (This could be either the client's own transportation or the availability of public transportation in the potential relocation area.)

> Social factors which could affect the family's desire to remain in the new area, such as strong family ties in the original area, involvement of the children in school or other social activities in the original area, etc.

Relocation assistance will be available at any time during the two-year cash assistance period but should preferably be provided and the family relocated by month 18. This should allow time for the family to become established in the new area by the time cash assistance is terminated at the end of 24 months.

**Economic Development**

To further encourage economic development in parts of the state that will be impacted most by welfare reform will require good ideas, support of the legislature, cooperation of other state agencies, and money. There are a number of things that can be done to entice new businesses to come to Arkansas, to encourage expansion of existing businesses, and to create new businesses/industries. Much is already being done to attract new businesses to Arkansas. Additional financial incentives could be made available for businesses that locate in high unemployment counties or that expand the number of jobs available. Examples of such incentives are:

> Additional corporate tax breaks for companies that locate or expand in such counties and that hire some percent of their new or expanded labor force from current or former AFDC recipients.

> Discounts for energy or other cost intensive commodity subject to state regulation, again for companies/businesses that hire current or former recipients.

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> Training of new employees, or employees making up a workforce expansion, could be offered through our vo-techs or community colleges.

> Federal Targeted Jobs Tax Credits (TJTC) would be emphasized, in addition, development and implementation of a "state" TJTC program could further encourage hiring.

> On-the-Job Training (OJT), where we pay part of salary for a period of time, could be provided as an employee specific financial incentive above and beyond other incentives offered.

It will, however, take more than these incentives to solve the problem. We can entice businesses to locate or expand in these sections of the state, but in addition, it will be essential to foster creation of new businesses and jobs. To address this need a significant effort must be undertaken to develop entrepreneur efforts in these parts of the state. Such efforts will include:

> Expand availability of such programs as the Good Faith Fund, the Human Development Corporation Entrepreneauship program, etc., which are already engaged in entrepreneur development in the delta area and are specifically working with AFDC recipients.

> Expand or create additional new business incubator projects that could support AFDC recipients who have or are developing a business plan.

> Make grants and low interest loans available to those participants in approved entrepreneurship programs, especially those that have the potential to create additional jobs.

> Establish and maintain a viable monitoring capability that will link those that are starting, or who wish to start, a new business with someone in the community that has a successful business.

It will be critical that several state and federal agencies be involved, indeed, perhaps take the lead in efforts to encourage and support the efforts described above. For the relocation effort, it will be critical that the Employment Security Division be directly involved in helping to find a job for recipients that choose to move. HUD will also need to be involved in this effort. It will be essential that the job seeker, e.g., in Chicot county, have access to job openings and available housing for other parts of the state. ESD has a state wide job bank and such information could be invaluable to those seeking employment in other parts of the state. Also, AIDC will need to vigorously assist with efforts to expand the jobs base in some of the economically depressed counties selected for the project. Also, some legislation may be needed to further expand incentives, tax credits, etc.

Funds needed for these efforts could come from AFDC savings. AFDC grant savings will begin to accrue in the third year after implementation. The savings (federal and state) can be used to fund employment incentives, OJT, expansion of entrepreneurship programs, and other employment related participant expenditures. The general revenue portion of the savings can be used to fund tax breaks and rebates, TJTC, energy discounts and rebates, etc. Since savings will not begin to accrue until the third year, some way will have to be devised to invest in some of the above efforts in the second year. This will ensure the current caseload will have support from these initiatives during their two year period.

The above constitutes our preliminary thinking regarding how to solve this problem.

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