State Human
Service Secretary’s
Innovation Group

Secretary’s Innovation Group
Chicago Work Session
August 19-20, 2012

Florida Community Based Care

Key Elements of Success

Key Elements of Community Based Care

- Accountability
- Transparency
- Flexibility
- Competition
- Risk: Program + Financial

Accountability

- Clear outcome expectations listed in the contract and measured by statewide QA tools
- Statewide “Scorecard” published monthly on publicly accessible website
- Community focused outcomes negotiated based on good algorithms and good data
- Local ownership
- National Accreditation required

Transparency

- Local community leaders
- Published outcomes
- Multiple state and national reviews
- All contract documents, reviews, QA reports, financial statements available to press & general public

Flexibility

- Systems of Care designed and overseen by local communities
- IV E Waiver
- Local flexibility in subcontracts

Competition

- Contracts open for bid
- Subcontracts also bid

Challenges

- Liability
- Invest in outcomes with financial incentives aligned
- Balance consistency and flexibility
- Coordinate various funding streams and programs (behavioral health, health, developmental disabilities and juvenile justice) & hold all systems accountable
- Public data
- Funding Equity among districts should be addressed up-front
- Risk Must Be Real = Possibility of Failure: handling failure safely requires advance planning

Support Material

- System Design graphic
- Statute
- Business Process

EXECUTIVE SUMMARY

Each state's child welfare system typically operates out of the public eye unless a tragedy, often the death a child, pulls the system from the shadows to the front page. It should not be this way. Protecting children from abuse and neglect is a fundamental responsibility of a civil society.

Yet, the average American, and even most policymakers and members of the media, has little understanding of how their state's child welfare system performs. The annual RIGHT FOR KIDS RANKING provides the hard facts about how well states are serving vulnerable kids. The RIGHT FOR KIDS RANKING and the companion RightForKids.org Web site answers basic questions like:

- Which states are doing the best job overall in serving children who are abused and neglected?

And more focused questions like:

- Which states are best serving teenagers in foster care by helping them move on to permanency and stability?

The 2012 RIGHT FOR KIDS RANKING shows which states are best and worst at this tough but critical job, using a methodology that scores all states in 11 key outcome areas and 41 different data measures. This comprehensive list is the first of its kind.

The five major findings from this year's RIGHT FOR KIDS RANKING are:

1. Only 11 states have a 24-hour rapid response to investigate claims of abuse or neglect.
2. Only 12 states visit the vast majority of foster kids monthly.
3. Only 9 states quickly and safely return foster children home to their biological families when possible.
4. Only 9 states ensure short and stable stays in foster care as general practice.
5. Only 11 states help find forever families ASAP for a large share of foster children.

Americans, most importantly abused and neglected kids, pay a significant price as a result of some states doing a much worse job than others. What if all states performed at the level of the Top 10 Right for Kids States? If that happened:

1. There would be 72,000 fewer kids in foster care (17% fewer).
2. There would be almost 19,000 more adoptions from foster care each year (36% more).

Helping kids is not just good social policy. It is good economic policy as well. Child abuse and neglect costs more than $100 billion every year in direct ($33 billion) and indirect ($71 billion) costs.

This annual ranking is a reality check on how well each state is serving the most vulnerable children, and celebrates top performing states overall and in specific outcome areas. These bright spots can lead by example, and highlight successful public policies, funding structures, and leadership to best serve kids. Understanding why a state ranks where it does is the first step toward positive, pro-active reforms. Learn more about how your state performs by reading this report and state specific profiles at RightForKids.org

DOING RIGHT FOR KIDS – GOOD SOCIAL POLICY, GOOD ECONOMIC POLICY

It happens. Children in America die from abuse and neglect. It happens 1,770 times a year–almost five times every day.[1] When these tragedies occur questions are asked and fingers are pointed. The state's child welfare system becomes front page news. Such tragedies rightly force the media, policymakers and the public to ask tough questions about how well a state's child welfare system protects kids, reduces abuse, supports families, and moves abused kids to safe and permanent families and ultimately toward a better life.

A child should not have to die to force these questions.

Policymakers, child advocates, the media and the public have a right to know:

- Which states are doing the best job overall in serving children who are abused and neglected?
- Which states are quickest to investigate allegations of abuse?
- Which states are best at reducing the amount of time children spend in foster care?
- Which states have increased the number of children moving from foster care to adoptive families?
- Which states are best at supporting foster children safely returning back to their biological families?
- Which states are best at serving teenagers in care by helping them move on to permanency and stability?
- Which states are reducing the number of foster homes that kids in foster care are placed into?
- Which states are reducing the rate of child abuse and neglect?

Simply put, a top performing child welfare system should respond quickly to allegations of abuse, ensure that kids who are abused are transitioned to a safe and permanent home as quickly as possible (whether through successful reunification or adoption), guarantee that children in out-of-home placements are in safe and supportive home-like settings (foster care or kinship care) with as few placements as possible, and reduce the overall incidence of abuse and, subsequently, the number of children in need of foster care.

The Foundation for Government Accountability publishes the RIGHT FOR KIDS RANKING to comprehensively and holistically rate the child welfare systems of all 50 states and the District of Columbia. This annual ranking is the first of its kind. It measures each state's job performance in serving the most vulnerable kids, and identifies the leader states we can look to for inspiration and advice.

Helping kids is not just good social policy. It is good economic policy as well. Child abuse and neglect costs more than $100 billion every year in direct ($33 billion) and indirect ($71 billion) costs.[2] According to numerous studies, abused and neglected children are more likely to experience the following during their lifetime: poor physical health, poor emotional health, social difficulties, cognitive dysfunction, high-risk health behaviors, and behavioral problems.

The direct costs of child abuse and neglect are more obvious: hospitalization from abuse ($6.6 billion), mental health services ($1 billion), child welfare services ($25.4 billion), and law enforcement ($33 million). But there are also several indirect costs of child abuse and neglect: special education ($2.4 billion), juvenile delinquency ($7.2 billion), mental health and health care ($67 million), adult criminal justice spending ($28 billion), and lost productivity ($33 billion). This total cost is eight times greater than the total $12.6 billion reported state and federal Title IV-E spending for Foster Care ($8.4 billion) and Adoption Assistance ($4.1 billion) in fiscal year 2010.[3]

What is immeasurable is the cost to the life of the abused child. As a society, we need to reduce the incidence of child abuse and neglect and improve outcomes in state child welfare systems–not because it is good fiscal policy, but first and foremost because it is the right and just thing to do in a civil society.

FIVE KEY FINDINGS FROM THE 2012 RIGHT FOR KIDS RANKING

1. Only 11 states have a 24-hour rapid response to investigate claims of abuse or neglect.

The average time between receiving a report of abuse or neglect and launching an investigation is less than 24 hours in the following 11 states: Colorado, District of Columbia, Florida, Illinois, Iowa, Nevada, New Hampshire, New Jersey, New York, Tennessee and Wyoming. Unbelievably, 13 states take longer than 120 hours (5 days) to respond. For a vulnerable child, this could mean another five days of abuse because of bureaucratic delay. It could also mean the difference between life and death.

2. Only 12 states visit the vast majority of foster kids monthly.

Caseworker visits are critical to ensure the safety of the child in foster care and to support the foster parents serving the child. 12 states prioritize foster family accountability and safety with monthly visits to at least 85% of foster children. They are: Florida, Georgia, Idaho, Indiana, Kansas, Louisiana, Maine, New Mexico, Pennsylvania, South Carolina, South Dakota, and Utah.

3. Only 9 states quickly and safely return foster children home to their biological families when possible.

- Just 13 states, on average, reunify foster children with their biological families within 12 months. Too many states take too long to reunify, even though reunification is in the best interest of the children. In these states kids languish in foster care likely longer than they need.
- 38 states, on average, have fewer than 15% (about 1 in 7) of reunified foster children re-enter foster care within 12 months (presumably because of continued abuse and neglect). Most reunifications are successful.
- Only 9 states accomplish both – fewer than 12 months on average to reunify with an 85%+ success rate. These states are: Arkansas, Florida, Idaho, Indiana, Mississippi, Nebraska, Tennessee, Utah, and Wyoming.

4. Only 9 states ensure short and stable stays in foster care as a general practice.

- Only 14 states have children remain in foster care 12 months or less, on average.
- 27 states have 85% or more of children in foster care less than 12 months and in a maximum of two different foster homes (or placements). Such moves can be traumatic for the child, often forcing a change of school and leaving friends and community support.
- Only 9 states accomplish both–have foster children remain in care a year or less and ensure they do not experience the trauma of multiple moves. These states are: Arizona, Florida, Idaho, Indiana, Iowa, Minnesota, Nebraska, West Virginia, and Wyoming.

5. Only 11 states help find forever families ASAP for a large share of foster children.

- When a foster child is successfully adopted into a forever family, he or she has often been in the child welfare system a long time. Just 28 states, on average, take less than 30 months to move a child from an abusive biological home through the foster care system and into a safe, permanent adoptive family. This means just over half the states take less than two and one half years to move a child from abuse and uncertainty to safety and stability. Only four states accomplish this in less than 24 months: Colorado, Iowa, Utah, and Vermont.
- Just 18 states, in 2010, had 15% of foster children (about 1 in 7) adopted.
- Only 11 states accomplish both–less than 30 months on average to move a foster child to an adoptive home, and a large number of adoptions as a share of the number of kids in foster care. These states are: Arizona, Arkansas, Florida, Idaho, Maine, New Mexico, North Carolina, Texas, Utah, Vermont, and Wyoming.

THE BEST AND WORST – WHICH STATES ARE RIGHT FOR KIDS?

Which states are the leaders and which fall short when it comes to helping children who are abused or neglected? Below is the listing of the 10 Best and 10 Worst states for kids.

Look closely at the list. There is no apparent size, geography, relative wealth, or ethnic profile of a top performing state. The list is diverse. What matters is not the physical characteristics of a state, but how states act and what programs and policies they have.

Any state can be a top performer. That's good news for policymakers and great news for kids who are abused and neglected.

TOP 10 *RIGHT* FOR KIDS STATES

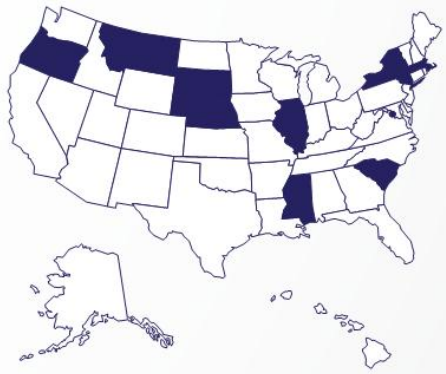
(with score, out of 110 points)

1. Idaho (78.9)
2. New Hampshire (73.6)
3. North Carolina (73.1)
4. Florida (70.9)
5. New Jersey (70.7)
6. Arizona (70.3)
7. Colorado (69.6)
8. North Dakota (68.9)
9. Hawaii (68.2)
10. Tennessee (66.7)

BOTTOM 10 *WRONG* FOR KIDS STATES

(with score, out of 110 points)

42. South Carolina (55.3)
43. Mississippi (55.3)
44. Nebraska (53.5)
45. New York (53.4)
46. Montana (52.6)
47. South Dakota (51)
48. Illinois (50)
49. Oregon (48.9)
50. Massachusetts (42.3)
51. District of Columbia (40.9)



WHAT IF ALL STATES PERFORMED LIKE THE TOP 10 RIGHT FOR KIDS STATES?

The notion of all states having a high-performing child welfare system is not policy utopia. In fact, as data in this report and on RightForKids.org shows, over a relatively short period of time states can and do dramatically improve or worsen their performance in protecting and serving kids who are abused and neglected.

So what would it mean if all states were to perform as well as the Top 10 Right For Kids States? What if the rest of the states had, on average, the same outcomes as the Top 10 states?

1. There would be 72,000 fewer kids in foster care (17% fewer)
2. There would be almost 19,000 more adoptions from foster care each year (36% more)

The RIGHT FOR KIDS RANKING matters. Child advocates, families, voters, policymakers and the media must encourage states to reform their child welfare systems and develop a child welfare safety net that serves abused and neglected kids well. When this happens, a compassionate and premier child welfare network across the country will be the reality, not just an ideal.

2012 RIGHT FOR KIDS RANKING

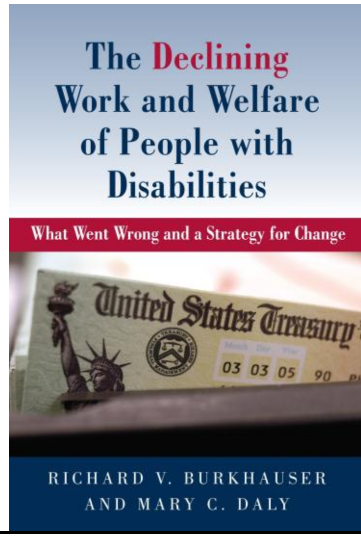
The 2012 RIGHT FOR KIDS RANKING is based on the most recent data available–mostly from 2010–and factors a state's change in performance over time, from 2007 to 2010.

2012 RANKINGS - ALPHABETICAL

STATE	SCORE	RANK
Alabama	58.8	33
Alaska	56.6	40
Arizona	70.3	6
Arkansas	57.8	37
California	56.4	41
Colorado	69.6	7
Connecticut	57.9	36
Delaware	57.3	38
District of Columbia	40.9	51
Florida	70.9	4
Georgia	66.1	12
Hawaii	68.2	9
Idaho	78.9	1
Illinois	50	48
Indiana	62.9	24
Iowa	64.6	15
Kansas	61.4	30
Kentucky	62.9	23
Louisiana	61.5	29
Maine	62.7	25
Maryland	58.4	34
Massachusetts	42.3	50
Michigan	63.1	22
Minnesota	63.4	21
Mississippi	55.3	43
Missouri	62.4	26
Montana	52.6	46
Nebraska	53.5	44
Nevada	61.8	28
New Hampshire	73.6	2
New Jersey	70.7	5
New Mexico	64.4	18
New York	53.4	45
North Carolina	73.1	3
North Dakota	68.9	8
Ohio	65.8	13
Oklahoma	60.1	31
Oregon	48.9	49
Pennsylvania	64.5	16
Rhode Island	58	35
South Carolina	55.3	42
South Dakota	51	47
Tennessee	66.7	10
Texas	58.9	32
Utah	63.9	20
Vermont	56.9	39
Virginia	62.1	27
Washington	64.1	19
West Virginia	65.4	14
Wisconsin	64.5	17
Wyoming	66.5	11

2012 RANKINGS - BEST TO WORST

STATE	SCORE	RANK
Idaho	78.9	1
New Hampshire	73.6	2
North Carolina	73.1	3
Florida	70.9	4
New Jersey	70.7	5
Arizona	70.3	6
Colorado	69.6	7
North Dakota	68.9	8
Hawaii	68.2	9
Tennessee	66.7	10
Wyoming	66.5	11
Georgia	66.1	12
Ohio	65.8	13
West Virginia	65.4	14
Iowa	64.6	15
Pennsylvania	64.5	16
Wisconsin	64.5	17
New Mexico	64.4	18
Washington	64.1	19
Utah	63.9	20
Minnesota	63.4	21
Michigan	63.1	22
Kentucky	62.9	23
Indiana	62.9	24
Maine	62.7	25
Missouri	62.4	26
Virginia	62.1	27
Nevada	61.8	28
Louisiana	61.5	29
Kansas	61.4	30
Oklahoma	60.1	31
Texas	58.9	32
Alabama	58.8	33
Maryland	58.4	34
Rhode Island	58	35
Connecticut	57.9	36
Arkansas	57.8	37
Delaware	57.3	38
Vermont	56.9	39
Alaska	56.6	40
California	56.4	41
South Carolina	55.3	42
Mississippi	55.3	43
Nebraska	53.5	44
New York	53.4	45
Montana	52.6	46
South Dakota	51	47
Illinois	50	48
Oregon	48.9	49
Massachusetts	42.3	50
District of Columbia	40.9	51



Motivation for the book

U.S. Disability Policy: goals and outcomes

- **Americans with Disabilities Act of 1990: people with disabilities can and will work if given the opportunity**
- **Reality: An increasing share of working age people with disabilities are on SSDI/SSI and not working**

What happened?

- **SSDI and SSI policy mission creep—They have increasingly become expanded unemployment and more general welfare programs that discourage work.**

Change is possible

- **Policy induced outcome so policy induced changes —U.S. welfare (TANF) and Dutch disability reforms**

Can people with disability work?

- Impairments and work limitations matter
- Social environment also matters (accommodation, rehabilitation, public policy)
- SSDI payroll taxes discourage firms from investing in return to work and easing eligibility standards encourage applications for benefits and reduce work of those accepted.
- SSI discourages States from investing in return to work for poor single mothers and the movement into work of their children with disabilities once they age out of the SSI-children program

Employment Down, Benefits Up

Table I-1. Employment and SSDI/SSI Receipt among Population Reporting Work Limitation

Year	Work Limitation Prevalence	Employed more than 200 Hours Last Year	SSDI/SSI Receipt
1981	7.3%	35.2%	32.6%
2010	7.8%	22.6%	51.4%

Note: Sample limited to civilian noninstitutional population age 25–59.
Source: Authors' calculations using March Current Population Survey data.

Hard to Determine SSDI Eligibility

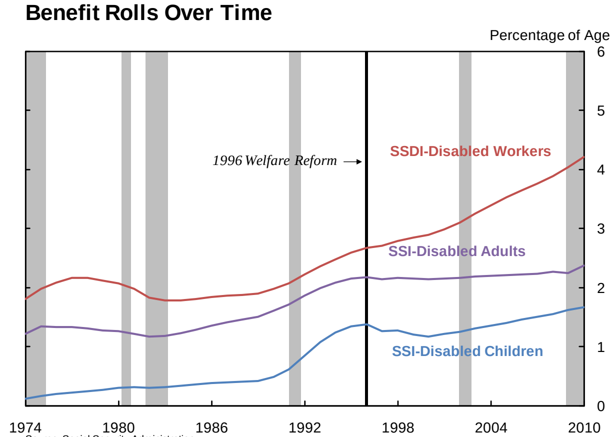
- 23 percent of applicants are marginal entrant
- SSDI acceptance causes a 21 percentage point fall in employment vs. SSDI rejected control group
- Marginal treatment effects vary:

-- least severely impaired (60 percentage point fall)
-- most severely impaired (10 percentage point fall)

Maestes, Mullen, and Strand (2011) RAND Study
Maestes (March 2012 Ways and Means Testimony)

Rapid Growth in Disability Rolls

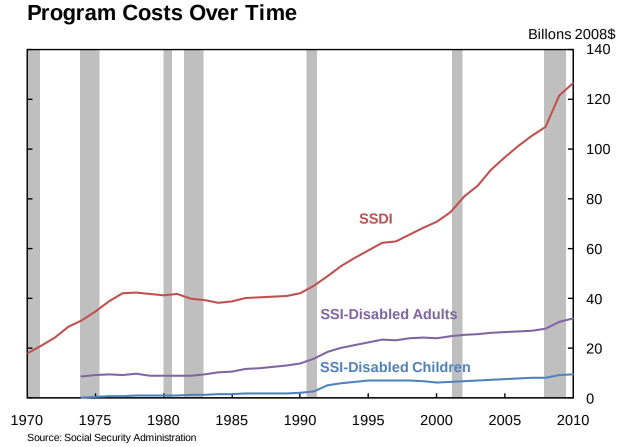
Benefit Rolls Over Time



Source: Social Security Administration

Unsustainable Increase in Costs

Program Costs Over Time

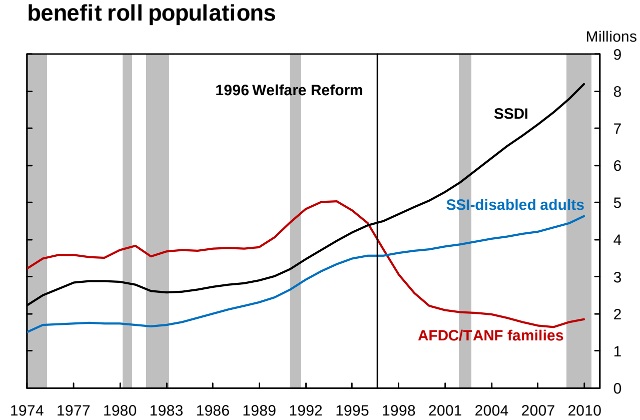


What has been happening to the economic welfare of people with disabilities?

A look at the data

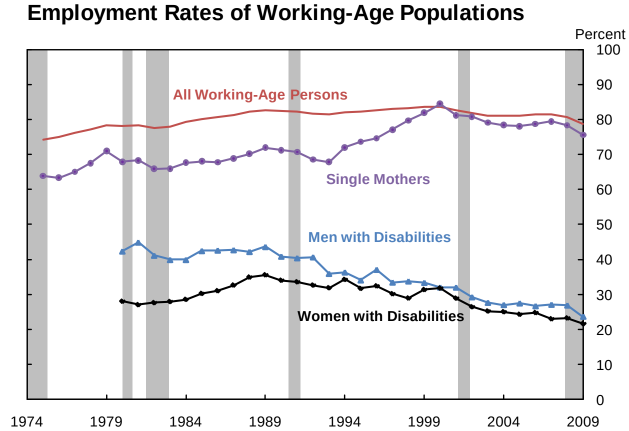
Disability rolls up, TANF rolls down

SSDI, SSI-disabled adults, and AFDC/TANF benefit roll populations



Employment rates down

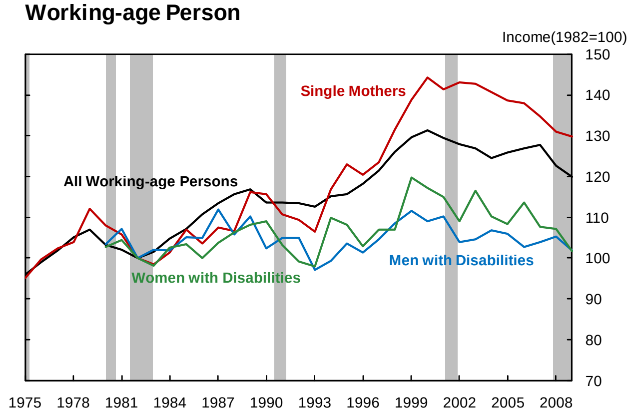
Employment Rates of Working-Age Populations



Source: Authors' calculations using March CPS data

Post-welfare reform income path

Changes in Income of the Median Vulnerable Working-age Person



Source: Authors' calculations using March CPS data

Is this a satisfactory outcome?

Answer depends on the factors driving benefit growth:

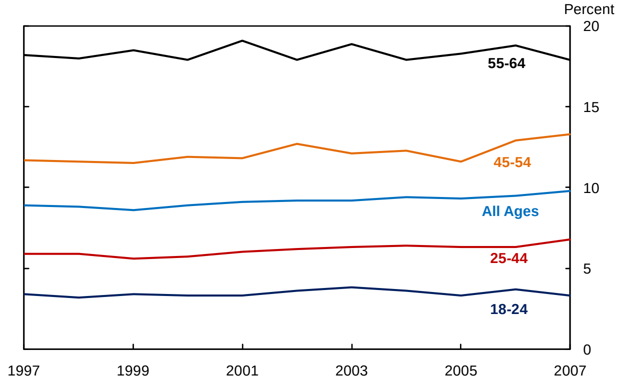
Health driven disability epidemic

or

Policy driven disability epidemic

Health status: relatively constant

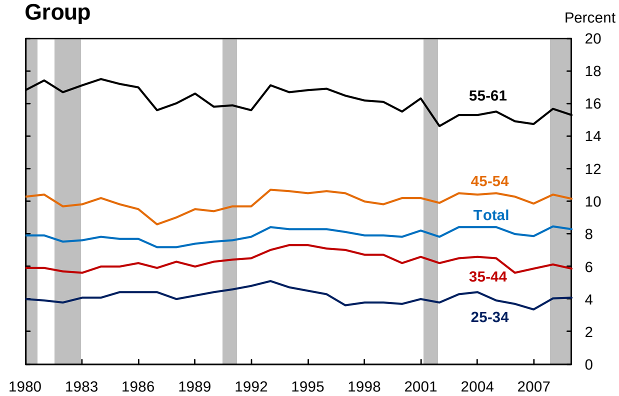
Panel A Percent Reporting Fair or Poor Health, by Age Group



Source: Centers for Disease Control and Prevention, National Center for Health Statistics, National Health Interview Survey.

Work limitations: relatively constant

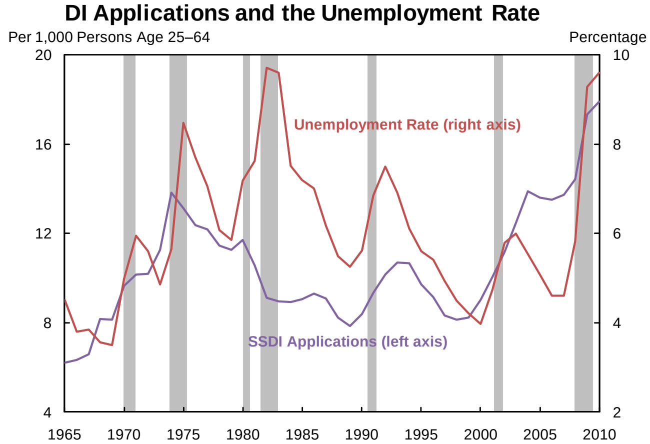
Panel B Prevalence of Work Limitation, by Age Group



Source: Table 5 from Houtenville et al (forthcoming)

Applications: moving with economy

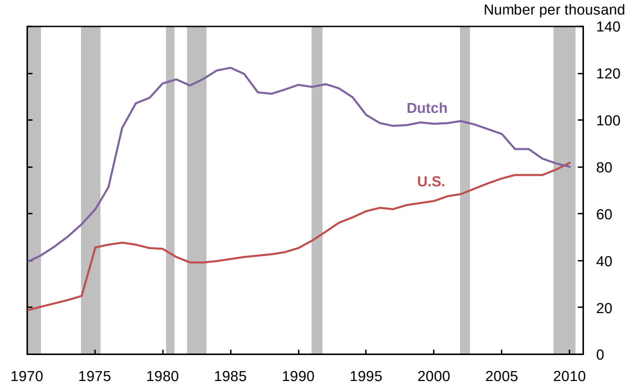
DI Applications and the Unemployment Rate



Source: SSA, Census Bureau, and Bureau of Labor Statistics

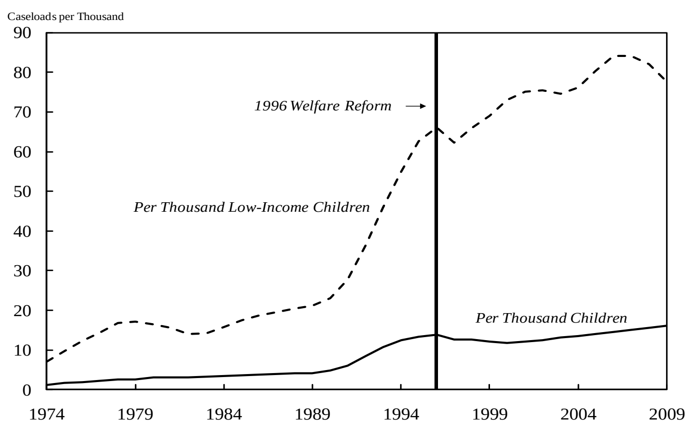
Post-disability reform caseload path

U.S. DI/SSI and Dutch Disability Beneficiaries per 1000 Workers Ages 15-64



Sources: Dutch data from Central Planbureau (CPB), UWV (National Social Insurance Institute), SSA, ILO

Rise in poor children on SSI-Child



Trends suggests policy driven

Evidence of policy influence

- **Variation in state allowance rates (*Wall Street Journal*)**
- **Private employers/insurance agents assisting their disabled workers onto the SSDI rolls (*New York Times*)**
- **State's assisting single mothers with disabled children onto the SSI rolls (*Boston Globe*)**
- **SSDI/SSI awards to mental & musculoskeletal growing**
- **Growing number meeting lower vocational criteria**
- **Growing number only qualifying at the ALJ stage**
- **Maestes, Mullen, and Strand (2011): 23 percent by chance.**

Fundamental SSI Reforms Necessary

SSI is primarily a welfare program

- Little difference between poor single mother TANF pop. and poor primarily single mother with disabled children population

Use experience of TANF pro-work reforms to reform SSI

- Unify welfare policy at the state level and end state cost shifting of poor with disabilities by devolving SSI to the states
- Focus on returning able bodied parents to work and providing necessary accommodations for disabled children
- Allow states and other agents to experiment and innovate as in pre-welfare reform trials—disabled workers earnings tax credit, childcare, etc.

Fundamental SSDI Reforms Necessary

- SSDI was intended as a “last resort” income transfer program that is increasingly being used as a long term unemployment program for people who could work (23 percent of new beneficiaries are there by chance)
- Bend the cost curve of SSDI by experience rating SSDI payroll taxes (based on Dutch experience this will significantly increase accommodation and rehabilitation of workers and slow their movement onto the long term SSDI rolls).
- By linking employer premiums (taxes) more directly to actual firm/worker outcomes, it rewards firms with lower than average use of SSDI and punishes firms with higher than average use of SSDI.

SSDI and SSI Determinations at the ALJ Level

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Dean and Professor of Law
IIT Chicago-Kent College of Law
August 2012

Snapshot

- 700,000 hearings annually at ALJ level
  - No agency representative at hearings
  - ALJs not write own decisions
- 1,400 ALJs
- Grant rate ≈ 60%
- ALJ soft target 550 cases annually
- 120,000 appeals to Appeals Council (70 administrative appeals judges)

Challenges

- Delays
  - One year for ALJ hearing
  - One year for Appeals Council hearing
- Inconsistencies
  - Variation in grant rates in same office
  - 10% to 90% allowance rates
- Likely Overpayments
  - Problem of outdated grids
  - ALJ reaction to increased caseloads
  - Small town bias?
  - Substitution for unemployment benefits

Suggestions for Reform

- Government Representatives at Hearings
  - Check on ALJ
  - More focused presentation of evidence
  - Additional expense
  - Delays continue
- Create New Disability Court
  - Judges with expertise
  - Not overburden federal courts
  - Perhaps eliminate Appeals Council
  - Delays continue and cost may rise

Suggestions for Reform (cont'd)

- Merge ALJ with DDS system
  - Expedite decision-making
  - Possible reentry into workforce
  - Due process requires some form of hearing
  - Should delay initial decision, but expedite final agency decision
  - Appellate review in some form needed

Suggestions for Reform (cont'd)

- Alter System Internally
  - Encourage greater use of video
    - Faster, cheaper, no small town bias
  - Mandate pre-hearing brief
    - Focus issues for resolution
    - Encourage settlement for first time
  - Provide ALJs incentives to be more careful
    - Keep quotas in check
    - Make more responsible for written product
  - Introduce concept of temporary disability
    - Possibly combine with vocational training

Implications of the New Poverty Measure

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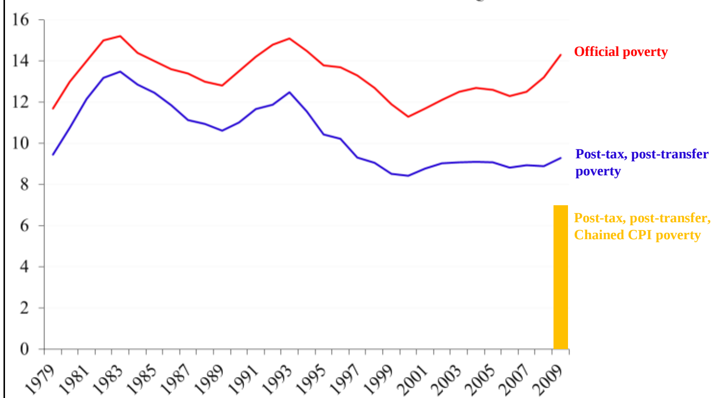
University of Maryland
and
The Atlantic Council of the United States
August 19, 2012

Government Assistance Reduces Official Poverty



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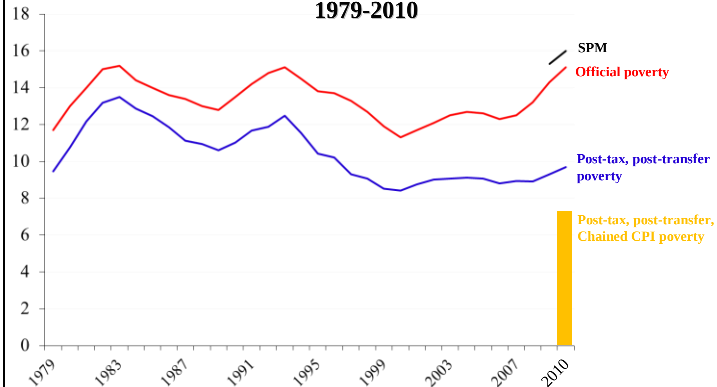
Poverty Rates using Official and Alternative Poverty Measures

1979-2010



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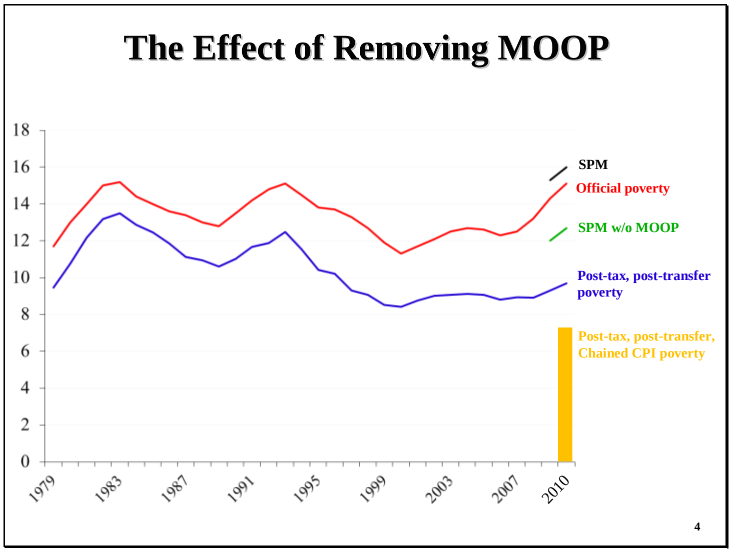
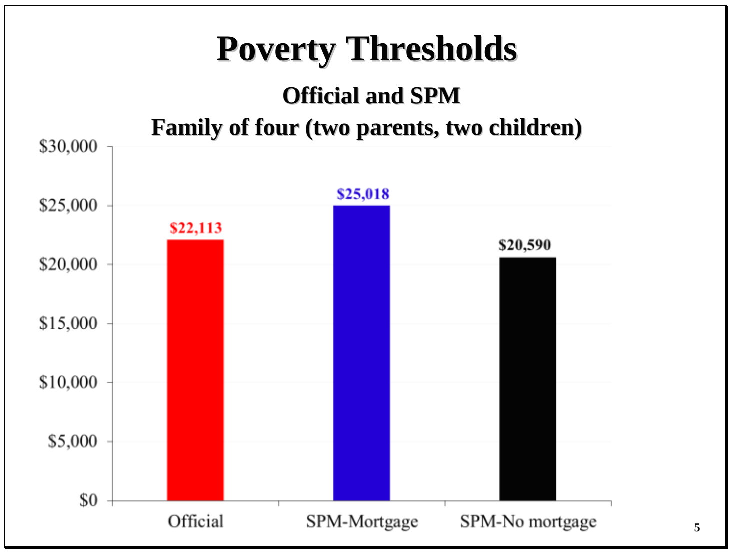
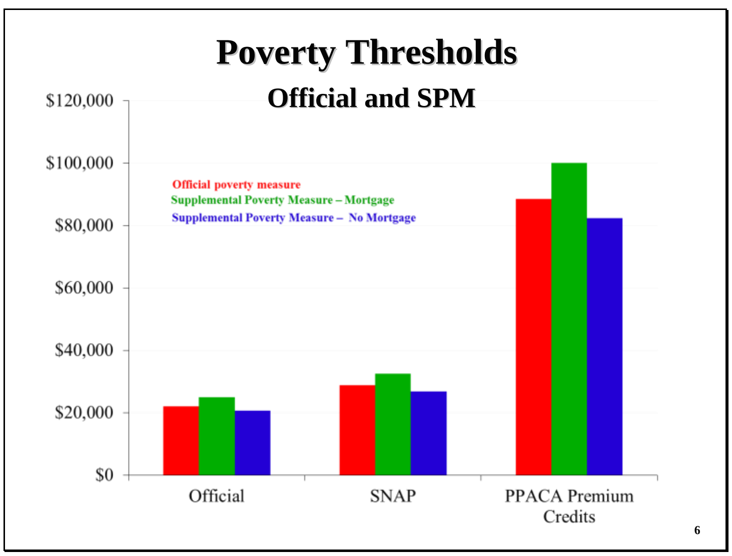
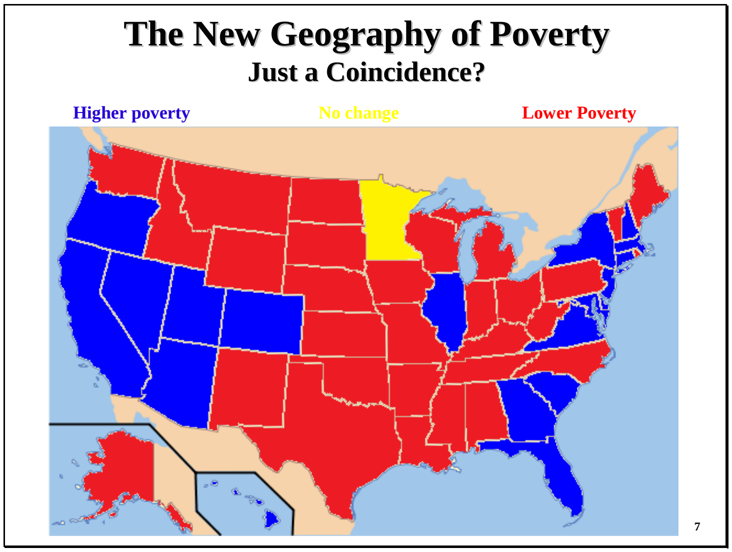

The Effect of Removing MOOP
18
16
14
12
10
8
6
4
2
0
1979
1983
1987
1991
1995
1999
2003
2007
2010
SPM
Official poverty
SPM w/o MOOP
Post-tax, post-transfer poverty
Post-tax, post-transfer, Chained CPI poverty
4


Poverty Thresholds
Official and SPM
Family of four (two parents, two children)
$30,000
$25,000
$20,000
$15,000
$10,000
$5,000
$0
$22,113
$25,018
$20,590
Official
SPM-Mortgage
SPM-No mortgage
5


Poverty Thresholds
Official and SPM
$120,000
$100,000
$80,000
$60,000
$40,000
$20,000
$0
Official poverty measure
Supplemental Poverty Measure – Mortgage
Supplemental Poverty Measure – No Mortgage
Official
SNAP
PPACA Premium Credits
6

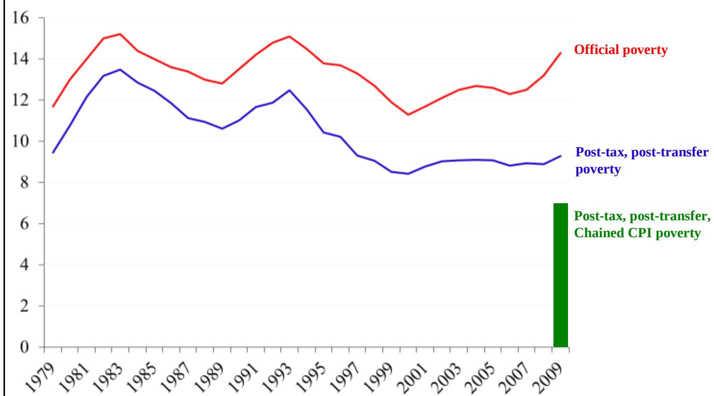

The New Geography of Poverty
Just a Coincidence?
Higher poverty
No change
Lower Poverty
7

The Political Consequences of *Re*-Defining Poverty

Douglas J. Besharov

School of Public Policy
University of Maryland
The Atlantic Council
September 21, 2011

Government Assistance Reduces Official Poverty



2

The New Poverty Numbers
To be Released in Late October

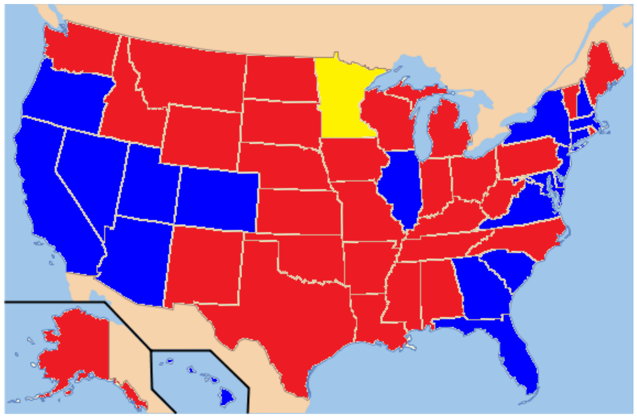
	Official poverty measure	Supplemental Poverty Measure	Percent Difference
Total	15.1	16.6	+10
Age			
0-17	22.0	19.2	-8.2
18-64	13.7	15.7	+14.6
65+	9.0	15.7	+74.4
Foreign-born	19.9	27.0	+35.7
Race/Ethnicity			
White	9.9	11.2	+13.1
Black	27.4	25.6	-6.6
Hispanic	26.6	29.9	+12.4
Geography			
California	15.5	23.0	+48.3
Florida	14.6	20.0	+37.0
New York	15.9	18.1	+13.8
Mississippi	23.2	17.6	-19.8
West Virginia	16.0	11.8	-26.3
Residence			
Urban	19.7	21.3	+8.1
Suburban	11.8	14.3	+21.2
Rural	16.5	14.0	-7.0

3

The New Geography of Poverty

Just a Coincidence?

Higher poverty — No change — Lower Poverty



4

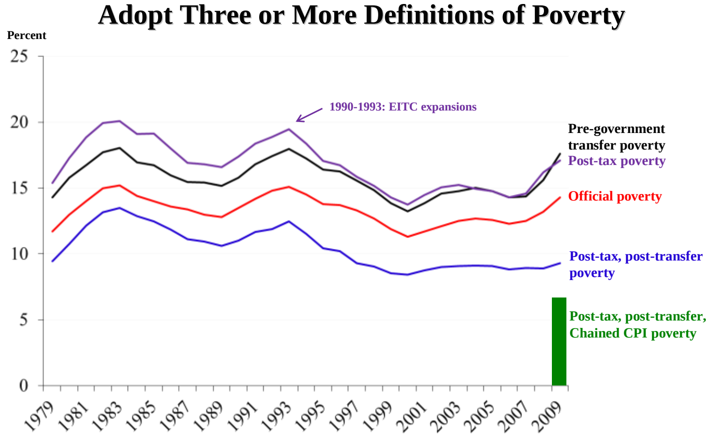
How Counting More Government Assistance Raises Poverty (2010)

	UMD Adjustment	SPM
1. Count more but not all government assistance	9.6 percent	9.6 percent
2. But don't count Medicare, Medicaid, or child care	8.0 percent	---
3. Or a better inflation adjustment	6.2 percent	---
4. And don't correct for underreporting	5.0 percent (partial correction)	---
5. Then raise the threshold from $21,756 to $23,854	5.0 percent	?
6. Subtract work expenses (transportation and child care)	6.0 percent	13.2 percent
7. And, finally, subtract out-of-pocket medical expenses	6.8 percent	16.6 percent

5

A More Transparent Approach

Adopt Three or More Definitions of Poverty



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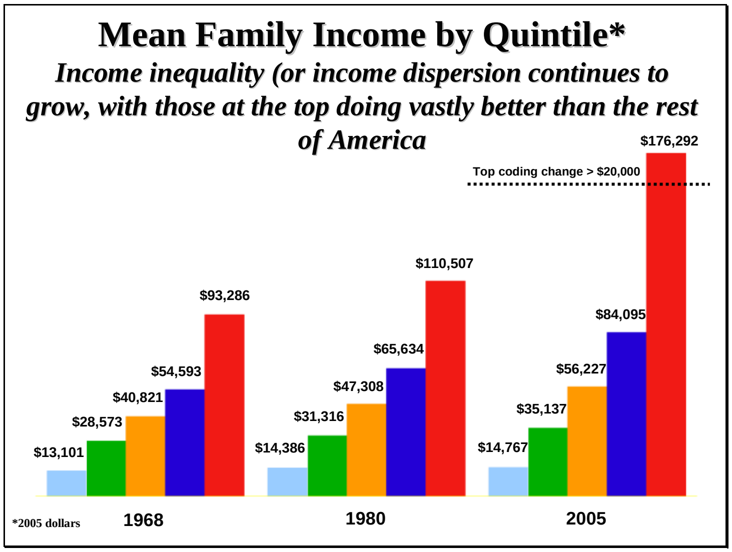
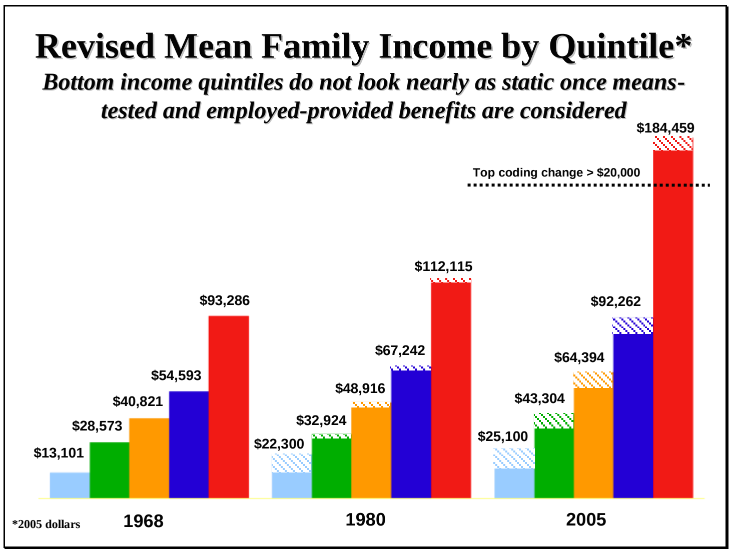

Mean Family Income by Quintile*
Income inequality (or income dispersion continues to grow, with those at the top doing vastly better than the rest of America
Top coding change > $20,000
$13,101
$28,573
$40,821
$54,593
$93,286
$14,386
$31,316
$47,308
$65,634
$110,507
$14,767
$35,137
$56,227
$84,095
$176,292
1968
1980
2005
*2005 dollars


Revised Mean Family Income by Quintile*
Bottom income quintiles do not look nearly as static once means-tested and employed-provided benefits are considered
Top coding change > $20,000
$13,101
$28,573
$40,821
$54,593
$93,286
$22,300
$32,924
$48,916
$67,242
$112,115
$25,100
$43,304
$64,394
$92,262
$184,459
1968
1980
2005
*2005 dollars

The Heritage Foundation
LEADERSHIP FOR AMERICA

BACKGROUNDER

No. 2708 | JULY 25, 2012

Reforming the Food Stamp Program

Robert Rector and Katherine Bradley

Abstract

The food stamp program is due for reauthorization as part of a new farm bill. It is the second most expensive means-tested aid program, increasing from $19.8 billon in 2000 to $84.6 billion in 2011, and President Barack Obama has proposed a budget to keep food stamp spending at sharply elevated levels for the next decade. The national debt has topped $16 trillion and will continue to grow rapidly for the foreseeable future. To preserve the economy, government spending, including welfare spending, must be put on a more prudent course. Congress and the Administration should transform food stamps into a program that encourages work and self-sufficiency, close eligibility loopholes, and, after the recession ends, reduce food stamp spending to pre-recession levels.

This paper, in its entirety, can be found at **http://report.heritage.org/bg2708**

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The farm bill is due for reauthorization, including the food stamp program, also known as the Supplemental Nutrition Assistance Program (SNAP). The food stamp program is very large and growing rapidly. President Barack Obama plans to spend nearly $800 billion on food stamps over the next decade.[1] Yet as large as it is, this program is only part of a much larger system of means-tested government assistance: 79 programs that provide cash, food, housing, medical care, and social services to poor and low-income Americans. President Obama's fiscal year (FY) 2013 budget calls for $12.7 trillion in means-tested aid over the next 10 years.[2]

Means-tested welfare is the fastest growing component of government. Total federal and state means-tested spending—which excludes Social Security, Medicare, and Unemployment Insurance—rose from $431 billon in 2000 to $927 billion in 2011. According to President Obama's spending plans, annual means-tested spending will rise to $1.2 trillion within four years and $1.5 trillion per year by 2022.[3]

The food stamp program is the second most expensive means-tested aid program. Food stamp spending has grown rapidly in recent years,

Key Points

- Total means-tested welfare spending reached $927 billion in 2011. Food stamps is the second largest and most rapidly growing welfare program. Food stamp spending rose from $19.8 billion in 2000 to $84.6 billion in 2011.
- Part of the spending growth is due to the recession, but under President Obama's proposed budget, food stamp spending will not return to pre-recession levels when the economy recovers. Instead, it will remain well above historic norms for the foreseeable future.
- Unaffected by welfare reform in the 1990s, food stamps is an expensive, old-style entitlement program that discourages work, rewards idleness, and promotes long-term dependence.
- When the economy recovers, food stamp spending should be returned to pre-recession levels, and able-bodied, non-elderly adults receiving food stamps should be required to work, prepare for work, or at least look for a job as a condition of receiving aid.

from $19.8 billion in 2000 to $84.6 billion in 2011. Part of that growth is due to the recession, but under Obama's proposed budget, food stamp spending will not return to pre-recession levels when the economy recovers. Instead, it will remain well above historic norms for the foreseeable future.

The food stamp program is old and fossilized. Aside from enormous increases in cost, it has remained basically unchanged since its creation in the 1960s. Unaffected by welfare reform in the 1990s, it remains a program that discourages work, rewards idleness, and promotes long-term dependence.

The national debt has now topped $16 trillion and will continue to grow rapidly for the foreseeable future. To preserve the economy, government spending, including welfare spending, must be put on a more prudent course. When the current recession ends, food stamp spending should be returned to pre-recession levels. In addition, Congress should transform the program from one that rewards dependence into one that encourages work and self-sufficiency.

To accomplish, this Congress should:

1. **Return food stamp spending to pre-recession levels and cap future spending.** The food stamp program is an open-ended entitlement. State governments receive automatic increases in food stamp funding when they increase the number of recipients on the food stamp rolls. This practice encourages high levels of spending and unnecessary dependence on government aid. In the future, the uncapped entitlement nature of spending on food stamps should be ended. When the current recession ends, Congress should return aggregate spending to pre-recession levels. In subsequent years, the maximum allocation to states should grow no faster than inflation and population growth, although temporary increases above that maximum could be permitted in periods of high unemployment.

2. **Transfer control over food stamps from the Department of Agriculture (USDA) to the Department of Health and Human Services (HHS).** The food stamp program is a means-tested welfare or anti-poverty program, not an agricultural program. The USDA's expertise is in farming, not welfare; the department has shown that it is unsuited to run the second largest means-tested aid program in the nation. Authority over food stamps should therefore be transferred from the USDA to HHS.

3. **Eliminate application loopholes that permit food stamp recipients to bypass income and asset tests.** These loopholes artificially inflate caseloads and costs.

4. **Reduce fraud.** Unlawful benefit overpayments should be reduced by acquiring more timely and accurate information about recipient earnings.

5. **Prohibit food stamp payments to illegal immigrant families.** Illegal immigrants who have children born in the United States routinely receive food stamps. This policy should be changed and brought in line with existing policy on the earned income tax credit (EITC). In order to receive the EITC, parents must provide a valid Social Security number demonstrating they are residing in the U.S. lawfully and are authorized to work. The same policy should be applied in food stamps.

6. **Convert food stamps into a work activation program.** Able-bodied food stamp recipients should be required to work, prepare for work, or at least look for a job as a condition of receiving aid. These work activation requirements should be phased in gradually as the current economic recession ends. Similar requirements in the Aid to Families with Dependent Children (AFDC) program in the 1990s led to dramatic drops in welfare caseloads, surges

1. Federal outyear spending was taken from U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2013: Analytical Perspectives* (Washington: U.S. Government Printing Office, 2012), Table 32-1, http://www.whitehouse.gov/omb/budget/Analytical_Perspectives (accessed June 21, 2012). The figure in the text includes estimated state administrative expenditures equaling 9 percent of total federal spending.
2. This figure includes both projected federal expenditures and projected state contributions to federal means-tested programs. Federal expenditures were taken from ibid. For additional information, see Robert Rector, "Examining the Means-Tested Welfare State; 9 Programs and $927 Billion in Annual Spending," testimony before the Committee on the Budget, U.S. House of Representatives, April 17, 2012, http://www.heritage.org/research/testimony/2012/05/examining-the-means-tested-welfare-state.
3. Ibid.

in employment, and a large-scale drop in child poverty among groups that were most dependent on the program.

7. **Require drug testing of food stamp recipients.** As the federal government faces future bankruptcy, scarce taxpayer funds should not be used to provide welfare to individuals who abuse illicit drugs. In the food stamp program, taxpayers should not be required to pay for free food for individuals who waste their own money on illegal drugs. Food stamp applicants and recipients should be tested for illegal drug use, and benefits should be terminated for those using drugs. Drug testing would reduce wasteful government spending. It would also reduce drug use among food stamp recipients, thereby increasing their future employability.

These reforms are generally modeled on the 1990s welfare reform, which replaced the AFDC program with the Temporary Assistance to Needy Families (TANF) program. That reform slowed the growth of welfare spending and increased employment while reducing both dependence and child poverty. It enjoyed widespread public support.

Understanding the Means-Tested Welfare System

The food stamp program is very large and growing rapidly, but it is only part of a much larger system of government means-tested assistance. For example, SNAP is only one of 12 federal programs that provide food aid to the poor.

Most people who receive food stamps also participate in other government aid programs. It is therefore misleading to examine food stamps in isolation. Such an approach inevitably underestimates the level and cost of assistance provided to the poor. Food stamps should be analyzed holistically as one component of a much larger means-tested welfare system of 79 federal programs providing cash, food, housing, medical care, social services, training, and targeted education aid to poor and low-income Americans.

FOOD STAMPS SHOULD BE ANALYZED HOLISTICALLY AS ONE COMPONENT OF A MUCH LARGER MEANS-TESTED WELFARE SYSTEM OF 79 FEDERAL PROGRAMS PROVIDING CASH, FOOD, HOUSING, MEDICAL CARE, SOCIAL SERVICES, TRAINING, AND TARGETED EDUCATION AID TO POOR AND LOW-INCOME AMERICANS.

Means-tested welfare programs differ from general government programs in two ways. First, they provide aid exclusively to persons (or communities) with low incomes. Second, individuals do not need to earn eligibility for benefits through prior fiscal contributions. Means-tested welfare therefore does not include Social Security, Medicare, Unemployment Insurance, or Worker's Compensation.

In FY 2011, the federal government spent $717 billion on means-tested welfare. State contributions to federal programs added another $201 billion, and independent state programs contributed around $9 billion. Total spending from all sources reached $927 billion.[4]

Means-tested spending amounts to $9,040 for each lower-income American (i.e., persons in the lowest third of the population by income). If converted to cash, this spending is more than sufficient to bring the income of every lower-income American to 200 percent of the federal poverty level (roughly $44,000 per year for a family of four).[5]

In the two decades before the current recession, means-tested welfare was the fastest growing component of government spending. It grew more rapidly than Social Security and Medicare, and its rate of increase dwarfed the growth of public education and national defense. While means-tested medical benefits have been the fastest growing part of the welfare system, most other forms of welfare aid also have grown rapidly.

According to the President's FY 2013 budget, means-tested welfare will continue to grow rapidly for the next decade instead of declining as the recession ends. The President's budget would permanently increase annual means-tested spending from 4.5 percent to 6 percent of gross domestic product. Combined annual federal and state spending would reach $1.56 trillion in 2022. Overall, President Obama plans to spend $12.7 trillion on means-tested welfare over the next decade.

The President's budget calls for ruinous and unsustainable budget deficits. These deficits are in part the result of dramatic, permanent increases in means-tested welfare. An important step in reducing future unsustainable federal deficits would

4. Ibid.

5. This calculation combines potential welfare aid with non-welfare income currently received by the poor.

be to return total welfare spending to pre-recession levels.

To accomplish this, Congress should cap future aggregate welfare spending. When the current recession ends, or by 2013 at the latest, total federal means-tested welfare spending should be returned to pre-recession levels, adjusted for inflation. In subsequent years, aggregate federal welfare spending should grow no faster than inflation. This type of spending cap would save the taxpayers $2.7 trillion during its first decade.

An aggregate welfare spending cap of this sort is contained in the Welfare Reform Act of 2011 (H.R. 1167), introduced by Representative Jim Jordan (R–OH), and a companion bill (S. 1904), introduced by Senator Jim DeMint (R–SC).

1. Capping Future Food Stamp Spending

Just as it is critical to restrain the rapid growth of overall means-tested spending, it is also important to limit excessive spending in the food stamp program individually. The federal government pays the full cost of food stamp benefits and splits administrative costs with state governments that administer the program. In FY 2011, federal spending was $77.6 billion, and state costs were approximately $6.9 billion.

As noted, the food stamp program is growing rapidly. Before the current recession, combined federal and state spending nearly doubled, rising from $19.8 billion in 2000 to $37.9 billion in 2007. Since taking office, the Obama Administration has more than doubled spending on food stamps again: Spending rose from $39 billion in 2008 to a projected $85 billion in 2012. (See Chart 1.) Even after adjusting for inflation and population growth, food stamp spending is now nearly twice the level in any previous recession.

The current recession has obviously caused part of the overall spending increase, but the USDA's Food and Nutrition Service has also liberalized eligibility standards and operated aggressive outreach programs for more than a decade with the goal of maximizing the number of food stamp recipients. These efforts, combined with the recession, have swollen the food stamp caseload to well above normal historical levels.

Moreover, President Obama's FY 2013 budget shows that the President does not intend food stamp spending to return to pre-recessionary levels. Instead, outlays will remain at historically high levels for the foreseeable future. For most of the next decade, food stamp spending, adjusted for inflation and population growth, would remain at nearly twice the levels seen during the non-recessionary periods under President Bill Clinton.

This long-term increase in food stamp spending is not sustainable. In keeping with the general aim of controlling the overall rapid growth of means-tested welfare, Congress should reduce the abnormally high levels of future food stamp spending by taking the following steps.

1. After the current recession, Congress should return total federal spending on food stamps to pre-recession levels adjusted for population growth and inflation.[6]

2. In subsequent years, food stamp spending should grow no faster than the rate of inflation combined with population growth.

3. During periods of very high unemployment, spending may temporarily exceed this limit.

4. Congress should provide each state with an annual food stamp allocation based on its pre-recession spending level adjusted for inflation and population growth.

To implement this cap, the entitlement nature of food stamp spending should be eliminated.[7] Automatic open-ended increases in spending should be curtailed, and states should be given greater flexibility to determine program eligibility. A food stamp spending cap of the sort described above would save the federal government roughly $150 billion over the next decade.

Overall, the government should make an effort to return food stamp caseloads to normal, pre-recession levels or to the even lower levels experienced during the Clinton presidency. The additional reforms described below would contribute to that process.

2. Transfer food stamps from the USDA to HHS.

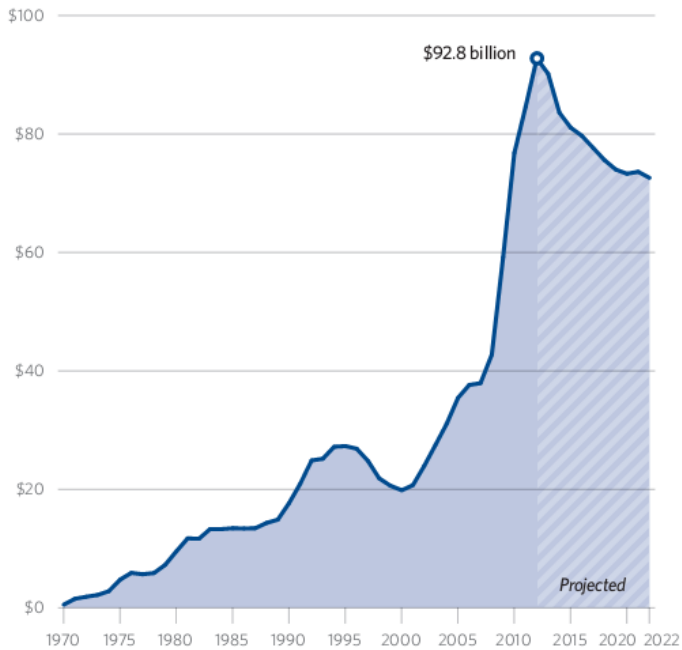
The purpose of the U.S. Department of Agriculture is to assist farming. The USDA's expertise is in agriculture, not welfare. But the food stamp program and similar means-tested assistance programs such as the Women, Infants, and Children (WIC) food program and school lunch and breakfast programs are now two-thirds of the USDA budget. The USDA has become primarily a welfare agency with some farm

6. To avoid abrupt changes, spending could be reduced incrementally over a two-year period.

CHART 1

Combined Federal and State Spending on Food Stamps, 1970–2022

IN BILLIONS OF CURRENT DOLLARS



Source: Past federal spending from Office of Management and Budget, *Budget of the U.S. Government*, various years. Projected future federal spending is from Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2013, Analytical Perspectives*, Table 32-1.

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programs tacked on the side. It is ill suited for this task.

Historically, the USDA has viewed food stamps and other means-tested food aid programs as a mechanism to expand farmers' income by promoting increased food purchases.[8] This is an inefficient policy to provide income to farmers; for each $1.00 government spends on food stamps, farmers receive about three cents in added income.[9] It is also a poor foundation on which to build welfare and anti-poverty strategies. Given its background, it should be no surprise that the food stamp program grows rapidly and is highly resistant to the main ideas of welfare reform.

Food stamps should be reformed along the lines of other modern welfare programs like TANF, not continued as a farmers' aid program. Its aim should be to provide support to low-income households while encouraging work and self-sufficiency. To accomplish this, authority over food stamps and related USDA means-tested aid programs should by transferred from the USDA to HHS. Reauthorization of the food stamp program should be accomplished as stand-alone legislation; it should not be part of the largely unrelated farm bill.

FOOD STAMPS SHOULD BE REFORMED ALONG THE LINES OF OTHER MODERN WELFARE PROGRAMS LIKE TANF, NOT CONTINUED AS A FARMERS' AID PROGRAM.

3. Close expensive loopholes in food stamp enrollments.

The food stamp rolls have skyrocketed, in part because the Obama Administration has promoted admission procedures that enable applicants to bypass ordinary income and asset tests for eligibility. One such policy is known as "broad-based categorical eligibility." Within the

7. The food stamp program is technically a capped entitlement program rather than a pure entitlement program; however, the level of maximum spending is set high enough that it does not limit outlays. Consequently, the food stamp program operates like an ordinary uncapped entitlement program.
8. Peter H. Rossi, *Feeding the Poor: Assessing Federal Food Aid* (Washington: American Enterprise Institute Press, 1998), p. 102.
9. Author's calculation derived as follows: Each $1.00 in food stamp benefits received by a household increases food consumption expenditures in the household by around 30 cents. Ibid., p. 4. According to the U.S. Department of Commerce National Income and Product Accounts, farmers' income represents about one-tenth of the cost of food and beverages consumed in the home in the U.S. Consequently, we can assume that each dollar in food stamp spending will result in around three cents in added farmers' income.

welfare system, a single family may often be eligible for several welfare programs. As a way to avoid duplicative administrative costs, receipt of aid from one program may give categorical eligibility for another.

AFTER 2000, AN INCREASING NUMBER OF STATES CHOSE TO USE THE BROAD-BASED CATEGORICAL ELIGIBILITY LOOPHOLE TO ELIMINATE ASSET LIMITS FOR FOOD STAMP RECIPIENTS AND GREATLY EXPAND THEIR FOOD STAMP CASELOADS.

Historically, categorical eligibility was intended to simplify program administration and did not greatly expand food stamp eligibility; however, in 2000, the Clinton Administration quietly issued regulations concerning the relationship of food stamps to the TANF program, creating a radical new food stamp admission procedure termed "broad-based categorical eligibility." This procedure dramatically altered the rules of food stamp eligibility.[10]

Traditionally, categorical eligibility in food stamps pertained only to individuals receiving cash assistance from selected other programs; in most cases, eligibility for these other programs was narrowly defined by the federal government. The 2000 regulation gave states the option to provide broad-based categorical eligibility for food stamps to any person or household that received cash aid or any other service funded by TANF.[11]

This was a major change because, under the TANF program, states are given broad discretion in determining who will receive TANF cash aid.[12] In addition, most people in a state are potentially eligible for TANF non-cash services. Since virtually anyone can be eligible for a TANF non-cash service irrespective of income or assets, this rule gave states the option to substantially broaden their food stamp eligibility standards, weakening the income limits and waiving the asset limits entirely.[13] States could make this change without incurring added fiscal costs on themselves.

Historically, the food stamp program was limited to persons with both low incomes and limited liquid assets. Individuals with more than $2,000 in liquid assets could not receive assistance; households were expected to use their own assets to support themselves before turning to taxpayer-funded welfare.[14] After 2000, an increasing number of states chose to use the new broad-based categorical eligibility loophole to eliminate asset limits for food stamp recipients and greatly expand their food stamp caseloads.

The Obama Administration has actively promoted use of the broad-based "categorical eligibility" loophole by states. According to the Congressional Research Service:

> The USDA's Food and Nutrition Service has taken an official stance encouraging states to use so-called "categorical eligibility" authority to expand eligibility to significant numbers of households by (1) increasing or completely lifting limits on assets that eligible households may have and (2) raising dollar limits on households' gross monthly income.[15]

By 2012, 43 states used receipt of a nominal "service" from TANF to establish broad-based categorical eligibility for food stamps.[16] In these states, the food stamp application

10. Gene Falk and Randy Alison Aussenberg, "The Supplemental Nutrition Assistance Program: Categorical Eligibility," Congressional Research Service *Report for Congress*, March 2, 2012, http://www.fas.org/sgp/crs/misc/R42054.pdf (accessed June 21, 2012).

11. The Bush Administration repeatedly but unsuccessfully sought legislation to overturn the Clinton regulations on broad-based categorical eligibility. Ibid., p. 1.

12. The TANF program is a program with fixed funding that replaced the older Aid to Families with Dependent Children (AFDC) program, which was funded as an open-ended entitlement. Under AFDC, states were given more funds if they increased the number of persons enrolled in the program. Because of this, the federal government maintained tighter control of program eligibility. By contrast, in the TANF program, states are given a fixed annual funding that is not increased if the state increases enrollments. Under this fixed funding principle, states were given very wide flexibility in determining who would receive TANF cash aid and services.

13. To become eligible to receive food stamp aid, individuals or households are subject to three criteria: an asset limit, a gross income limit, and a net or countable income limit. The categorical eligibility loophole waives the first two limits, but the value of benefits received will still be determined by the level of countable income.

14. Retirement assets such as IRAs and educational savings funds are excluded from the count of liquid assets.

15. Joe Richardson, "The Federal Response to Calls for Increased Aid from USDA's Food Assistance Program," Congressional Research Service *Report for Congress*, February 17, 2010, http://www.nationalaglawcenter.org/assets/crs/R41076.pdf (accessed June 21, 2012).

16. Falk and Aussenberg, "The Supplemental Nutrition Assistance Program: Categorical Eligibility."

process works as follows: An individual applying for food stamps is automatically handed a brochure printed with TANF funds. The Congressional Research Service describes the process as follows:

> Typically, households are made categorically eligible [for SNAP benefits] through receiving or being authorized to receive a minimal TANF- or MOE-funded benefit or service, such as being given a brochure or being referred to a social services "800" telephone number.[17]

Having received such a free brochure or referral, the individual is deemed to be a recipient of TANF services and "categorically eligible" for food stamps; the normal asset limits for food stamp eligibility are thereby waived.[18] Half of all food stamp recipients now enroll in the program through this procedure.[19]

In states using this loophole, a middle-class family with one earner who becomes unemployed for one or two months can receive $668 per month in food stamps even if the family has $20,000 in cash sitting in the bank. Because of this, food stamps has been transformed from a program for the truly needy to a routine bonus payment stacked on top of conventional unemployment benefits.

Categorical eligibility is an imprudent policy that automatically adds persons to the food stamp rolls without determining whether they are economically needy. An analysis conducted for the USDA by Mathematica Policy Research estimated that eliminating the asset limits in the food stamp program would expand program caseload and costs by 22 percent in good economic times.[20] In periods of very high unemployment, this number presumably would be quite a bit higher. Future food stamp expenditures could be substantially reduced if Congress eliminated categorical eligibility, restored normal asset limits on eligibility, and reestablished the gross income eligibility standard at 130 percent of the federal poverty level.

CATEGORICAL ELIGIBILITY IS AN IMPRUDENT POLICY THAT AUTOMATICALLY ADDS PERSONS TO THE FOOD STAMP ROLLS WITHOUT DETERMINING WHETHER THEY ARE ECONOMICALLY NEEDY.

Another widely used loophole exploited by big-spending state governments is "Heat and Eat." Food stamp benefit levels are based on "countable" income. The lower the countable income of an individual, the higher that person's benefits will be. If a person or family pays for utility costs separately from rent, they can deduct both the utility cost and the rent from their countable income, thereby increasing the amount of food stamp benefits they receive.

The Heat and Eat loophole assigns a fictitious separate utility cost to food stamp recipients in order to increase their benefits. Under this loophole, current law allows states to average out their utility costs and use a Standard Utility Allowance (SUA) when determining food stamp eligibility. The law provides a higher SUA for individuals who pay for heat and air conditioning separately from their rent. However, a loophole in the law permits states to assign the higher SUA to anyone who receives aid from the Low Income Energy Assistance Program (LIHEAP) even if heating and air conditioning are already included in the individual's rent or shelter deduction.[21] This allows the state welfare agency to falsely hike deductions for purposes of calculating countable income and thereby artificially boost the benefit levels.

Moreover, the law allows states to grant the higher SUA to food stamp applicants who receive only a tiny amount of LIHEAP aid. Consequently, states have begun issuing food stamps to applicants receiving LIHEAP benefits as low as $1 in order to boost their food

17. Ibid. p. 6. MOE stands for state maintenance of effort funds. These are state funds that the state is required to contribute to TANF or a broad variety of TANF-related activities.
18. Ibid.
19. According to the Congressional Budget Office, "In fiscal year 2010, about 50 percent of SNAP participants were considered eligible for benefits through their receipt of noncash TANF benefits, so they were not subject to the same income and asset requirements as other participants." Congressional Budget Office, "The Supplemental Nutrition Assistance Program," April 2012, p. 8, http://www.cbo.gov/sites/default/files/cbofiles/attachments/04-19-SNAP.pdf (accessed July 11, 2012).
20. Karen Cunnyngham and James Ohls, *Simulated Effects of Changes to State and Federal Asset Eligibility Policies for the Food Stamp Program*, U.S. Department of Agriculture, Food and Nutrition Service, Contractor and Cooperator Report No. 49, October 2008, p. xvi, http://naldc.nal.usda.gov/download/26691/PDF (accessed July 11, 2012).
21. LIHEAP is the federal government's welfare program that pays for low-income families' heating and energy costs.

stamp benefits. Because the federal government pays for the cost of both food stamps and LIHEAP, a state government loses no money from this sleight of hand and pulls in more food stamp spending. According to House estimates, closing this loophole would save taxpayers $14.3 billion over the next 10 years.[22]

4. Reduce fraud.

A recipient's food stamp benefits decrease as monthly earnings increase. However, recipients can unlawfully receive excess benefits by failing to report new jobs or increased earnings to the food stamp office.

To reduce this type of fraud, state bureaucracies should be required, in a timely and consistent manner, to cross-check the National Directory of New Hires against their food stamp rolls to detect evidence of new employment. Recipients who have obtained employment but have failed to inform the food stamp office should have their benefits suspended. In addition, able-bodied adults receiving food stamps should be required to recertify for assistance every three months.

5. Prohibit food stamp payments to illegal immigrant families.

If an illegal immigrant gives birth to a child inside the United States, that child by law is an American citizen. As a result, the child automatically becomes eligible for food stamps and many other means-tested programs. There are roughly 4 million native-born children of illegal immigrants residing in the U.S.

Illegal immigrant parents routinely apply for welfare assistance for their children born in the U.S. The welfare office will clearly recognize that the immigrant is illegal and in violation of U.S. law but will take no action against the illegal immigrant. When the food stamp office provides aid for such a child, it gives the aid directly to the illegal immigrant parent in the form of an electronic benefit transfer (EBT) card. Although the benefits on the card are ostensibly limited to the U.S.-born child, these cards are used to purchase food for the illegal immigrant household, not just for the U.S.-born child.

This policy should be changed and brought in line with existing policy on the earned income tax credit. The EITC is a refundable, means-tested benefit for low-income families with children. In order to receive the EITC, parents must provide a valid Social Security number demonstrating that they are residing in the U.S. lawfully and are authorized to work. The same policy should be applied in food stamps: In the future, food stamps should be given only to children who reside with a parent, guardian, or foster parent who has demonstrated lawful U.S. residence.

6. Convert food stamps into a work activation program.

Food stamps is a fossilized program that, except for greatly increased costs, has changed little since its inception in the early years of the War on Poverty. For example, the program was largely unaffected by the welfare reform legislation of 1996, which replaced Aid to Families with Dependent Children with Temporary Assistance for Needy Families, even though TANF and food stamp caseloads overlap to a great degree.

Untouched by reform, it is an old-style entitlement program offering billions in unconditional aid. Recipients are entitled to one-way handouts and are rarely required to engage in constructive behavior as a condition for receiving that aid. Like the failed AFDC program, which it closely resembles, food stamps discourages work and rewards dependence.

There is a common misperception that the food stamp program is a program of temporary, short-term assistance. In reality, at any given moment, the majority of recipients are or will become long-term dependents. Historically, half of food stamp aid to families with children has gone to families that have received aid for 8.5 years or more.[23] (See Chart 2.)

Following the welfare reform model, food stamps should be transformed from an open-ended entitlement program that gives one-way handouts into a work activation program. Non-elderly, able-bodied adults who receive benefits should be required to work, prepare for work, or at least look for work as a condition of receiving aid.

Many food stamp households contain adults who are capable of working but work little or not at all. In the average month in 2010, 18.8 million households—roughly

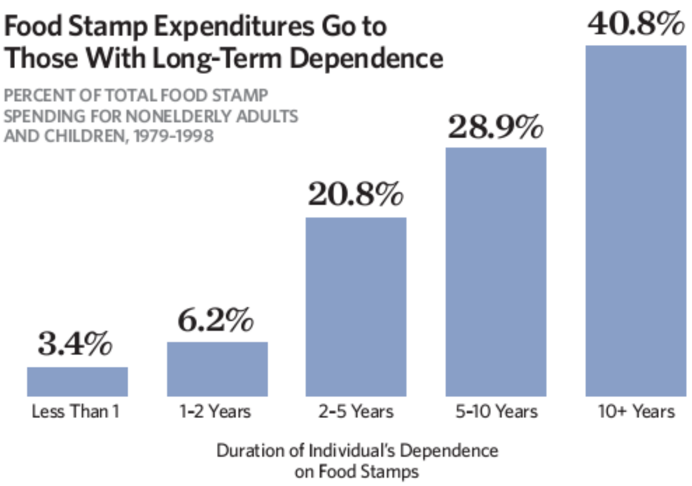
22. Report 112-470, *Sequester Replacement Reconciliation Act of 2012*, Report of the Committee on the Budget, U.S. House of Representatives, to Accompany H.R. 5652, 112th Cong., 2nd Sess., May 9, 2012, p. 20, http://www.gpo.gov/fdsys/pkg/CRPT-112hrpt470/pdf/CRPT-112hrpt470.pdf (July 11, 2012).

23. Robert Rector, "Reforming Food Stamps to Promote Work and Reduce Poverty and Dependence," testimony before the Committee on Agriculture, U.S. House of Representatives, June 27, 2001, http://www.heritage.org/research/testimony/reforming-food-stamps-to-promote-work (accessed June 22, 2012).

CHART 2

Food Stamp Expenditures Go to Those With Long-Term Dependence

PERCENT OF TOTAL FOOD STAMP SPENDING FOR NONELDERLY ADULTS AND CHILDREN, 1979-1998



Source: Author's calculations based on data from the U.S. Department of Labor, Bureau of Labor Statistics.

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one household in five in the U.S.—received food stamp benefits.[24] Of this total, approximately 10.5 million households contained at least one able-bodied, non-elderly adult. This included around 7 million families with children and 3.5 million non-elderly, able-bodied adults without dependents (ABAWDs).

Among the 10.5 million food stamp households with able-bodied, non-elderly adults, 5.5 million performed zero work during the month.[25] Another 1.5 million to 2 million households had employment but appeared to work less than 30 hours per week. Altogether, each month, some 7 million to 7.5 million work-capable households received food stamps while performing no work or working less than 30 hours per week. These low levels of work are not simply the product of the current recession: They are typical of food stamp recipients even in good economic times.

A work activation program would seek to increase employment among able-bodied, nonworking food stamp households that do not work and to increase the hours of work among those who are employed part-time. Work activation should be phased in incrementally in the food stamp program when the current recession has ended. Typically, a work activation program will cause both the existing caseload and the number of new enrollments to drop rapidly.

A work activation program can operate at a fairly low cost. For example, a rigorous, closely supervised 16-week job search program would cost about $250 per recipient.[26] In one year, 10 million work-capable food stamp recipients could be circulated through this type of program at an annual cost of around $2.5 billion. This would cover all current work-eligible recipients who are nonworking or underemployed as well as many new work-capable enrollees.

A WORK ACTIVATION PROGRAM WOULD SEEK TO INCREASE EMPLOYMENT AMONG ABLE-BODIED, NONWORKING FOOD STAMP HOUSEHOLDS THAT DO NOT WORK AND TO INCREASE THE HOURS OF WORK AMONG THOSE WHO ARE EMPLOYED PART-TIME.

Experience with welfare reform and the TANF program in the mid-1990s demonstrates that work activation can dramatically reduce welfare caseloads. In the four decades before welfare reform, TANF (formerly Aid to Families with Dependent Children) never experienced a significant decline in caseload. In the four years after welfare reform, the caseload dropped by nearly half.

Work activation could be designed to provide an incentive for states to reduce future dependence. If a state government operated its work

24. U.S. Department of Agriculture, Food and Nutrition Service, *Characteristics of Supplemental Nutrition Assistance Program Households: FY 2010*, September 2011, http://www.fns.usda.gov/ora/menu/Published/snap/FILES/Participation/2010Characteristics.pdf (accessed June 21, 2012).

25. The figure of 5.5 million was derived as follows: Approximately 4.6 million families with children had no earnings. Of these, probably 1.8 million did not contain an able-bodied adult, leaving some 2.7 million families with able-bodied adults but no work. In addition, 2.8 million (80 percent) of the 3.5 ABAWD households had no earnings in the month. See ibid., p. 52, Table A16.

26. Details of this estimate are available from the authors upon request.

activation program in a particularly effective way and reduced its food stamp caseloads below the pre-recession level, it might be allowed to retain a portion of the savings.

Use TANF funds to pay for implementation of a work requirement. As noted, a work activation program will have administrative costs, but most states run their food stamp programs in tandem with their TANF programs, which already have a work requirement. Thus, the burden on states of implementing a work requirement for the food stamp population would not be as great as starting a separate work requirement from scratch.

Nonetheless, operating the work activation program will require additional funding. An appropriate funding source for a food stamp work activation program is the TANF program. Federal TANF funding is currently $16.5 billion per year, but only 40 percent of this funding is actually used to pay benefits. The other portion goes to a wide variety of other activities in state budgets.

Current TANF spending could be reduced by $2.0 billion per year, and these savings could be reallocated to fund a food stamp work activation program.[27] Reducing TANF spending to $14.5 billion would leave more than enough funding to cover the needs of the TANF population. The reallocated $2 billion would then be split among the states to cover the costs of instituting a new work activation requirement in the food stamp program.

7. Require drug testing as a condition of food stamp aid.

Means-tested welfare assistance should not be a one-way handout or an open-ended entitlement. Aid should be given on the basis of reciprocal obligation. Taxpayers should provide support to those in need, and recipients in return should engage in responsible and constructive behavior as a condition of receiving aid. Requiring welfare recipients to stop using illegal drugs is a core element of reciprocal obligation.

Welfare recipients are roughly twice as likely as the general public to use illegal drugs. Studies show that 21 percent of mothers receiving welfare reported using illegal drugs in the prior year.[28] Similarly, one-tenth of food stamp recipients report having used illegal drugs in the prior month, although the actual rate is probably far higher.[29] Self-reporting of illegal drug use almost certainly results in an undercount of actual use. The real rates of illegal drug use among welfare recipients may be five times higher than the self-reported rate.[30]

As welfare spending approaches $1 trillion per year, taxpayers have a right to know that their funds are being used frugally. Those who pay for the welfare state can properly insist that their aid go to those who are truly in need and not be wasted on frivolous or self-destructive activities, such as illegal drug use. In the case of food stamps, taxpayers should not be required to pay for food for individuals who waste their own money on illegal drugs.

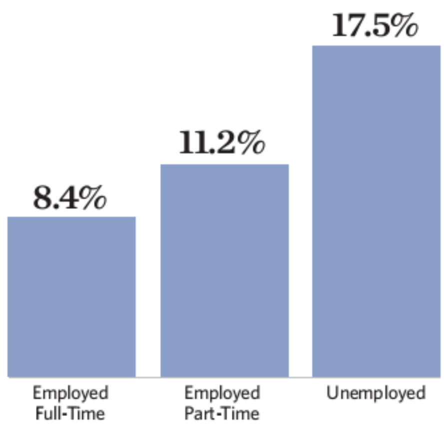
EVIDENCE SHOWS THAT DRUG TESTING HAS THE POTENTIAL TO SIGNIFICANTLY REDUCE UNNECESSARY WELFARE SPENDING AND MISUSE OF FUNDS.

Evidence shows that drug testing has the potential to significantly reduce unnecessary welfare spending and misuse of funds. For example, Florida's policy of drug testing TANF applicants appears to have reduced new welfare enrollments by as much as 50 percent.[31] Potential applicants using illegal drugs simply chose not to enter the welfare system. Under the Florida policy, drug users could

27. Additional funds could be reallocated from the existing food stamp training program.
28. Rukmalie Jayakody, Sheldon Danziger, and Harold Pollack, "Welfare Reform, Substance Abuse and Mental Health," *Journal of Health Politics, Policy and Law*, Vol. 25, No. 4 (August 2000), pp. 623–652, http://www.fordschool.umich.edu/research/poverty/pdf/appam98.pdf (accessed June 21, 2012).
29. U.S. Department of Health and Human Services, Substance Abuse and Mental Health Services Administration, Office of Applied Studies, "Substance Use Among Persons in Families Receiving Government Assistance," *The NHSDA Report*, April 19, 2002, Table 1, http://www.samhsa.gov/data/2k2/GovAid/GovAid.htm (accessed June 21, 2012).
30. Jayakody et al., "Welfare Reform, Substance Abuse and Mental Health," p. 11.
31. Tarren Bragdon, "Florida's Drug Test Law for Welfare Cash Assistance: First Quarter Facts," Foundation for Government Accountability, October 13, 2011, http://www.floridafga.org/2011/10/floridas-drug-test-law-for-welfare-cash-assistance-first-quarter-facts-2/ (accessed June 21, 2012).

CHART 3

Percent of Adults Using Illegal Drugs in Prior Month



Note: Figures are for 2010.

Source: U.S. Department of Health and Human Services, Substance Abuse and Mental Health Administration, Results from the 2010 National Survey on Drug Use and Mental Health: Summary of National Findings, NSDUH Series H-41, HHS Publication No. (SMA) 11-4638, Rockville MD, 2011, p. 23.

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enroll in welfare in the future, but they would first need to stop using illegal drugs. The choice was theirs. During the time it was in operation, the Florida drug testing requirement produced $30.64 in reduced welfare costs for every dollar spent on its operation.[32]

The food stamp and TANF populations overlap to a considerable degree. In addition, the food stamp program includes ABAWDs, a population not in TANF. This group, which includes many single males, is likely to have high levels of drug use. Therefore, a drug testing requirement for food stamps would, like the Florida TANF reform, be likely to reduce caseloads significantly.

Finally, all welfare programs, including food stamps, should be designed to promote self-sufficiency among able-bodied adults and to discourage long-term dependence. Scientific evaluation of the Florida TANF drug testing requirement showed that earnings among welfare recipients who used illegal drugs were 30 percent lower than earnings among those who did not. Similarly, national data show that illegal drug use is twice as frequent among the unemployed compared to the fully employed.[33] (See Chart 3.)

Simply put, there is an overwhelming positive correlation between illegal drug use and lower levels of employment. Of course, it is possible that unemployment causes increased drug use: Unemployed persons could be depressed and therefore more likely to use drugs. In reality, however, causation is likely to run more heavily in the opposite direction, with illegal drug use leading to lower levels of employment. This would occur because users of illegal drugs often have attitudes, capacities, and habits that make them less likely to seek, obtain, and maintain high levels of employment.

Because illegal drug use is linked to lower levels of work, any serious effort to promote employment and self-sufficiency should include steps to discourage illegal drug use within the welfare population. A well-designed drug testing program would be an important tool in any effective welfare-to-work strategy.

Following the Model of Welfare Reform

These reforms roughly follow the model of the welfare reform of the mid-1990s. In 1996, Congress passed the Personal Responsibility and Work Opportunity Act (PRWORA), which replaced AFDC with TANF. One immediate result was plummeting caseloads. In the post–World War II period, the AFDC caseload had never experienced a significant decline, but after passage of welfare reform, the AFDC/TANF caseload dropped dramatically from 4.3 million families in 1996 to 2.2 million in 2000.[34] The caseload remains at a low level today.

As the caseload fell, employment of single mothers surged and child poverty dropped at an unprecedented rate. For example, before reform, the poverty rates of black children and children of single mothers had remained stubbornly frozen for 25

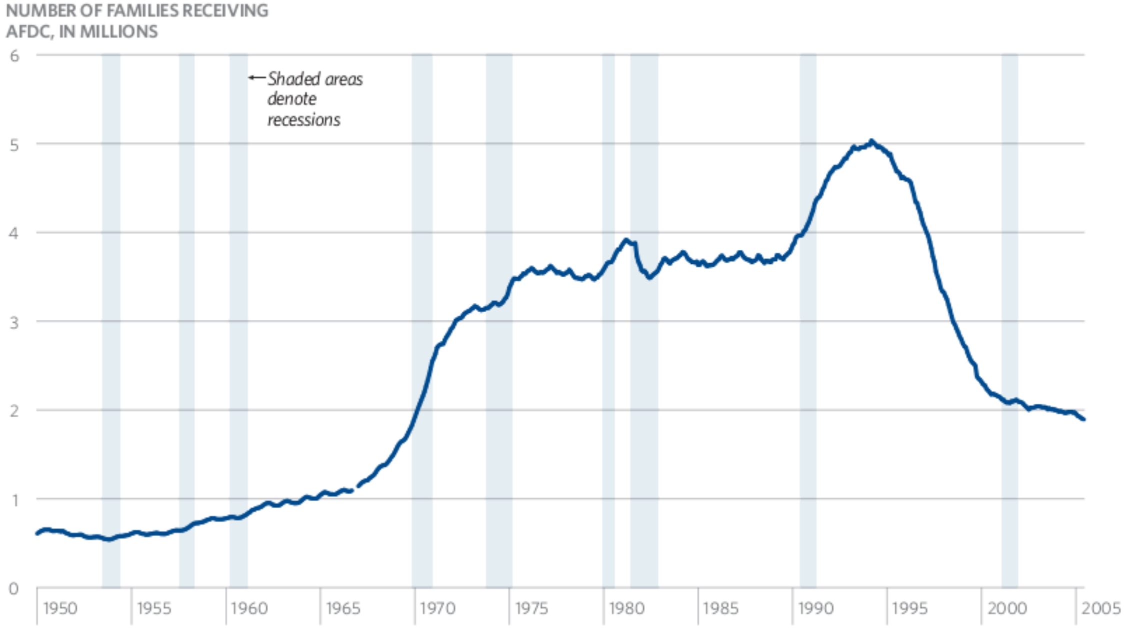
32. Ibid. Judge Scriven, who struck down the Florida drug testing law, refused to consider the strong evidence that the program substantially reduced new welfare enrollments.

33. U.S. Department of Health and Human Services, Substance Abuse and Mental Health Services Administration, *Results from the 2010 National Survey on Drug Use and Mental Health: Summary of National Findings*, September 2011, p. 23, http://oas.samhsa.gov/DUH/2k10NSDUH/2k10Results.pdf (accessed June 21, 2012).

34. Robert Rector and Patrick F. Fagan, "The Continuing Good News About Welfare Reform," Heritage Foundation *Backgrounder* No. 1620, February 6, 2003, http://www.heritage.org/research/reports/2003/02/the-continuing-good-news.

CHART 4

National AFDC/TANF Caseload and Economic Conditions, January 1950–June 2005



Source: U.S. Department of Health and Human Services, Administration for Children and Families, and U.S. Department of Labor, Bureau of Labor Statistics.

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years, but after reform, both dropped quickly. The black child poverty rate fell from 41.5 percent in 1995 to 30 percent in 2001, and the poverty rate of children of single mothers dropped from 50.3 percent to 39.8 percent in the same years.[35]

The reform was successful in simultaneously reducing both dependence and poverty. The poverty rate for both groups has risen sharply during the current recession but remains below the pre-reform rates for recessionary periods.

The welfare reform of 1996 was based on three principles:

1. The uncapped funding entitlement of the AFDC program was ended, and state governments were given a fixed sum of money in future years.
2. The open-ended legal entitlement of recipients to cash payments based on fixed eligibility formulae was ended. Policymakers recognized that uncapped welfare entitlements tend to grow at a rapid and unsustainable pace.
3. States were required to implement work activation programs for able-bodied TANF recipients.

These same principles should be used in reforming the food stamp program.

Block Grants Versus Work Activation. The TANF program, created by welfare reform, is often called a "block grant," but that term

35. Ibid.

is ambiguous and poorly understood. To block grant a program sometimes means (1) to eliminate an automatic legal entitlement to benefits for certain categories of persons and (2) to replace an uncapped entitlement spending mechanism with funding that is set at a fixed level and subject to budgetary controls.

However, "block grant" is also used in a second, much broader sense to mean a program in which fixed funds are collected at the federal level and turned over to state governments to spend with few or no requirements. TANF was never a block grant in this latter sense; indeed, one of its defining features was that, for the first time, it imposed significant work-based performance standards on the states. Rather than a block grant, TANF could more accurately be called a "work activation" grant.

Block grants in the second, broader sense are often viewed as vehicles of "federalism." In reality, such block grants represent pseudo-federalism. Under pseudo-federalism, revenue is collected at the federal level and then turned over to state governments to be spent as the states choose. But collecting revenue at one level of government to be spent at another level of government is a recipe for inefficiency and non-accountability.

Pseudo-federalism is particularly inappropriate within the current means-tested welfare system in which the federal government provides more than three-quarters of the total funding. Real federalism, or turning welfare back to the states, would require states to pay for their own welfare programs with state revenues—something that no state is eager to do.

Didn't Conservative President Ronald Reagan Champion Block Grants? It is true that during his first term in office, Ronald Reagan consolidated some 77 small separate government programs into nine block grants. Replacing myriad tiny categorical programs with larger, broader programs did give states greater flexibility. In some cases, uncapped entitlement spending was replaced by fixed funding, which slowed the growth of welfare spending somewhat.

But none of Reagan's new block grant programs—which included the Community Development Block Grant, Community Services Block Grant, and Low Income Energy Assistance Program—was ever a source of policy innovation. Clearly, no one could ever accuse these programs of revolutionizing the welfare state.

In reality, Reagan's vision in welfare went well beyond simple block grants. Reagan's primary focus in welfare was to require able-bodied recipients to work, not to give states unlimited flexibility in spending federal revenue. It was Reagan's emphasis on work that prompted the subsequent welfare reform revolution.

Conclusion

The U.S has spent $19.8 trillion on means-tested welfare since President Lyndon B. Johnson launched the War on Poverty in the 1960s. Spending on food stamps alone has totaled $1.2 trillion.[36] As noted, in 2011, government spent $927 billion on means-tested assistance. This amounts to nearly $9,000 per year for each poor and low-income American.

In the short term, much of this spending props up the living standards of the poor. Not even the government can spend $9,000 per person without significantly affecting living conditions. But the original goal of the War on Poverty was not to prop up living standards artificially through an ever-expanding welfare state. When President Johnson launched the War on Poverty, he declared that it would strike "at the causes, not just the consequences of poverty."[37] He added, "Our aim is not only to relieve the symptom of poverty, but to cure it and, above all, to prevent it."[38]

In other words, President Johnson was not proposing a massive system of endlessly increasing welfare benefits doled out to an ever-enlarging population of beneficiaries. His proclaimed goal was not to create a massive new system of government handouts, but an increase in self-sufficiency: to create a new generation of Americans capable of supporting themselves out of poverty without government handouts.

36. Both figures are in constant 2011 dollars.

37. Lyndon B. Johnson, "Proposal for a Nationwide War on the Sources of Poverty," March 16, 1964, http://www.fordham.edu/halsall/mod/1964johnson-warpoverty.html (August 27, 2009).

38. Lyndon B. Johnson, "Annual Message to the Congress on the State of the Union," January 8, 1964, http://www.presidency.ucsb.edu/ws/index.php?pid=26787 (August 27, 2009).

LBJ planned to *reduce*, not increase, welfare dependence. The goal of the War on Poverty, he stated, would be "making taxpayers out of taxeaters."[39] He declared, "We want to give the forgotten fifth of our people opportunity not doles."[40]

However, in terms of reducing the causes rather than the consequences of poverty, the War on Poverty has failed utterly. After $19.8 trillion in spending, the situation is worse, not better. A significant portion of the population is now less capable of prosperous self-sufficiency than when the War on Poverty began.

Now President Obama has called for another permanent increase in the welfare state. He plans to spend $12.7 trillion on means-tested aid over the next decade—roughly $270,000 for each current poor person in the nation. Much of this spending would be funded by borrowing from abroad and putting future generations further in debt.

Obama's plans for a permanent expansion of the welfare state are unsustainable. Future spending needs to be subject to reasonable limits. When the economy recovers, total means-tested spending should be returned to pre-recession levels adjusted for inflation. Food stamp spending should also be returned to pre-recession levels when the recession ends. In addition, when the economy improves, able-bodied, non-elderly adults receiving food stamps should be required to work, prepare for work, or at least look for a job as a condition of receiving aid.

—***Robert Rector*** *is Senior Research Fellow in the Domestic Policy Studies Department, and* ***Katherine Bradley*** *is a Visiting Fellow in the Richard and Helen DeVos Center for Religion and Civil Society, at The Heritage Foundation.*

39. Quoted in David Zarefsky, *President Johnson's War on Poverty: Rhetoric and History* (Tuscaloosa: University of Alabama Press, 1986), p. 49.
40. Ibid.

Appendix
Categorical Eligibility

The food stamp program gives state governments broad flexibility to determine benefit eligibility within the state by selecting different standards of categorical eligibility. According to USDA data, states may select one of three different categorical eligibility options.[41]

1. **Traditional categorical eligibility.** Under traditional categorical eligibility, a household where all members are eligible to receive means-tested cash aid from Supplemental Security Income, Temporary Assistance to Needy Families, or General Assistance automatically becomes eligible for food stamp benefits as well. This gives states some flexibility because they can set the standards for receipt of cash benefits from these three programs; however, households that do not receive cash aid from these programs must apply for food stamp aid through the normal food stamp application process and are therefore subject to the normal food stamp limits on assets and gross income.

2. **"Narrow" categorical eligibility.** Under this option, a household will become categorically eligible for food stamps if it receives cash aid from the three programs listed above or if a member receives an actual non-cash social service funded by TANF such as day care assistance, transportation aid, or general counseling.

3. **Broad-based categorical eligibility.** Under this option, a household becomes categorically eligible for food stamp benefits whenever it receives a TANF-funded brochure or pamphlet from the state food stamp office.

Since the federal government pays for 100 percent of the cost of food stamp benefits, state governments have a financial incentive to enroll as many individuals as possible in the program. As of January 2012, in operating their food stamp programs, five states used traditional categorical eligibility standards; five states used the narrow categorical eligibility standard; and 40 states and the District of Columbia used the broad-based categorical eligibility option.

See Appendix Table 1 for a description of the options employed by specific states.

41. The information in this appendix is drawn from Falk and Aussenberg, "The Supplemental Nutrition Assistance Program: Categorical Eligibility," and U.S. Department of Agriculture, Food and Nutrition Service, *Supplemental Nutrition Assistance Program: State Options Report*, 9th ed., November 2010, http://www.fns.usda.gov/snap/rules/Memo/Support/State_Options/9-State_Options.pdf (accessed July 1, 2012).

APPENDIX TABLE 1

Food Stamp Categorical Eligibility Options in Use, by State

AS OF JANUARY 3, 2012
FPL — Federal Poverty Level

State	Type of Categorical Eligibility Option Used by the State	Type of TANF Benefit or Service Triggering Categorical Eligibility	Type of Households Eligible For Broad-Based Categorical Eligibility	Asset Rules
Alabama	Broad-based	Brochure	All	No limit. Households with an elderly or disabled member with incomes over 200 percent of FPL face a $3,250 asset limit.
Alaska	Traditional only	n/a	n/a	Standard federal limit of $2,000 in liquid assets*, or asset limits for cash aid from TANF, SSI, or GA if cash aid from those programs is received.
Arizona	Broad-based	Referral on application	All	No limit
Arkansas	Traditional only	n/a	n/a	Standard federal limit of $2,000 in liquid assets*, or asset limits for cash aid from TANF, SSI, or GA if cash aid from those programs is received.
California	Broad-based	Pamphlet	All	No limit
Colorado	Broad-based	Notice on application	All	No limit. Households with an elderly or disabled member with incomes over 200 percent of FPL face a $3,250 asset limit.
Connecticut	Broad-based	"Help for People in Need" brochure	All	No limit
Delaware	Broad-based	Application refers to a pregnancy prevention hotline	All	No limit
District of Columbia	Broad-based	Brochure	All	No limit
Florida	Broad-based	Notice	All	No limit
Georgia	Broad-based	TANF Community Outreach Services brochure	All	No limit. Households with an elderly or disabled member with incomes over 200 percent of FPL face a $3,250 asset limit.
Hawaii	Broad-based	Brochure	All	No limit
Idaho	Broad-based	Flyer about referral service	All	$5,000
Illinois	Broad-based	Guide to services	All	No limit. Households with an elderly or disabled member with incomes over 200 percent of FPL face a $3,250 asset limit.
Indiana	Traditional only	Cash aid	n/a	Standard federal limit of $2,000 in liquid assets*, or asset limits for cash aid from TANF, SSI, or GA if cash aid from those programs is received.
Iowa	Broad-based	Notice of eligibility	All	No limit
Kansas	Traditional and Narrow	n/a	n/a	Standard federal limit of $2,000 in liquid assets*, or asset limits for cash aid or services from TANF, SSI, or GA if actual assistance from those programs is received.
Kentucky	Broad-based	Resource guide	All	No limit
Louisiana	Broad-based	Information handout	All	No limit
Maine	Broad-based	Resource guide	All	No limit

* Liquid asset limit for households with a elderly or disabled member is $3,250.

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APPENDIX TABLE 1

Food Stamp Categorical Eligibility Options in Use, by State (continued)

AS OF JANUARY 3, 2012
FPL — Federal Poverty Level

State	Type of Categorical Eligibility Option Used by the State	Type of TANF Benefit or Service Triggering Categorical Eligibility	Type of Households Eligible For Broad-Based Categorical Eligibility	Asset Rules
Maryland	Broad-based	Referral to services on application	All	No limit
Massachusetts	Broad-based	Brochure	All	No limit. Households with an elderly or disabled member with incomes over 200 percent of FPL face a $3,250 asset limit.
Michigan	Broad-based	Notice on application	All	$5,000. First vehicle is excluded, and other vehicles with fair market value over $15,000 are counted.
Minnesota	Broad-based	Domestic violence brochure	All	No limit
Mississippi	Broad-based	Language on notice	All	No limit
Missouri	Traditional and Narrow	n/a	n/a	Standard federal limit of $2,000 in liquid assets*, or asset limits for cash aid or services from TANF, SSI, or GA if actual assistance from those programs is received.
Montana	Broad-based	Brochure	All	No limit
Nebraska	Broad-based	Pamphlet	All	$25,000 for liquid assets
Nevada	Broad-based	Pregnancy prevention information on application	All	No limit
New Hampshire	Broad-based	Brochure	Households with at least one dependent child	No limit
New Jersey	Broad-based	Brochure	All	No limit
New Mexico	Broad-based	Brochure	All	No limit
New York	Broad-based	Brochure mailed yearly	All	No limit. Households with an elderly or disabled member with incomes over 200 percent of FPL face a $3,250 asset limit.
North Carolina	Broad-based	Not specified	All	No limit
North Dakota	Broad-based	Statement on application/ recertification forms and pamphlet	All	No limit
Ohio	Broad-based	Ohio Benefit Bank information on approval notice	All	No limit. Households with an elderly or disabled member with incomes over 200 percent of FPL face a $3,250 asset limit.
Oklahoma	Broad-based	Certification notice has website and 800 number about marriage classes	All	No limit
Oregon	Broad-based	Pamphlet	All	No limit
Pennsylvania	Broad-based	Pamphlet	All	$5,500. Households with an elderly or disabled member with incomes over 200 percent of FPL face a $9,000 asset limit.
Rhode Island	Broad-based	Publication	All	No limit. Households with an elderly or disabled member with incomes over 200 percent of FPL face a $3,250 asset limit.

* Liquid asset limit for households with a elderly or disabled member is $3,250.

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APPENDIX TABLE 1

Food Stamp Categorical Eligibility Options in Use, by State (continued)

AS OF JANUARY 3, 2012
FPL — Federal Poverty Level

State	Type of Categorical Eligibility Option Used by the State	Type of TANF Benefit or Service Triggering Categorical Eligibility	Type of Households Eligible For Broad-Based Categorical Eligibility	Asset Rules
South Carolina	Broad-based	Pamphlet	All	No limit. Households with an elderly or disabled member with incomes over 200 percent of FPL face a $3,250 asset limit.
South Dakota	Traditional and Narrow	n/a	n/a	Standard federal limit of $2,000 in liquid assets*, or asset limits for cash aid or services from TANF, SSI, or GA if actual assistance from those programs is received.
Tennessee	Traditional and Narrow	n/a	n/a	Standard federal limit of $2,000 in liquid assets*, or asset limits for cash aid or services from TANF, SSI, or GA if actual assistance from those programs is received.
Texas	Broad-based	Information about various services provided on the application	All	Asset limit of $5,000 (excludes one vehicle and includes excess vehicle value).
Utah	Traditional and Narrow	n/a	n/a	Standard federal limit of $2,000 in liquid assets*, or asset limits for cash aid or services from TANF, SSI, or GA if actual assistance from those programs is received.
Vermont	Broad-based	Bookmark with telephone number and website for services	All	No limit
Virginia	Traditional only	n/a	n/a	Standard federal limit of $2,000 in liquid assets*, or asset limits for cash aid from TANF, SSI, or GA if cash aid from those programs is received.
Washington	Broad-based	Information and referral services provided on approval letter	Households eligible for TANF services	No limit
West Virginia	Broad-based	Information and referral services program brochure	All	No limit
Wisconsin	Broad-based	Job net services language on approval and change notices	All	No limit
Wyoming	Traditional only	n/a	n/a	Standard federal limit of $2,000 in liquid assets*, or asset limits for cash aid from TANF, SSI, or GA if cash aid from those programs is received.

* Liquid asset limit for households with a elderly or disabled member is $3,250.

Source: Gene Falk and Randy Alison Aussenberg, "The Supplemental Nutrition Assistance Program: Categorical Eligibility," Congressional Research Service *Report for Congress*, March 2, 2012, http://www.fas.org/sgp/crs/misc/R42054.pdf (accessed June 21, 2012).

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CONGRESSIONAL TESTIMONY

Examining the Means-tested Welfare State: 79 Programs and $927 Billion in Annual Spending

Testimony before Committee on the Budget United States House of Representatives

April 17, 2012

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The Heritage Foundation

My name is Robert Rector. I am a Senior Research Fellow at The Heritage Foundation. The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

Summary

The governmental safety net has three basic components: 1) Social Security and Medicare for the elderly; 2) unemployment insurance and worker's compensation; and 3) anti-poverty or means-tested welfare programs. My testimony will deal with the means-tested welfare system, which could also be called comprehensive assistance to the poor.

The means-tested welfare system consists of 79 federal programs providing cash, food, housing, medical care, social services, training, and targeted education aid to poor and low-income Americans. Means-tested welfare programs differ from general government programs in two ways. First, they provide aid exclusively to persons (or communities) with low incomes; second, individuals do not need to earn eligibility for benefits through prior fiscal contributions. Means-tested welfare therefore does not include Social Security, Medicare, Unemployment Insurance, or worker's compensation.

Although the public is aware that Social Security and Medicare are large, expensive programs, few are aware that for every $1.00 spent on these two program government spends 76 cents on assistance to the poor or means-tested welfare.

In FY 2011, federal spending on means-tested welfare came to $717 billion. State contributions into federal programs added another $201 billion, and independent state programs contributed around $9 billion. Total spending from all sources reached $927 billion.

About half of means-tested spending is for medical care. Roughly 40 percent goes to cash, food, and housing aid. The remaining 10 to 12 percent goes to what might be called "enabling" programs, programs that are intended to help poor individuals become more self-sufficient. These programs include child development, job training, targeted federal education aid, and a few other minor functions.

The total of $927 billion per year in means-tested aid is an enormous sum of money. One way to think about this figure is that $927 billion amounts to $19,082 for each American defined as "poor" by the Census Bureau. However, since some means-tested assistance goes to individuals who are low-income but not poor, a more meaningful figure is that total means-tested aid equals $9,040 for each lower-income American (i.e., persons in the lowest-income third of the population).

If converted to cash, means-tested welfare spending is more than sufficient to bring the income of every lower-income American to 200 percent of the federal poverty level, roughly $44,000 per year for a family of four. (This calculation combines potential welfare aid with non-welfare income currently received by the poor.)

In the two decades before the current recession, means-tested welfare was the fastest growing component of government spending. It grew more rapidly than Social Security and Medicare, and its rate of increase dwarfed that of public education and national defense. While means-tested medical benefits have been the fastest growing part of the welfare system, most other forms of welfare aid have grown rapidly as well.

For example, spending on means-tested cash, food, and housing has grown more rapidly than Social Security over the last two decades. Adjusting for inflation and population growth, the U.S. now spends 50% more on means-tested cash, food, and housing than it did when Bill Clinton entered office on a promise to "end welfare as we know it." It comes as a surprise to most to learn that the core welfare state has expanded dramatically since reform allegedly "ended welfare" in the mid 1990s.

Total means-tested spending on cash, food, and housing programs is now twice what would be needed to lift all Americans out of poverty. Why then does the government report that over 40 million persons live in poverty each year? The answer is that, in counting the number of poor Americans, the Census Bureau ignores almost the entire welfare state: Census counts only a minute fraction of means-tested cash, food, and housing aid as income for purposes of determining whether a family is poor.

Despite the fact that welfare spending was already at record levels when he took office, President Obama has increased federal means-tested welfare spending by more than a third. Some might say this is a reasonable, temporary response to the recession, but Obama seeks a permanent, not a temporary, increase in the size of the welfare state.

According to the President's FY 2013 budget plans, means-tested welfare will not decline as the recession ends but will continue to grow rapidly for the next decade. Under Obama's budget, total annual means-tested spending will be permanently increased from five percent of GDP to six percent of GDP. Combined annual federal and state spending will reach $1.56 trillion in 2022. Overall, President Obama plans to spend $12.7 trillion on means-tested welfare over the next decade.

Obama's budget plans call for ruinous and unsustainable budget deficits. These deficits are, in part, the result of dramatic, permanent increases in means-tested welfare. An important step in reducing future unsustainable federal deficits would be to return welfare spending to pre-recession levels.

To accomplish this, Congress should establish a cap on future welfare spending. When the current recession ends, or by 2013 at the latest, total federal means-tested welfare spending should be returned to pre-recession levels, adjusted for inflation. In subsequent years, aggregate federal welfare spending should grow no faster than inflation. This type of spending cap would save the taxpayers $2.7 trillion during its first decade. An aggregate welfare spending cap of this sort is contained in H.R. 1167, The Welfare Reform Act of 2011, introduced by Congressman Jim Jordan (R-OH).

The Hidden Welfare State

Most discussion of government spending and deficits assumes that the federal budget consists of four principal parts: entitlements (meaning Social Security and Medicare), defense, non-defense discretionary spending, and interest. This perspective is misleading because it ignores the hidden welfare state: a massive complex of 79 federal means-tested anti-poverty programs.

The public is almost totally unaware of the size and scope of government spending on the poor. This is because Congress and the mainstream media always discuss welfare in a fragmented, piecemeal basis. Each of the 79 programs is debated in isolation as if it were the only program affecting the poor. This piecemeal approach to welfare spending perpetuates the myth that spending on the poor is meager and grows little, if at all.

The piecemeal, fragmented character of the hidden welfare system makes rational policy-making and discussion impossible. Sound policies to aid the poor must be developed holistically, with decision makers and the public fully aware of the magnitude of overall spending.

Understanding Means-tested Welfare or Aid to the Poor

Means-tested welfare spending or aid to the poor consists of government programs that provide assistance deliberately and exclusively to poor and lower-income people.[1] By contrast, non-welfare programs provide benefits and services for the general population. For example, food stamps, public housing, Medicaid, and Temporary Assistance for Needy Families are means-tested aid programs that provide benefits only to poor and lower-income persons. On the other hand, Social Security, Medicare, police protection, and public education are not means-tested; they provide services and benefits to persons at all income levels.

Means-tested programs are anti-poverty programs: they are intended to increase the living standards or improve the capacity for self-support among the poor and near-poor. Unlike many other government programs, means-tested welfare programs do not require a prior fiscal contribution to establish eligibility.

The size of the federal means-tested aid system is particularly large because it is funded not only with federal revenue but also with state funds contributed to federal programs. Ignoring these matching state payments into the federal welfare system results in a serious underestimation of spending on behalf of the poor. Prior to the current recession, one dollar in seven in total federal, state, and local government spending went to means-tested welfare.

[1] The only exception to this rule is a small number of means-tested programs that provide aid to low income communities rather than individuals.

79 Assistance Programs

The 79 means-tested programs operated by the federal government provide a wide variety of benefits. The federal welfare state includes:

12 programs providing food aid;
12 programs funding social services;
12 educational assistance programs;
11 housing assistance programs;
10 programs providing cash assistance;
9 vocational training programs;
7 medical assistance programs;
3 energy and utility assistance programs; and,
3 child care and child development programs.

Several programs provide more than one type of benefit. In addition, there are a few independent state programs providing cash and medical aid. A full list of these programs is provided at the end of this testimony. (Note: Social Security, Medicare, veterans programs, unemployment insurance and workmen's compensation are not considered means-tested aid and are not included in this list, nor in the spending figures in this testimony.)

In FY 2011, federal spending on means-tested welfare, plus state contributions to federal programs, reached $927 billion per year. The federal share came to $717 billion or 77 percent; state spending was $210 billion or 23 percent. (See chart 1.)

In recent years, 49 percent of total means-tested spending went to medical care for poor and lower-income persons, and 39 percent was spent on cash, food, and housing aid. The remaining 12 percent was spent on social services, training, child development, targeted federal education aid, and community development for lower-income persons and communities. (See chart 2.)

Means-tested Spending by Recipient Category

Roughly half of means-tested spending goes to families with children, most of which are headed by single parents. Some 28 percent of spending goes to disabled persons. Another 14 percent goes to elderly persons. A final eight percent of spending goes able-bodied, non-elderly adults without children. (See chart 3.)

Growth of the Welfare State

Welfare spending has grown enormously since President Lyndon B. Johnson launched the War on Poverty. After adjusting for inflation, welfare spending was 16 times greater in FY 2011 than it was when the War on Poverty started in 1964. (See charts 4 and 5.)

Means-tested welfare spending was 1.2 percent of the gross domestic product (GDP) when President Johnson began the War on Poverty. By the 1980s spending had risen to around 3.5 percent of GDP. During the first decade of the twenty-first century, spending averaged slightly less than 5 percent of GDP. By 2011, spending had reached 6.1 percent of GDP. However, under Obama's budget plans spending will not decline as the current recession ends but will remain at 6 percent of GDP for the next decade. (See chart 6.)

Welfare Spending: The Fastest Growing Component of Government Spending

For the past two decades, means-tested welfare or aid to the poor has been the fastest growing component of government spending, outstripping the combined growth of Medicare and Social Security spending, as well as the growth in education and defense spending. Over the 20-year period between FY 1989 and FY 2008, total means-tested spending increased by 292 percent over the period. The increase in combined Social Security and Medicare spending was 213 percent over the same period.

Means-tested spending on cash, food, and housing increased more rapidly (196 percent) than Social Security (174 percent). The growth in means-tested medical spending (448 percent) exceeded the growth in Medicare (376 percent).[2] The growth in means-tested aid greatly exceeded the growth in government spending on education (143 percent) and defense (126 percent).

Total Cost of the War on Poverty

Since the beginning of the War on Poverty, government has spent $19.8 trillion (in inflation-adjusted 2011 dollars) on means-tested welfare. In comparison, the cost of all military wars in U.S. history from the Revolutionary War through the current war in Afghanistan has been $6.98 trillion (in inflation-adjusted 2011 dollars).[3] The War on Poverty has cost three times as much as all other wars combined.

Means-Tested Welfare Spending on Lower-Income Persons

With 79 overlapping means-tested programs serving different low-income populations, it is difficult to determine the average level of benefits received by low-income persons. One way of estimating average welfare benefits per recipient would be to divide total means-tested spending by the total number of poor persons in the United States. According to the Census Bureau, there were 46.2 million poor persons in the U.S. in 2010. Total means-tested spending in 2010 was $881.2 billion. If this sum is divided by the number of poor persons (including residents in nursing homes), the result is $19,082 in means-tested spending for each poor American.

However, this simple calculation can be misleading because many persons with incomes above the official poverty levels also receive means-tested aid. Although programs vary, most means-tested aid is targeted to persons in the lowest-income third of the population. Thus, a more accurate sense of average total welfare spending per recipient can be obtained if total welfare aid is divided among all persons within this larger group.

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[2] Some have attributed the rapid growth in means-tested medical spending to inflation in medical prices. Medical prices only doubled during the period. The rest of the increase was due to expansions in the number of recipients and services provided.

[3] Stephen Daggett, "Costs of Major U.S. Wars," Congressional Research Service, June 29, 2010. The CRS report counts the cost of wars through FY 2010; the additional cost of the wars in Iraq and Afghanistan in FY 2011, at $159 billion, was added to the CRS figures.

Dividing total means-tested aid by all persons in the bottom third of the income distribution results in average welfare spending of $9,040 per person in 2011, or around $36,000 for a family of four. (See chart 7)

This is not a precise estimate of benefits received. Rather, the calculation is intended to gauge spending relative to the potential population of beneficiaries. Benefits are not uniform: disabled and elderly persons receive substantially higher assistance than do other recipients.[4] Despite these caveats, a simple fact remains: the ratio of welfare outlays relative to the population served is very high.

Means-tested Spending on Families with Children

Another way of examining spending levels is to look at welfare spending on families with children. In FY 2011, total means-tested spending was $927 billion. About half of this spending ($462 billion) will go to families with children. (Around one-third of this spending went to medical care.)

If the $462 billion in welfare spending were divided equally among the lowest-income one-third of families with children (around 14 million families), the result would be around $33,000 per low-income family with children.

In addition, most of these lower-income families have earned income. Average earnings within the whole group are typically about $16,000 per year per family, though in the midst of a recession, earnings will be lower. If average welfare aid and average earnings are combined, the total resources is likely to come to between $40,000 and $46,000 for each lower-income family with children in the U.S. It is very difficult to reconcile this level of resources with conventional claims that millions of lower-income families are chronically hungry, malnourished, or ill-housed.

Welfare Spending and the Poverty Gap

The Census Bureau measures poverty in the U.S. by comparing a family's annual cash income with the federal poverty income threshold for a similar size family. The poverty income threshold for a family of four was roughly $22,000 in 2010. If the family's cash income is less than the poverty income threshold then the family is deemed poor.

The poverty gap is a measure of the total amount of extra income needed to raise the incomes of all poor Americans up to the federal poverty income threshold. In other words, the poverty gap measures the extra economic resources needed to eliminate official poverty in the U.S. The pre-welfare poverty gap is the poverty gap if the current means-tested aid which Census reports as received by poor households is excluded from the initial count of income.

In 2010, the poverty gap for all households was $152 billion. The pre-welfare poverty gap was $173 billion. Total means-tested spending in that year was $881 billion or five times the pre-welfare poverty gap. Means-tested cash, food and housing was $339 billion or nearly twice what was needed to raise all families out of poverty.

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[4] The per capita cost of medical care for elderly persons in nursing homes is particularly high; however, as such spending is less than a tenth of overall means-tested spending, its exclusion would not greatly alter the figures in the text.

The double poverty gap is the total amount of extra income needed to raise incomes of all low-income households to twice the federal poverty income threshold. In 2010, twice the federal poverty income threshold for a family of four would be an income of around $44,000 per year. The pre-welfare double poverty gap is the amount of income needed to raise all low-income families' incomes to twice the federal poverty threshold if current welfare benefits counted as received by the family are excluded from the initial count of family income.

The pre-welfare double poverty gap for all households in 2010 was $720 billion. By comparison, total means-tested spending was $881 billion in 2010 and $927 billion in 2011. If converted into cash, total welfare spending would be more than sufficient to raise the incomes of all U.S. households to twice the poverty level. This does not mean that restructuring benefits in this manner and converting all aid to cash would be an optimal policy, but it does illustrate the high level of resources that are currently allocated to assisting lower-income persons.

Welfare Spending Increases under the Obama Administration

Table 1 shows the growth in means-tested spending over recent years. In FY 2007, total government spending on means-tested welfare or aid to the poor was a record high $657 billion. By fiscal year 2011, total government spending on means-tested aid had risen to $927 billion, a 40 percent increase.

Table 1. Growth in Means-Tested Spending

	Federal Spending (in billions)	State Spending (in billions)	Total Spending (in billions)
FY 2007	$468.7	$189.2	$657.9
FY 2008	$522.3	$191.6	$714.1
FY 2009	$612.7	$167.2	$779.9
FY 2010	$695.3	$192.7	$888.0
FY 2011	$717.1	$210.1	$927.2

President Obama's increase in federal means-tested welfare spending during his first two years in office was two and a half times greater than any previous increase in federal welfare spending in U.S. history, after adjusting for inflation.

Obama Plans Permanent Increases in Welfare

Supporters of the President's spending might counter that these spending increases are merely temporary responses to the current recession. But that is not the case; most of Obama's spending increases are permanent expansions of the welfare state. According to the long-term spending plans set forth in Obama's FY 2013 budget, combined federal and state spending will not drop significantly after the recession ends. In fact, according to the President's own spending plans, by 2014, welfare spending exceeds $1 trillion per year. By 2022, total means-tested spending will reach $1.57 trillion.[5] (See chart 8.) Much of this increase in spending will be due to the increase in medical expenditures under Obamacare.

According to President Obama's budget projections, federal and state welfare spending will total $12.8 trillion over 10 years (FY 2009 to FY 2018). This spending will cost over $130,000 for each taxpaying household in the U.S.

Spending Priorities: Welfare and Defense

Throughout most of the post-war period, annual defense spending greatly exceeded means-tested welfare. In 1993 welfare spending exceeded defense spending for the first time since the great depression of the 1930s. In subsequent years the ratio of welfare to defense spending averaged about 1.33 to 1.00.

Obama's budget calls for jettisoning this pattern. Defense spending will decline in nominal dollars while means-tested welfare spending will increase 70 percent. By 2022, there will be $2.33 in federal and state welfare spending for every one dollar spent on national defense. (See chart 9.)

Conclusion

Means-tested spending comprises a vast, hidden welfare state. The public is almost totally unaware of the size and scope of government spending on the poor. This is because Congress and the mainstream media always discuss welfare in a fragmented, piecemeal basis. Each of the 79 programs is debated in isolation as if it were the only program affecting the poor. This piecemeal approach to welfare spending perpetuates the myth that spending on the poor is meager and grows little, if at all.

The piecemeal, fragmented character of the hidden welfare system makes rational policy-making and discussion impossible. Sound policies to aid the poor must be developed holistically, with decision makers and the public fully aware of the magnitude of overall spending.

America faces a fiscal crisis. Obama's budget plans call for ruinous and unsustainable future budget deficits. These deficits are, in part, the result of dramatic, permanent increases in means-tested welfare. An important step in reducing future unsustainable federal deficits would be to return welfare spending to pre-recession levels. To accomplish this, Congress should establish a cap or limit on the future growth of total means-tested spending.

[5] Most future state welfare spending will occur in the Medicaid program. Outyear state Medicaid spending figures were obtained from the Department of Health and Human Services, *2010 Actuarial Report on the Financial Outlook for Medicaid,* p. 19, //www.cms.gov/ActuarialStudies/downloads/MedicaidReport2010.pdf. State Medicaid spending after 2019 was estimated based on the prior ratios of federal to state Medicaid spending. State means-tested spending for programs other than Medicaid is modest; outyear spending figures were estimated based on the required state contributions into a program relative to federal outlays.

When the current recession ends, or by 2013 at the latest, total means-tested welfare spending should be returned to pre-recession levels, adjusted for inflation. In subsequent years, aggregate welfare spending should grown no faster than inflation. This type of spending cap would save the taxpayers over $2.7 trillion during its first decade. An aggregate welfare spending cap of this sort is contained in HR 1167, The Welfare Reform Act of 2011, introduced by Congressman Jim Jordan (R-OH).

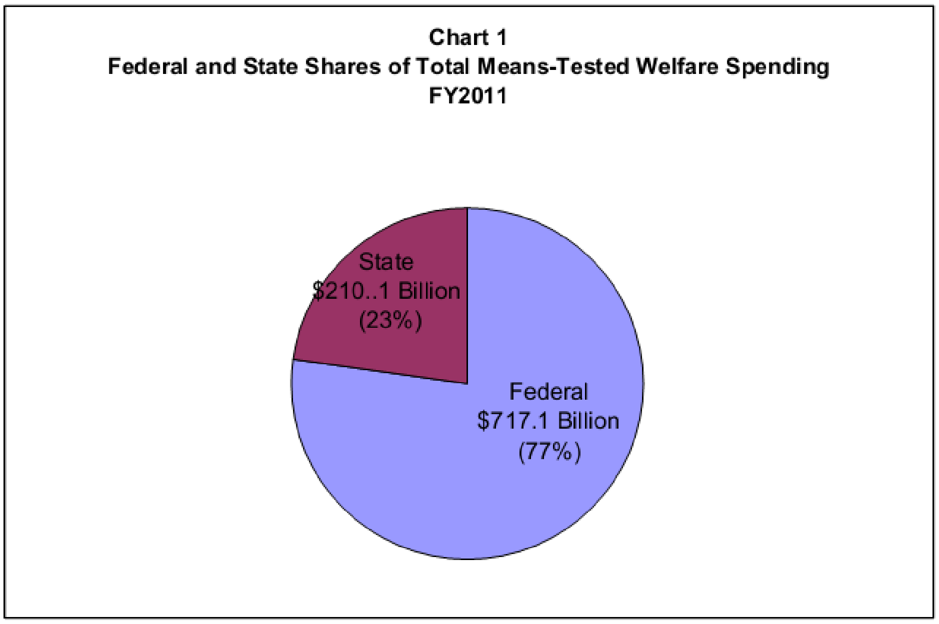


Chart 1
Federal and State Shares of Total Means-Tested Welfare Spending
FY2011
State
$210..1 Billion
(23%)
Federal
$717.1 Billion
(77%)

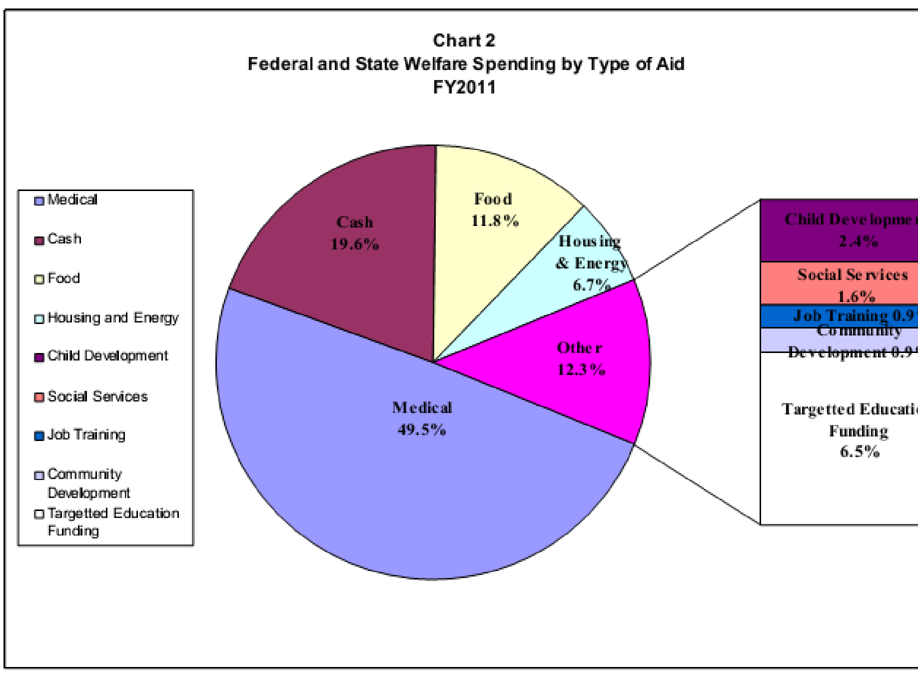


Chart 2
Federal and State Welfare Spending by Type of Aid
FY2011
Medical
Cash
Food
Housing and Energy
Child Development
Social Services
Job Training
Community Development
Targetted Education Funding
Cash
19.6%
Food
11.8%
Housing
& Energy
6.7%
Other
12.3%
Medical
49.5%
Child Development
2.4%
Social Services
1.6%
Job Training 0.9%
Community
Development 0.9%
Targetted Education
Funding
6.5%

10

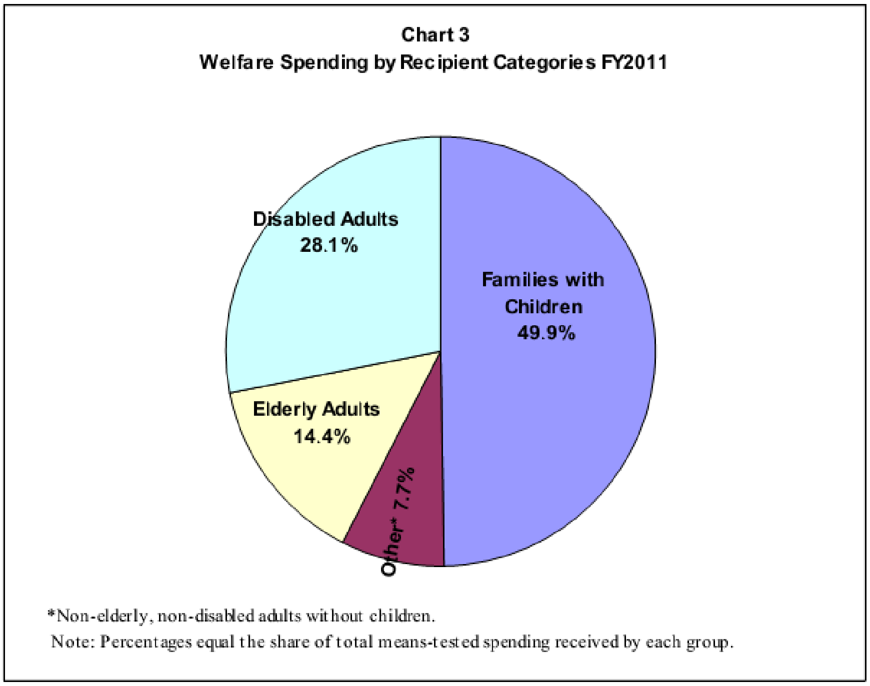


Chart 3
Welfare Spending by Recipient Categories FY2011
Disabled Adults
28.1%
Families with
Children
49.9%
Elderly Adults
14.4%
Other* 7.7%
*Non-elderly, non-disabled adults without children.
Note: Percentages equal the share of total means-tested spending received by each group.

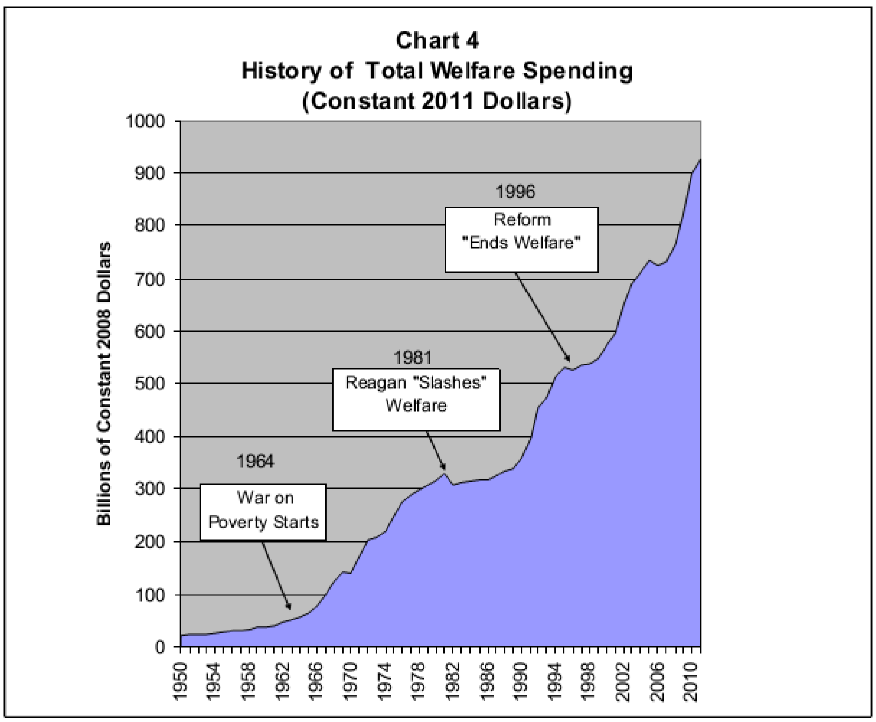


Chart 4
History of Total Welfare Spending
(Constant 2011 Dollars)
Billions of Constant 2008 Dollars
1964
War on
Poverty Starts
1981
Reagan "Slashes"
Welfare
1996
Reform
"Ends Welfare"

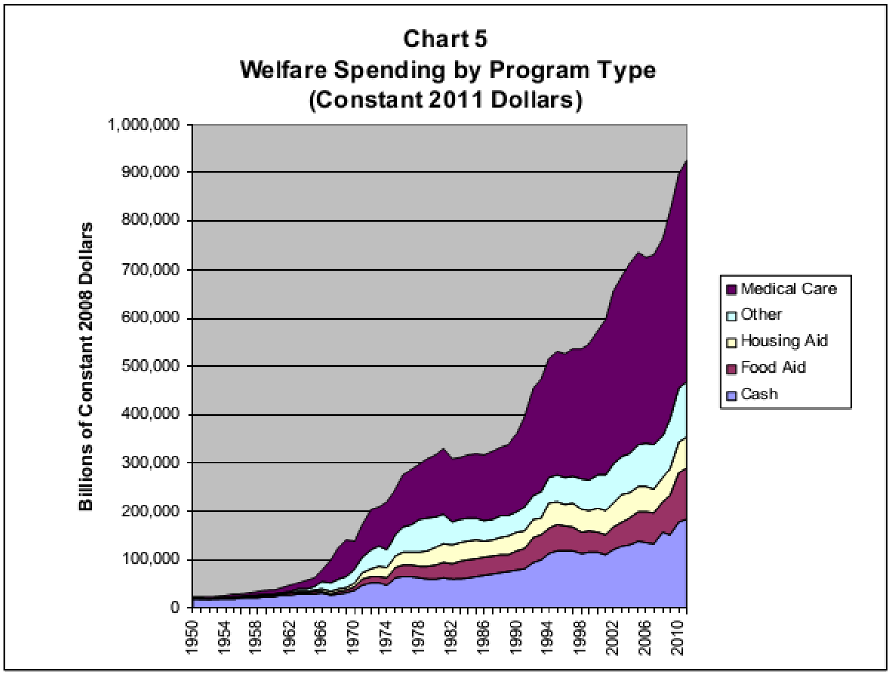


Chart 5
Welfare Spending by Program Type
(Constant 2011 Dollars)
Billions of Constant 2008 Dollars
1,000,000
900,000
800,000
700,000
600,000
500,000
400,000
300,000
200,000
100,000
0
1950
1954
1958
1962
1966
1970
1974
1978
1982
1986
1990
1994
1998
2002
2006
2010
Medical Care
Other
Housing Aid
Food Aid
Cash

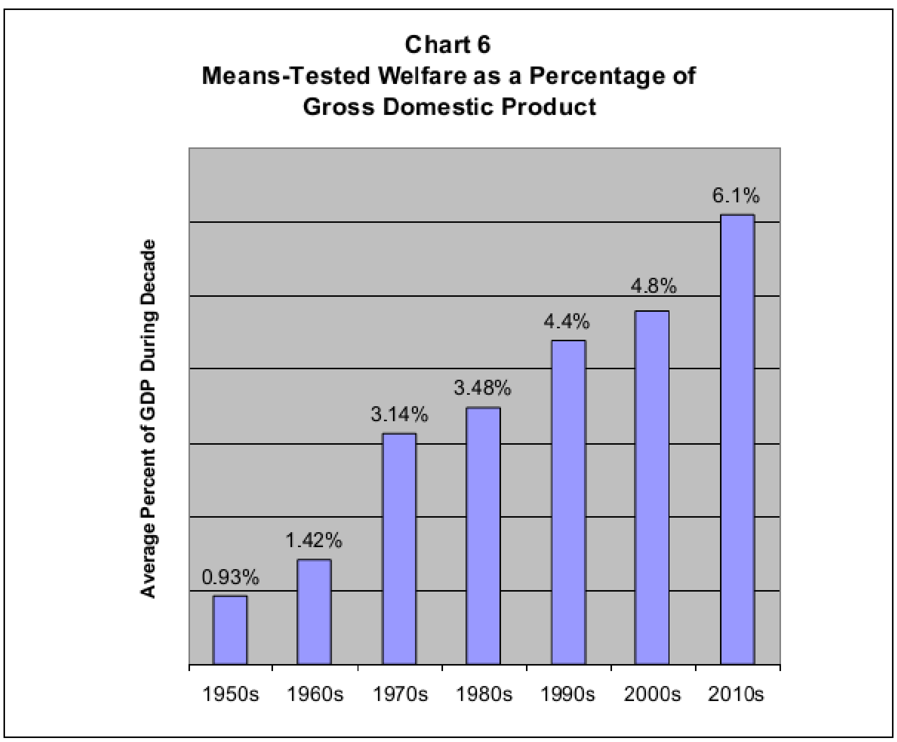


Chart 6
Means-Tested Welfare as a Percentage of
Gross Domestic Product
Average Percent of GDP During Decade
0.93%
1.42%
3.14%
3.48%
4.4%
4.8%
6.1%
1950s
1960s
1970s
1980s
1990s
2000s
2010s

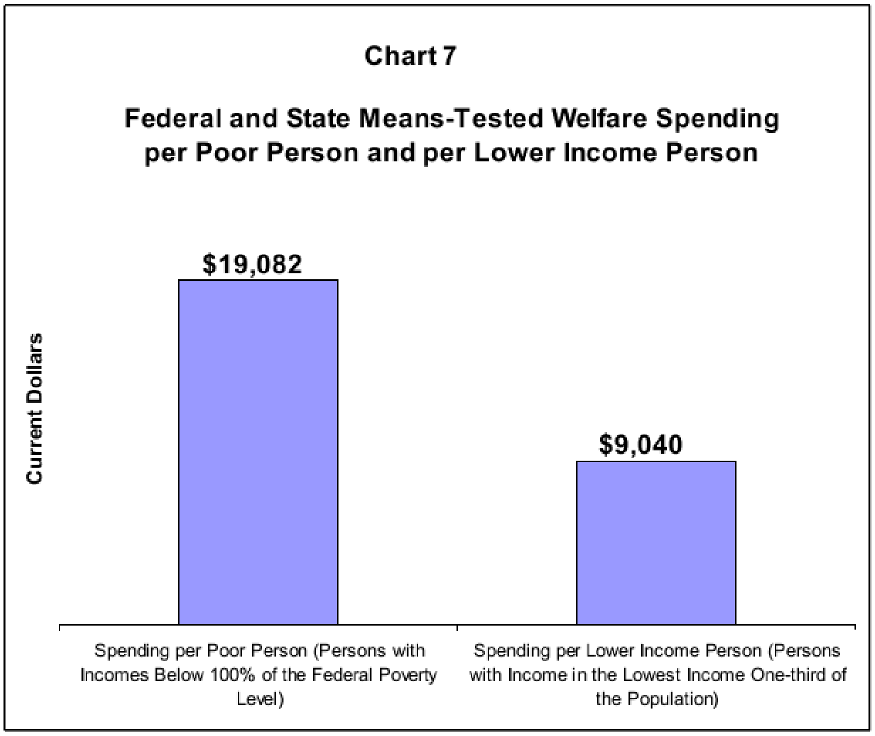


Chart 7
Federal and State Means-Tested Welfare Spending per Poor Person and per Lower Income Person
Current Dollars
$19,082
$9,040
Spending per Poor Person (Persons with Incomes Below 100% of the Federal Poverty Level)
Spending per Lower Income Person (Persons with Income in the Lowest Income One-third of the Population)

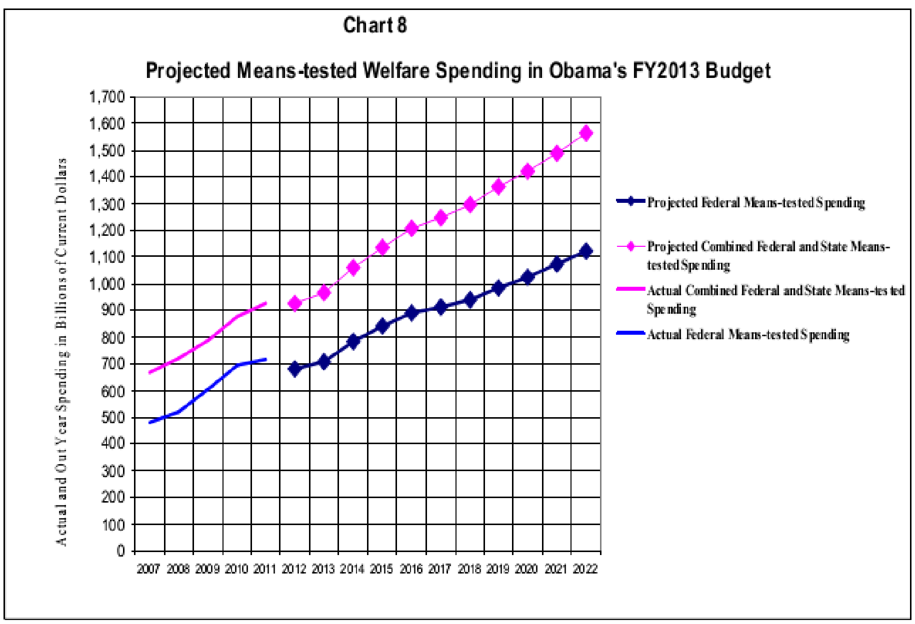
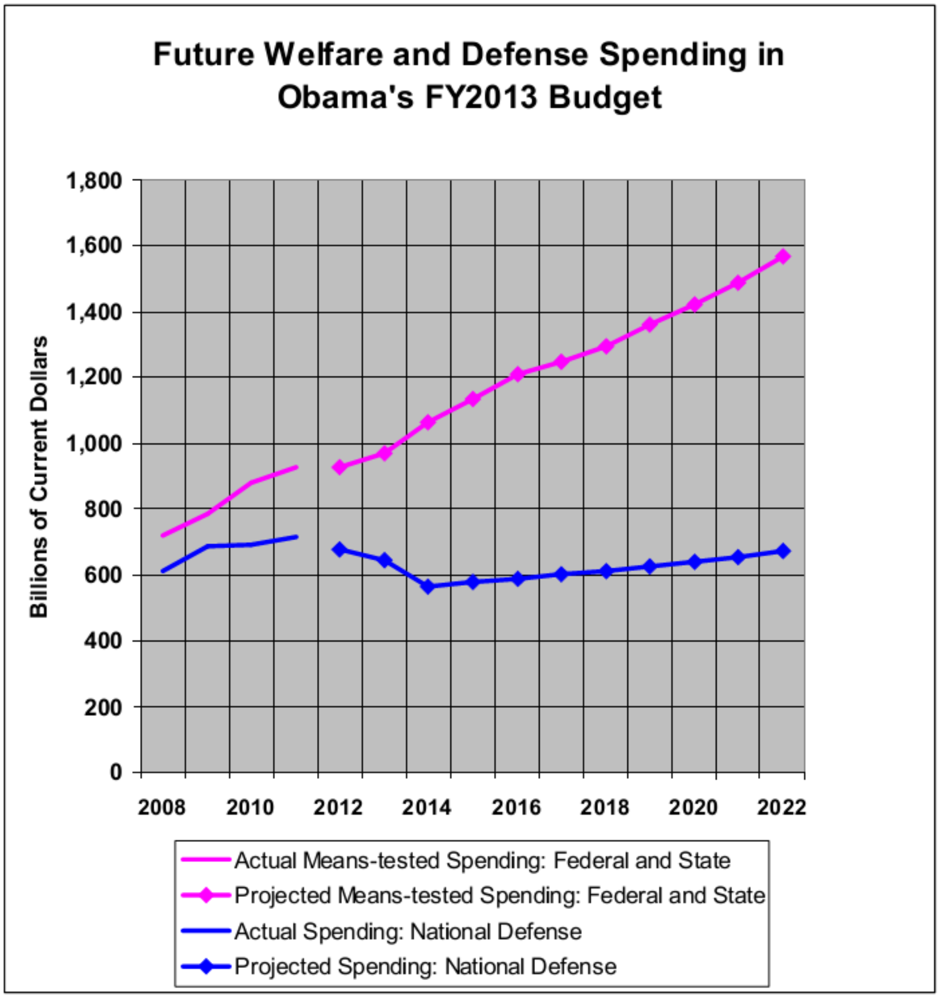


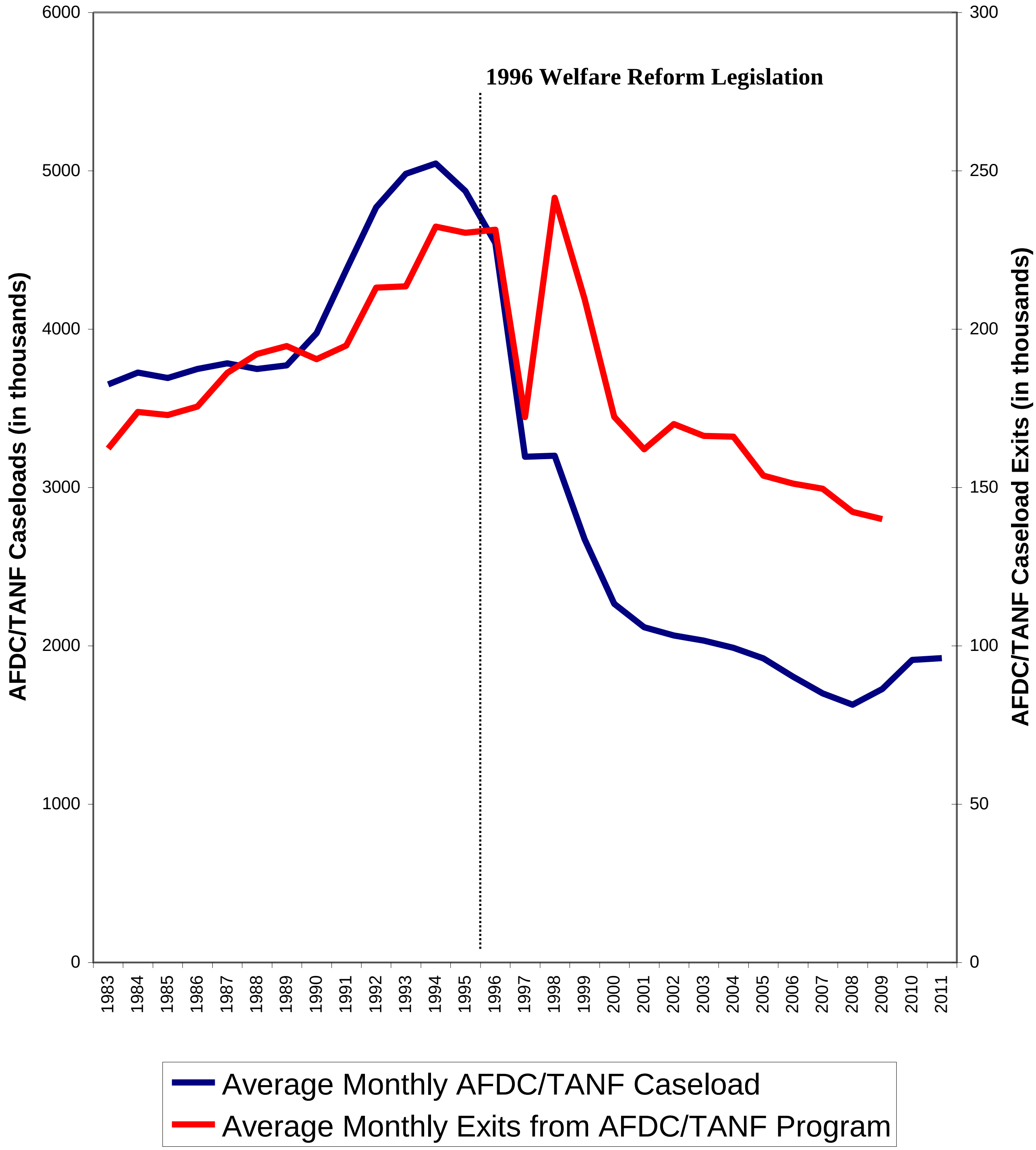
Chart 8
Projected Means-tested Welfare Spending in Obama's FY2013 Budget
Actual and Out Year Spending in Billions of Current Dollars
1,700
1,600
1,500
1,400
1,300
1,200
1,100
1,000
900
800
700
600
500
400
300
200
100
0
2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022
Projected Federal Means-tested Spending
Projected Combined Federal and State Means-tested Spending
Actual Combined Federal and State Means-tested Spending
Actual Federal Means-tested Spending

13

Chart 9


Future Welfare and Defense Spending in Obama's FY2013 Budget
Billions of Current Dollars
1,800
1,600
1,400
1,200
1,000
800
600
400
200
0
2008
2010
2012
2014
2016
2018
2020
2022
Actual Means-tested Spending: Federal and State
Projected Means-tested Spending: Federal and State
Actual Spending: National Defense
Projected Spending: National Defense

Welfare Caseloads and Welfare Exits



Work and Job Search Requirements

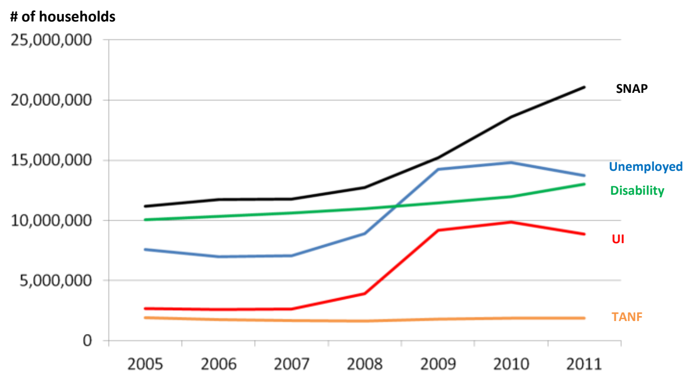
Lessons from Europe for Unemployment Insurance, Disability, and Food Stamp Programs

American Public Human Services Association
2012 National Policy Forum
June 5, 2012

Douglas J. Besharov
School of Public Policy
University of Maryland
and
The Atlantic Council of the United States

Enrollment in Select Cash and Noncash Government Programs

2005-2011

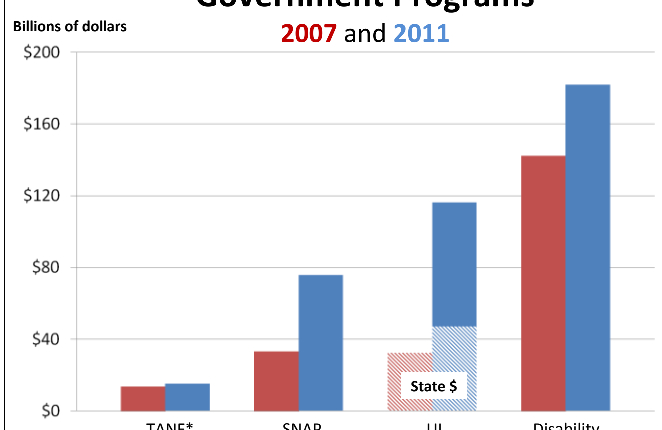


Note: All data are from most recent year available

2

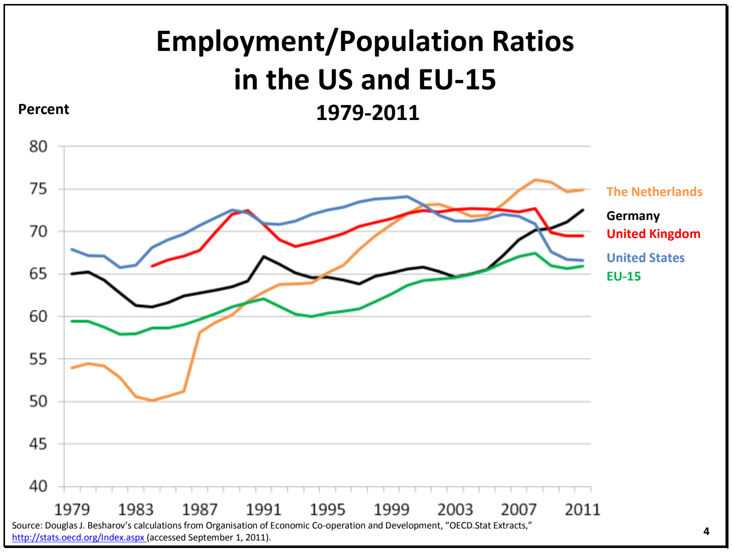
Expenditures for Select Cash and Noncash Government Programs

2007 and **2011**

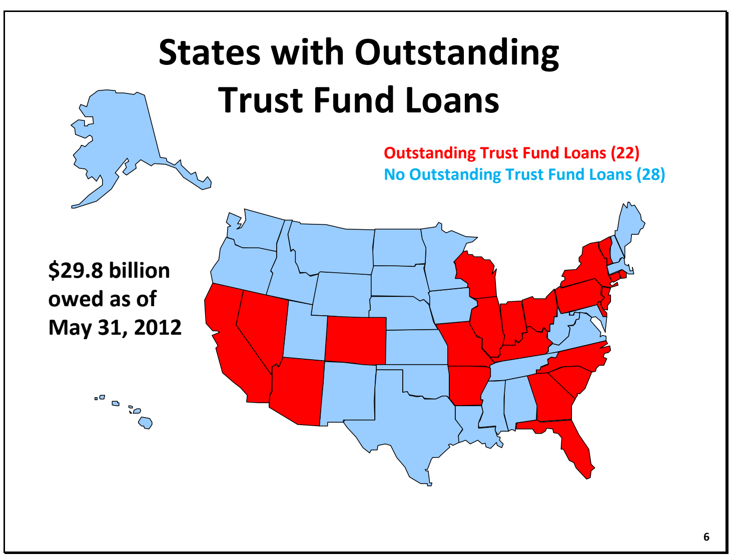


*Does not include state MOE

3



	Tighten eligibility	Limit duration of benefit receipt	Require work-first activities	Consolidate programs	Decentralize authority	Outsource services	Incentivize systems of financing and reimburse ment
Australia			X	X		X	
Denmark		X	X				X
Finland							X
France	X		X	X			X
Germany		X	X	X	X	X	X
Italy					X		
Nether-lands	X	X			X	X	X
Norway				X			
Spain						X	X
Sweden	X	X	X				
UK	X		X	X		X	



The Shape of a Possible Resolution?

- Require work-related activities
- Consolidate programs
- Devolve programs
- Incentivize high performance
- Outsource activation services
- How realistic?

7

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Labour Activation in a Time of High Unemployment

Possible Lessons for U.S. Safety Net Policy

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The United States has multiple and overlapping safety-net programs, with administration divided among various federal, state, and local agencies. The programs have varying funding processes, eligibility requirements, time limits for benefit receipt, phase-out rates, and so forth. As a result, their individual impact is often blunted and, worse, the programs can interact in ways that create counterproductive programmatic and behavioral incentives for state governments as well as recipients.

For decades, this patchwork of benefits worked for Americans who lost their jobs, at least in a hit-or-miss sort of way.

- Those with a sufficient work history[1] and not fired "for cause" are eligible for up to twenty-six weeks of Unemployment Insurance (UI) benefits, and as many as forty-six weeks if their state has an unemployment rate of 8 percent or higher (for the current downturn, temporarily extended to as many as ninety-nine weeks). In most states, benefits are about 50 percent of prior earnings, with monthly maximums ranging from about $920 in Mississippi to about $3600 in Massachusetts (if the recipient has dependents).[2]

[1]In almost all states, to receive UI benefits, the unemployed must have worked and paid into the UI fund for the first four of the previous five completed calendar quarters.

[2]Julie M. Whittaker, *Unemployment Insurance: Available Unemployment Benefits and Legislative Activity* (Washington, DC: Congressional Research Service, January 2009), http://assets.opencrs.com/rpts/RL33362_20081126.pdf (accessed June 18, 2012).

- Supplemental Nutrition Assistance Program (SNAP, formerly known as "food stamps") is also available to UI recipients, depending on their total household income. A family of three receiving the average national UI benefit of about $1200 a month would be eligible to receive a monthly SNAP benefit worth about $180.[3]

- After UI benefits expire, SNAP and Temporary Assistance for Needy Families (TANF) are available for those who are income eligible. In effect, this is a timed step-down in benefit amounts coupled with the required recourse to programs stigmatized as "welfare," and it serves as an incentive to look for and accept employment.

- The two major federal disability programs—Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI)—were designed to operate separately from UI, SNAP, and TANF, but, in actually, they are part of the broader safety net for those who cannot work.

Even before the current economic downturn, many criticized this unsynchronized set of benefits, but it is particularly ill-suited for extended periods of high and long-term unemployment like this one. To those on the left, it does not seem generous enough to enable the unemployed to spend sufficient time looking for a good job and does little to prepare them for an alternative line of work. To those on the right, the recent expansions of UI, SNAP, and disability programs have dulled the incentives to look for a job.

Using recent European developments as a model, one might propose combining all or some of the major safety-net programs into one stream of coordinated benefits and activation requirements, as have, in differing degrees, Australia, Germany, and the UK. Congressional committees, however, jealously guard their jurisdictional fiefdoms, so this idea is probably a nonstarter. Nevertheless, it seems reasonable to consider a better alignment of these programs within the current legislative framework in order to encourage employment among those who can work.

Energize existing UI activation rules

Unemployment Insurance (UI) is a "joint-federal state program" funded by state payroll taxes (on employers and employees) and general federal revenues. States pay for base unemployment compensation benefits from a dedicated payroll tax (that modestly experience rates employers) deposited into what is often called a UI trust fund. The federal government pays for state administrative costs, state employment services, the federal portion of Extended Benefits, and Emergency Unemployment Compensation (EUC). The federal government also

[3]U.S. Department of Agriculture, Food and Nutrition Service, "FNS SNAP Eligibility Screening Tool," http://www.snap-step1.usda.gov/fns/ (accessed June 18, 2012).; and U.S. Department of Labor, Employment and Training Administration, "Monthly Program and Financial Data: 2008," http://workforcesecurity.doleta.gov/unemploy/5159report.asp (accessed June 18, 2012).

provides loans to states that have exhausted their trust funds and are unable to pay UI benefits. (They may also issue bonds to cover these obligations.)

States administer the nation's unemployment compensation program, which includes determining eligibility, activation requirements (including who is required to search for work and how many contacts are required per week), amount of benefits, when recipients should accept employment, and sanctions for noncompliance. In addition, the federal government determines "the broad categories of workers that must be covered by the program, the method for triggering the EB and EUC08 programs, the floor on the highest state unemployment tax rate to be imposed on employers (5.4%), and how the states will repay UTF loans."[4]

All states require that UI recipients search for employment, although states vary in the number of required weekly contacts that must be made with employers and the type of job (full-time or part-time) that must be sought. All states also require UI recipients to accept "suitable" employment or have their benefits terminated. (Most European countries do the same, and often reduce or terminate benefits if recipients refuse to comply, as in France and the Netherlands.)

State monitoring of these requirements, however, has long been uneven. According to Andrew Clarkwest of Mathematica, "claimants are typically required to keep a log of activities to some varying degree of specificity. But they're not often required to submit it."[5] Even if job search records are submitted, states rarely verify them.[6]

The second stream of benefits, UI Extended Benefits, is jointly funded by the states and the federal government. It provides an additional thirteen weeks of unemployment insurance benefits to UI recipients in states with unemployment rates of between 6.5 percent and less than 8 percent and an additional twenty weeks of UI benefits to UI recipients in states with unemployment rates of 8 percent or higher. Because it pays for part of the benefits, the federal government has been able to attach more stringent work requirements. Recipients must make a

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[4]Katelin P. Isaacs and Julie M. Whittaker, *Unemployment Insurance: Programs and Benefits* (Washington, DC: Congressional Research Service, July 2011), 3, http://greenbook.waysandmeans.house.gov/sites/greenbook.waysandmeans.house.gov/files/images/RL33362_gb.pdf (accessed June 18, 2012)

[5]Andrew Clarkwest, "UI Work Search Working Group Kickoff Webinar," (presentation, Workforce One, Washington, DC, February 24, 2012), https://www.workforce3one.org/view/2001206041598593257 (accessed June 22, 2012).

[6]Andrew Clarkwest, "UI Work Search Working Group Kickoff Webinar," (presentation, Workforce One, Washington, DC, February 24, 2012), https://www.workforce3one.org/view/2001206041598593257 (accessed June 22, 2012); and Christopher O'Leary, "State UI Job Search Rules and Reemployment Services," *Monthly Labor Review* 129, no. 6 (June 2006): 27–37, http://www.bls.gov/opub/mlr/2006/06/art3full.pdf (accessed June 19, 2012).

weekly "systematic and sustained effort"[7] to search for "suitable work"[8] and "will furnish the State agency with each claim, tangible evidence of such efforts."[9] Failure to do so results in the loss of benefits.

The third stream of unemployment insurance benefits, Emergency Unemployment Compensation (EUC), is completely federally funded. As mentioned above, the EUC program was created by Congress in 2008 and provides an additional thirty-four weeks to UI recipients in states with unemployment rates of between 6 percent and below 8.5 percent and an additional fifty-three weeks in states with unemployment rates of 8.5 percent or higher.

When initially established, EUC eligibility and job search requirements were to be the same as for each state's regular UI program. The Middle Class Tax Relief and Job Creation Act of 2012 set a national requirement that all EUC recipients must be "actively seeking work."[10] It apears that this provision has, so far at least, made no difference in state practices.

Until the recent recession, UI programs were self-funding though taxes on employers and employees. Hence, states ordinarily had little incentive to enforce activation requirements. But the prolonged period of high unemployment has drained many of the trust funds used to pay for UI benefits. According to the U.S. Department of Labor, in June 2012, twenty-two states had outstanding loans to the federal government amounting to about $29.3 billion. Moreover, this does not include the states that issued bonds to cover the deficits in their UI trust funds.[11]

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[7]Federal regulations define a "systematic and sustained effort" to include job search throughout the week, contacts with individuals who have authority to hire, using multiple methods to search for employment, and looking for any kind of employment, not limited to the type of wage of previous employment. See Code of Federal Regulations 20 CFR 615.2(o)(8)).

[8]Katelin P. Isaacs and Julie M. Whittaker, *Unemployment Insurance: Programs and Benefits* (Washington, DC: Congressional Research Service, July 2011), http://greenbook.waysandmeans.house.gov/sites/greenbook.waysandmeans.house.gov/files/images/RL33362_gb.pdf (accessed June 18, 2012); and U.S. Department of Labor, Office of Unemployment Insurance, *Unemployment Compensation: Federal-State Partnership* (Washington, DC: U.S. Department of Labor, April 2011), http://ows.doleta.gov/unemploy/pdf/partnership.pdf (accessed June 18, 2012).

[9]Mary Ann Wyrsch, "The Department of Labor's Position on Issues and Concerns Associated With the Utilization of Telephone and Other Electronic Methods in the Unemployment Insurance (UI) Program ," (memo, U.S. Department of Labor, Employment and Training Administration, Washington, DC, June 28, 1995), http://wdr.doleta.gov/directives/attach/UIPL35-95.cfm (accessed June 22, 2012).

[10]This means that recipients must be registered for state employment services, must engage in active job search, maintain a record of that job search, and provide the state with the record of job search. George Wentworth and Marcus Emsellem, "The New Federal UI Law: Reauthorizing Federal Extension Benefits & Adopting New State Initiatives and Options," (presentation, National Employment Law Project, Washington, DC, March 27, 2012), http://www.nelp.org/page/-/UI/Webinar/New_UI_Law_Webinar.pdf?nocdn=1 (accessed June 4, 2012).

[11]U.S. Department of Labor, "Trust Fund Loans," http://workforcesecurity.doleta.gov/unemploy/budget.asp#tfloans (accessed June 25, 2012).

Could states efforts to activate the unemployed make a difference? Even now, in this time of high unemployment?

The evidence from Europe suggests that activation efforts could lead to higher levels of employment—even in the current economic environment. Recent reviews of the unemployment literature from Europe find that UI systems with activation requirements, short duration of benefits, and lower benefits tend to have lower rates of inflow onto the caseload and shorter spells of unemployment receipt.[12]

One of the most striking aspects of the programs in other advanced economies is the widespread use of private contractors to energize activation efforts, as described above. And yet, in the U.S., various and substantial political and legal obstacles exist to using them.

- *Authorize states to contract out activation UI services (as they can contract out TANF activation services), and encourage them to use performance contracting to improve results (as in Australia, Germany, the Netherlands, and the U.K.)*

Around the world, there is a growing interest in pay-for-success, social impact bonds, and similar performance-based models for contracting. In these models, the government defers some or all payments to contractors until defined outcomes are met. These efforts are still in their infancy, but have provoked widespread interest.

- *Experiment with pay-for-performance, pay-for-success, or social impact bond contracting (as in Australia, France, Germany, the Netherlands, and the UK).*

What might such energized efforts, either by state employees or contractors, involve? Using the European experience as indication of what might work:

- *Experiment with a formal system of individual notifications of job search requirements coupled with more intensive monitoring after some period of unemployment (perhaps every two to three months). All those reaching that threshold could be called in for an in-person meeting with a counselor and told that a random sample of them would be required to present evidence of ongoing and intensive job search, with failure to provide that evidence leading to a sanction (at least the termination of UI, and perhaps repayment of past benefits) (different versions of this monitoring are used in Australia, Denmark, the Netherlands, and the United Kingdom).*

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[12] Konstantinos Tatsiramos and Jan C. Van Ours, "Unemployment Insurance and Unemployment Dynamics in Europe," (paper, Labour Activation in a Time of High Unemployment conference, Paris, November 14–15, 2011), http://umdcipe.org/conferences/LaborActivationParis/Papers/Tatsiramos%20and%20Van%20Ours.pdf (accessed June 22, 2012); and Knut Roed, "Active Unemployment Insurance," (paper, Labour Activation in a Time of High Unemployment conference, Paris, November 14–15, 2011), http://umdcipe.org/conferences/LaborActivationParis/Papers/Knut%20Roed_Active%20Unemployment%20Insurance.pdf (accessed June 22, 2012).

Since 1993, the federal government mandated that all states create a Worker Profiling and Reemployment Service (WPRS) to identify the incoming UI recipients likely to stay on UI long enough to exhaust their benefits, and to provide those recipients with more intensive reemployment services.[13] But in most states, these services consist of little more than an orientation about available services followed by job search workshops. In 2004, for example, only about 15 percent of all UI recipients profiled were referred to state reemployment services. Of those referred, about 56 percent attended an orientation for reemployment services, about 34 percent participated in a job search workshop, about 31 percent received a skills assessment, and only about 7 percent received job training.[14]

Given the lack of success with the current profiling system, state policymakers might want to consider the Australian system of streams for receiving the services they need. If they are initially placed in a stream that does not meet their needs, they will end up being moved to another stream that can serve them better. The additional monitoring encourages recipients to adhere to activation requirements, and the more focused services can assist recipients in overcoming barriers to employment and shorten the duration of their UI spell.

- *Experiment with a multi-tiered system of screening and services based on the work-related needs of recipients, with a process for moving from less intense streams to more intense streams if they are not making progress (as in Australia).*

Focus UI benefits on encouraging reemployment

All states impose job search requirements on UI recipients, but, as mentioned above, implementation is uneven.[15] Instead, most states relied (until recently, at least), on relatively short benefit periods as an incentive for the unemployed to seek and accept what were usually a large number of available jobs. It is time for this passive approach to reconsidered.

As part of the federal government's response to the 2007–2009 recession, the maximum UI benefit period was extended considerably, from twenty-six or forty-six weeks (the latter for states with unemployment rates of 8 percent or higher) to ninety-nine weeks (in states with unemployment rates of 8.5 percent or higher). Whether extending the maximum benefit period was good policy at the time, whether it should have been coupled with more forceful activation mandates and job training offerings, and whether it should have been continued at that length, are now moot questions. The 2010 election of a Republican House of Representatives resulted in

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[13] Stephen A. Wander, *Solving the Reemployment Puzzle: From Research to Policy* (Kalmazoo, MI: Upjohn Institute, 2010).

[14] Christopher J. O'Leary, Stephen A. Wandner, and Randall E. Eberts, *Profiling for Public Workforce Investment Programs in the United States* (Kalmazoo, MI: Upjohn Institute, 2006), http://research.upjohn.org/cgi/viewcontent.cgi?article=1042&context=reports (accessed June 11, 2012).

[15] Christopher O'Leary, "State UI Job Search Rules and Reemployment Services," *Monthly Labor Review* 129, no. 6 (June 2006): 27–37, http://www.bls.gov/opub/mlr/2006/06/art3full.pdf (accessed June 19, 2012).

a reduced maximum of seventy-three weeks in 2012, and further reductions seem to be in store.

Many are pushing for a return to the pre-recession standard of twenty-six or forty-six weeks, even as others are arguing for a continuation and an expansion of benefits. The European experience (and the earlier, informal U.S. practice) suggests a middle ground in which benefit structures are used to encourage job seeking.

There is reasonably strong evidence that time-limited and stepped-down UI benefits encourage recipients to look harder for jobs or be less selective in the jobs they are willing to accept. Essentially, the prospect of losing benefits can focus the mind. Summarizing research on the effect of time limits, David Grubb of the Organisation for Economic Co-operation and Development (OECD), for example, found that in most countries, "job-finding rates do increase around the time of benefit exhaustion."[16]

- *Establish one (or more) timed step-downs in benefits that would encourage job seeking without causing as much economic pain as a total termination of benefits. This could be accomplished either within UI (as in Denmark for social assistance) or by transferring recipients to a less generous social assistance program (as in Denmark, Germany, and the Netherlands).*

One might also consider positive incentives. Japan, for example, provides lump sum cash incentives for Employment Insurance (EI) recipients who find employment before exhausting their EI benefits. The amount of the lump sum is determined by multiplying a specified percentage (based on past employment) by the number of days of UI eligibility remaining and by the daily benefit amount.

Research in the U.S. provides initial support for this approach. In the late 1980s, Mathematica Policy Research performed a randomized experiment of a similar approach in New Jersey. In addition to being required to participate in job search, UI recipients in their eighth week of benefit receipt were offered a lump sum bonus equal to 50 percent of their remaining UI benefit upon finding employment. The value of the bonus decreased 10 percent each week until it was no longer available. Sixty percent of the bonus was paid after the recipients had been employed for four weeks and the remaining 40 percent was paid after twelve weeks of employment. At both the one-year and six-year follow-ups, the researchers found that the program group spent two weeks less on UI than did the control group.[17] Unfortunately, the small amount of improvement (total savings were only $165 per recipient) seems to have discouraged

[16]David J. Grubb, "Unemployment Benefits and Activation as Influences on Labour Market Outcomes," (presentation, Labour Activation in a Time of High Unemployment conference, Paris, November 13–14, 2011), http://umdcipe.org/conferences/LaborActivationParis/Papers/David%20Grubb-2011-UBactivation_11_1108.pdf (accessed June 25, 2012).

[17]Walter Corson and Joshua Haimson, *The New Jersey Unemployment Insurance Reemployment Demonstration Project: Six-year Follow-up and Summary Report* (Princeton, NJ: Mathematica, 1996); and Stephen A. Wander, *Solving the Reemployment Puzzle: From Research to Policy* (Kalmazoo, MI: Upjohn Institute, 2010).

pursuit of this idea.

- *Experiment with different approaches to reemployment bonus programs that provide UI recipients who find work rapidly a lump sum bonus equivalent to a percent of their remaining UI benefit (as in Japan).*

Such reemployment bonuses must be designed carefully, however. In the 1990s, Canada experimented with a reemployment bonus program that provided wage supplements to UI recipients who found employment that paid less than their previous employment. Using a randomized experiment design, MDRC researchers found no differences in the duration of UI receipt between the program and control groups, mainly due to low take-up of the program. Follow-up interviews with program group recipients found that the participants considered the supplements irrelevant to their search for employment because they were looking for a job that best fit their interests and skills or they were looking to be retrained in another profession.[18]

There are other possible uses of lump sum payments. In Spain, UI recipients may withdraw a lump sum equivalent to as much as a year's worth of UI benefits to start a business.[19] A roughly similar program is contained in the Middle Class Tax Relief and Job Creation Act (MCTRJCA) of 2012, which authorized a $30 million grant program under which states can apply to create Self-Employment Assistance programs to help UI recipients involved in entrepreneurial activities. To obtain assistance from a state's Self-Employment Assistance program, UI recipients must submit a business plan and be eligible to receive benefits for at least thirteen weeks. Participants are exempt from job search requirements and may stay in the program for twenty-six weeks. States may require recipients to participate in entrepreneur training.[20] (Germany has a similar program.)

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[18]Howard Bloom, Saul Schwartz, Susanna Lui-Gurr, Suk-Won Lee, Jason Peng, and Wendy Bancroft, *Testing a Re-employment Incentive for Displaced Workers: The Earnings Supplement Project* (Ottawa: Social Research and Demonstration Corporation, May 1999), http://www.srdc.org/uploads/testing.pdf (accessed June 22, 2012).

[19]Lorna Adams and Katie Oldfield, *Welfare to Self-Employment* (London: IRF Research, February 2012), http://www.bis.gov.uk/assets/biscore/enterprise/docs/w/12-511-welfare-to-self-employment (accessed June 18, 2012).

[20]See Steve Mintz, "From Unemployed to Self-Employed: New Law Ignores Moral Hazard," *Pacific Coast Business Times*, March 9, 2012, http://www.pacbiztimes.com/2012/03/09/from-unemployed-to-self-employed-new-law-ignores-moral-hazard/ (accessed June 11, 2012); Jane Oates, "The Middle Class Tax Relief and Job Creation Act of 2012 (Public Law (P.L.) 112-96) – Provisions on Self-Employment Assistance Programs," (memo, Department of Labor, Washington, DC, May 24, 2012), http://wdr.doleta.gov/directives/attach/UIPL/UIPL_20_12_acc.pdf (accessed June 11, 2012); U.S. Department of Labor, *Department of Labor Listening Sessions: Self Employment Assistance (SEA) and Short Time Compensation (STC)* (Washington, DC: U.S. Department of Labor, 2012), http://www.uwcstrategy.org/Home/pdfs/STC_SEA_Listening_Sessions.aspx (accessed June 11, 2012); and U.S. Senate, Committee on Finance, "Summary of The Middle Class Tax Relief and Job Creation Act of 2012," http://www.finance.senate.gov/newsroom/chairman/release/?id=c42a8c8a-52ad-44af-86b2-4695aaff5378 (accessed June 18, 2012).

A number of Latin American countries, for example, explicitly allow UI recipients to access their Unemployment Insurance Savings Accounts for lump sum payments toward education expenses. One of the most disappointing aspects of the government's response to the current high rate of joblessness has been the relatively small increases (compared to the need) in job training and education for the unemployed.

- *Experiment with programs that allow UI recipients to withdraw a specified amount of what could have been their UI benefits as a lump sum to pay for employment-related activities that are likely to help with getting a job. The money could be used, for example, to pay for specialized job training, relocation costs to move to another area for a job or to be in an area with jobs, to pay to remedy any conditions that might be a barrier to employment, or, even, to start a business (as in Spain and some Latin American countries).*

As with lump sum TANF diversion grants,[21] recipients of such UI lump sum payments should be ineligible to receive additional UI benefits for a specified period of time, at least for the equivalent number of months for which they received benefits. The process might include the submission of a detailed training or business plan, participation in business training, and regular counseling and monitoring follow-ups (as under the Middle Class Tax Relief and Job Creation Act of 2012 and as in Germany, although the latter uses supplements to regular UI benefits not a lump sum).

Synchronize SNAP rules with UI and TANF

Since 2000, the SNAP program has tripled in size. Between 2000 and 2011, SNAP grew from $22.3 billion to $75.7 billion (in 2011 dollars). In comparison, in 2011, combined state and federal spending on UI was $116 billion ($47 billion state, and $69 billion federal). SNAP's explosive growth was the result of a major liberalization of benefits, as well as the economic downturn.[22]

SNAP is often portrayed as a nutritional program but, in reality, it is a form of income support—because it frees up household funds for other purchases. Hence, economists consider it

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[21]In the U.S., a number of states provide "diversion grants" to applicants of the TANF program. These grants are lump sum payments equivalent to three or four months of TANF benefits as a way to assist those with short-term or temporary needs without putting them on welfare. Recipients are then ineligible to receive benefits for the equivalent number of months they received in benefits.

[22]Margaret Andrews and David Smallwood, "What's Behind the Rise in SNAP Participation?" *Amber Waves* 10, no. 1 (March 2012), http://www.ers.usda.gov/amberwaves/march12/features/snaprise.htm (accessed June 25, 2012).

a form of non-cash economic assistance, that is, welfare.[23]

Because SNAP's income eligibility reaches as high as about $29,000 for a household of four, it provides aid to the employed as well as the unemployed. For the employed, it is akin to the Earned Income Tax Credit (EITC). Hence, program rules should take into consideration the differences between working and nonworking recipient households. (Actually, any programmatic demarcation would be complicated, and would probably include various thresholds.)

In 2010 (the latest year that data are available), about 70 percent of all SNAP households had no earnings, that is, there were no earners in the household.[24] And only about 8 percent of these families were on TANF, so the rest, about seventeen million households, are essentially receiving a form of welfare—but they receive benefits without any time limits or requirements to look for work. (About 21 percent of SNAP households also receive SSI).[25]

Indeed, SNAP benefits undermine UI and TANF activation efforts—because benefits rise if UI or TANF are terminated. If the average UI recipient (in a three-person household) loses benefits, monthly SNAP benefits rise from about $180 to about $530. If the average TANF recipient (in a three-person household) loses benefits (about $430 a month), then monthly SNAP benefits rise from about $400 to about $530 a month.

The absence of activation requirements in the SNAP program is an accident of history and politics, and there is no reason not to impose reasonable ones. After all, no other OECD country has a SNAP-like program (although they exist in Brazil, Jamaica, and Sri Lanka).[26] Instead, almost all developed countries have subsistence programs that provide cash, not food

[23]See, for example, Herwig Immervoll, "Minimum-Income Benefits in OECD Countries: Policies and Challenges," (paper, Measuring Poverty, Income Inequality, and Social Exclusion: Lessons From Europe, Paris, France, March 17, 2009), http://umdcipe.org/conferences/oecdumd/conf_papers/Papers/Minimum-Income%20Benefits%20in%20OECD%20Countries--Policies%20and%20Challenges.pdf (accessed June 11, 2012).

[24]U.S. Department of Agriculture, Food and Nutrition Service, Office of Research and Analysis, *Building a Healthy America: A Profile of the Supplemental Nutrition Assistance Program* (Alexandria, VA: U.S. Department of Agriculture, April 2012), http://www.fns.usda.gov/ora/MENU/Published/snap/FILES/Other/BuildingHealthyAmerica.pdf (accessed June 18, 2012).

[25]U.S. Department of Agriculture, Food and Nutrition Service, Office of Research and Analysis, *Building a Healthy America: A Profile of the Supplemental Nutrition Assistance Program* (Alexandria, VA: U.S. Department of Agriculture, April 2012), http://www.fns.usda.gov/ora/MENU/Published/snap/FILES/Other/BuildingHealthyAmerica.pdf (accessed June 18, 2012).

[26]Tim Josling, *Global Food Stamps: An Idea Worth Considering?* (Geneva: International Centre for Trade and Sustainable Development, August 2011), http://ictsd.org/downloads/2011/12/global-food-stamps-an-idea-worth-considering.pdf (accessed June 12, 2012).

vouchers, and that often impose activation requirements. The requirements just need to be reasonable given that the SNAP is essentially the last benefit available to most of the poor. (And, those already working would have to be exempted, although developing a meaningful, and not easily gamed, distinction would be a challenge.)

- *Impose activation requirements on SNAP recipients similar to those in UI or, better, TANF (as do Australia, Denmark, Germany, the Netherlands, and the UK do in their subsistence cash welfare programs).*

Since SNAP is a federal program administered by the states, such activation requirements would be set by the federal government but would have to be implemented by the states. Given the states' lackluster implementation of UI's activation rules, one should ask why they would do any better in the SNAP program, especially since the federal government foots the entire benefits bill. The answer lies in the experience with TANF. After TANF was made into a block grant with states able to enjoy the full financial benefits of reduced caseloads, they had a strong incentive to continue their welfare reform efforts.

Although states administer SNAP programs (and decide who will receive benefits), they are not required to pay any percentage of the costs of the programs. Therefore, they not only have no incentive to reduce the caseloads of these programs, but have an incentive to increase caseloads by shifting recipients of their state-funded TANF programs to federal programs, while keeping the resulting savings. In contrast, because states can keep the money that they save in TANF, they are more cautious with spending and focus on limiting the growth of the caseload.

Hence, states are financially rewarded when they move people off UI and TANF (programs with at least the some activation requirements) and onto SNAP and disability programs (programs with no activation requirements). This incentive was not created deliberately, but, rather, is a historic accident of how and when the programs were established. This problem would be fixed if SNAP were made a block grant. But, as an alternative, the incentive would be reduced if the funding formula were changed so that states had to contribute to the cost of SNAP benefits.

Some European countries are well aware of such incentives and have modified their funding systems to give the local governments administering national programs an incentive to reduce caseloads. For example, the Netherlands provides social assistance funding to municipalities based on an econometric model that takes into account the past number of recipients and, in larger municipalities, other demographic and regional labor market factors to estimate how many social assistance claimants the municipality *should* have. If the number of claimants exceeds the estimated number, than the municipality has to pay the difference out of municipal funds. If the number is lower, than the municipality is allowed to keep the excess.

- *Make SNAP into a capped block grant or simply allow states to keep all or a substantial portion of any savings that result from reduced caseloads (as in the Netherlands). Alternatively, in order to reduce the incentive for states to move recipients from UI and*

TANF to SNAP, require states to contribute to the costs of SNAP benefits, not just to its administration.

(Because the SSDI and SSI are federally operated, corrective action for recipient transfers to them are properly handled within that program.)

Align benefit levels and phase-outs across programs

The varied eligibility requirements, benefit phase-out rates, and time limits of these safety-net programs create high marginal tax rates for recipients reentering the workforce (or able to earn more through a promotion or by working more hours). Considering all the programs for which a family could be eligible (TANF, SNAP, the EITC, UI, child care, housing benefits, and health benefits), Adam Carasso and Eugene Steuerle of the Urban Institute estimate that, in 2005, the average marginal tax rate for households making between $10,000 and $40,000 was about 89 percent.[27] That is an admittedly extreme case, but consider the much more likely possibility: according to other Urban Institute researchers, if a mother working twenty hours a week increased her hours to thirty-five hours a week (to an annual income of around $13,000), her income would only increase 20 percent because of corresponding declines in government benefits.[28]

Few pay that rate, of course, but the prospect of even a 50 percent marginal tax rate surely changes recipient behavior. It may explain the failure of welfare leavers to report incomes much above $20,000 per year.[29]

Further complicating the incentives facing low-income workers, as we saw, the lack of alignment of benefit rules also allows SNAP benefits to increase when UI, TANF, and other programs are terminated or reduced.

- *Align phase-out rates of benefits across government programs to create a consistent marginal tax rate (as the UK did with its Universal Work Credit including tax credits, social assistance, disability benefits, and housing credits).*

Recognize the different levels of disability

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[27]Adam Carasso and Eugene Steuerle, *The Hefty Penalty on Marriage Facing Many Households with Children* (Washington, DC: Urban Institute, 2005), http://futureofchildren.org/futureofchildren/publications/docs/15_02_09.pdf (accessed June 18, 2012).

[28]Gregory Acs, Norma Coe, Keith Watson, and Robert I. Lerman, *Does Work Pay? An Analysis of the Work Incentives Under TANF* (Washington, DC: Urban Institute, 1998), http://www.urban.org/PDF/occa9.pdf (accessed June 22, 2012).

[29]See, for 2002, Pamela J. Loprest, *Fewer Welfare Leavers Employed in Weak Economy* (Washington, DC: Urban Institute, 2003), http://www.urban.org/publications/310837.html (accessed June 25, 2012).

Since 2000, the two major federal disability programs, Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) have experienced large increases in spending and in caseloads. Between 2000 and 2010, spending on SSDI benefits almost doubled, going from about $74.2 billion to about $127 billion and the caseload increased from 6.7 million to 10.2 million.[30] For SSI, in the same period, spending increased from $41.4 billion to $51.9 billion and the caseload increased from 6.6 million to 8.1 million.[31] (The number of children receiving SSI increased from about 850,000 to 1.3 million.)[32]

The Federal Social Security Disability Insurance (SSDI) program began in 1956, but coverage was limited to workers with disabilities aged fifty and older. It now provides an average of about $11,500 annually to disabled workers (and their spouses and children) who paid payroll taxes for at least ten years, or, for those under thirty-one, who paid payroll taxes for at least six quarters.

Supplemental Security Income (SSI) was enacted in 1972, replacing a patchwork of state-funded and state-administered programs for the low-income elderly and the disabled (including Old-Age Assistance, the Aid to the Permanently and Totally Disabled, and Aid to the Blind).[33] SSI is a means-tested benefit for the low-income elderly, blind, and otherwise disabled adults and children.[34]

In recent years, attempts have been made to encourage SSDI and SSI recipients to work,

[30]Social Security Administration, "Disabled Worker, Spouse of Disabled Worker, Child of Disabled Worker," http://www.ssa.gov/cgi-bin/currentpay.cgi (accessed June 25, 2012).

[31]Social Security Administration, "SSI Federally Administered Payments: Table 1. Recipients (by type of payment), total payments, and average monthly payment, January 2000–December 2000," http://www.ssa.gov/policy/docs/statcomps/ssi_monthly/2000/table01.html (accessed June 25, 2012); and Social Security Administration, "SSI Federally Administered Payments:Table 1. Recipients (by type of payment), total payments, and average monthly payment, January 2011–December 2011," http://www.ssa.gov/policy/docs/statcomps/ssi_monthly/2011/table01.html (accessed June 25, 2012);

[32]Social Security Administration, "SSI Federally Administered Payments: Table 2. Recipients, by eligibility category and age, January 2000–December 2000," http://www.ssa.gov/policy/docs/statcomps/ssi_monthly/2000/table02.html (accessed June 25, 2012); and Social Security Administration, "SSI Federally Administered Payments: Table 2. Recipients, by eligibility category and age, January 2011–December 2011," http://www.ssa.gov/policy/docs/statcomps/ssi_monthly/2011/table02.html (accessed June 25, 2012).

[33]Edward D. Berkowitz, "Disability Policy and History: Statement Before the Subcommittee on Social Security of the Committee on Ways and Means," (testimony, Committee on Ways and Means, Washington, DC, July 13, 2000), http://www.ssa.gov/history/edberkdib.html (accessed June 22, 2012); and Mary C. Daly and Richard V. Burkhauser, "The Supplemental Security Income Program," in *Means-Tested Transfer Programs in the United States*, ed. Robert A. Moffitt (Chicago: University of Chicago Press, 2003), 79–139, http://www.nber.org/chapters/c10255.pdf (accessed June 22, 2012).

[34]Social Security Administration, "What is Supplemental Security Income?" http://www.ssa.gov/pgm/ssi.htm (accessed June 18, 2012).

most notably through earnings disregards and the Ticket to Work program which provides vouchers for rehabilitative services, employment services, or other needed support services to help the recipient become more employable. A Mathematica evaluation of the program found the program to be largely unsuccessful because an overall lack of interest in returning to employment led to a take-up rate of about 1.5 percent. [35]

One problem is that both SSDI and SSI use a dichotomous definition of "disabled" (that is, one is either completely disabled or one is not disabled). Disabled "is defined as the inability to engage in substantial gainful activity (SGA) by reason of a medically determinable physical or mental impairment expected to result in death or last at least 12 months."[36]

This either/or approach to eligibility is widely seen as a barrier to employment. Many experts think that SSDI and SSI recipients, often having waited a year or more before being declared disabled, are justifiably reluctant to even look for work for fear of then being declared no longer disabled.

Moreover, SSDI recipients lose their benefits if they have earnings above a specified earnings limit, but are able to keep 100 percent of their earnings below the specified limit and the entirety of their benefits.[37] No partial benefits are provided. Therefore, SSDI recipients do not have an incentive to take full-time employment unless it exceeds the amount they are already making by combining disability benefits and part-time work. And because benefits are not reduced for each additional dollar of earnings, the effect of exceeding the specified limit is magnified as it represents 100 percent loss of benefits.

SSI recipients, on the other hand, have their first $65 in earnings disregarded but then lose 50 cents in benefits for each additional dollar earned until their earnings exceed the maximum allowed amount.

For many recipients, these factors contribute to making participation in the labor force a less attractive option than continuing to receive disability benefits.

In contrast to the U.S., OECD countries typically have a short-term program for the

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[35]Craig Thornton, Gina Livermore, Thomas Fraker, David Stapleton, Bonnie O'Day, David Wittenburg, Robert Weathers, Nanette Goodman, Tim Silva, Emily Sama Martin, Jesse Gregory, Debra Wright, Arif Mamun, *Evaluation of the Ticket to Work Program: Assessment of Post-Rollout Implementation and Early Impacts* (Princeton, NJ: Mathematica, 2007), http://communications.mathematica-mpr.com/publications/PDFs/TTWpostrolloutvol1.pdf (accessed June 25, 2012).

[36]Tim Zayatz, *Social Security Disability Insurance Program Worker Experience* (Washington, DC: Social Security Administration, 2011), http://www.ssa.gov/oact/NOTES/pdf_studies/study122.pdf (accessed June 22, 2012).

[37]Disability recipients are also given nine "trial months" where they may earn more than the cap on earnings without losing their benefits.

temporarily sick and disabled and a long-term program for the permanently (both partially and fully) disabled. The short-term program facilitates providing more intense services that might prevent temporary disabilities from becoming permanent ones, and eases the status review because a difficult to reverse determination of permanent disability has not yet been made.

- *Establish a "temporary disability" category of benefits, perhaps time-limited—and parallel procedures to assess temporary vs. permanent disability (as in the Netherlands and Sweden).*

Instead of a temporary disability category, the U.S. relies on a difficult to implement categorization process. In the SSDI and SSI programs, conditions where improvement is "expected" are reviewed every twelve-to-eighteen months, conditions where improvement is "possible" are reviewed every three years, and conditions where improvement is "unlikely" are reviewed every five-to-seven years.[38] The disadvantage of this system is that an inaccurate assessment of the duration of an individual's disability can lead to an extended spell of disability receipt during which the individual might have been able to return to work.

- *Establish more frequent and more intensive monitoring of disability status (as in the Netherlands, Sweden, and the UK).*

As in TANF, use incentivized private contractors to operate such programs (see above).

Perhaps most important, the system should recognize that not all disabilities totally prevent employment. A partial disability category could encourage part-time or protected employment.

- *Establish a "partial disability" category of benefits—and parallel procedures to assess the extent of a disability and work capacity (as in the Netherlands and the UK). And require them to participate in labor activation programs such as job search or job training (as in the UK). Lower the payments to those found able to work but who do not, and, perhaps, raise the benefits of those who work (as in the Netherlands).*

The portion of the SSI program for disabled children is apparently unlike anything found in other countries. The parents of disabled children receive a means-tested grant to care for their children. The problem is that, like the SSDI grant, it is typically larger than what a low-income family would receive under TANF. A family with one disabled individual receives $698 per

[38]Scott Szymendera, *Primer on Disability Benefits: Social Security, Disability Insurance (SSDI) and Supplemental Security Income (SSI)* (Washington, DC: Congressional Research Service, February 2010), http://aging.senate.gov/crs/ss27.pdf (accessed June 19, 2012).

month, which is higher than the monthly TANF benefits for a family of three in all but one state (Alaska).[39] (The median TANF grant for a family of three is $429.)[40]

That parental earnings reduce the size of the grant serves as a further disincentive for low-income families to seek employment. As with the disabled or elderly receiving SSI, the SSI benefits of a disabled child are reduced 50 cents for each additional dollar of the family's earnings after a $65 earnings disregard.

Other OECD countries also have programs for disabled children, but these programs are typically earnings supplements that are aimed at increasing the overall income of a family while still allowing the parents to work. Hence, the size of the grant is usually not reduced as income rises.

- *Modify the SSI program for children so that the income supplement to the low-income parents of disabled children is not a disincentive to employment and, if possible, is an incentive to employment (as in Denmark, the Netherlands, Sweden, and the UK). One possibility is to apply a similar benefit structure as the EITC with a phase-in rate, plateau, and modest phase-out rate.*

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[39]Liz Schott and Ife Finch, *TANF Benefits Are Low and Have Not Kept Pace With Inflation Benefits Are Not Enough to Meet Families' Basic Needs* (Washington, DC: Center for Budget and Policy Priorities, October 2012), http://www.cbpp.org/cms/index.cfm?fa=view&id=3306 (accessed June 22, 2012); and Social Security Administration, "SSI Federal Payment Amounts for 2012," http://www.ssa.gov/oact/cola/SSI.html (accessed June 22, 2012).

[40]U.S. House of Representatives, Committee on Ways and Means, *2011 Green Book: Background Material and Data on the Programs Within the Jurisdiction of the Committee on Ways and Means* (Washington, DC: Government Printing Office, 2011), http://greenbook.waysandmeans.house.gov/ (accessed June 25, 2012).

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Performance-Based Contracts in New York City

Lessons Learned from Welfare-to-Work

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Since the TANF program changed the focus of the welfare system from mere cash delivery to the more complex and demanding participation in work and work-related activities, New York City's Human Resources Administration (HRA) has used contracting-out to expand employment service capacity and to restructure the service delivery system to be more flexible. This paper describes the use of payment milestones within these contracts, the effectiveness of these milestones, and significance of the changes in the structure of these contracts over several iterations from 1999 to the present. The paper presents four key lessons learned by HRA that will be helpful to the state and local governments in successfully designing, implementing, and managing their welfare-to-work contracts to achieve desired results.

Introduction

In 2011, the nation saw the fifteenth anniversary of the enactment of the Personal Responsibility and Work Opportunities Reconciliation Act (PRWORA). Following the promise of President Clinton to end "welfare as we know it," nearly every aspect of the system has been transformed over the last decade and a half. PRWORA provided significant freedom to states and localities to implement services. As the largest social service district in the nation and early adopter of landmark welfare reform strategies, the New York City experience in implementing PRWORA was especially unique. The City's need for a transformation of the large scale service delivery system presented numerous challenges, but also provided opportunities to improve the well-being of New Yorkers in generational poverty.

A key element of PRWORA was its use of performance measures and incentives to enforce its goals of employment and self-sufficiency. The federal government required states to engage a large share of the heads of households receiving welfare in work-related activities — or reduce the number of cases on assistance by an equivalent proportion. To meet these requirements, many states imposed performance requirements in turn on their own local welfare offices or on private agencies contracting with states to provide services. New York City has been one of the most innovative local governments in using performance measures and financial incentives to shape the implementation of their welfare reforms.

This paper shares the key lessons learned from over a decade of implementing performance-based welfare-to-work employment contracts at New York City's Human Resources Administration (HRA)/Department of Social Services. It describes the changes in the contract model since the late 1990s. This evolutionary process of adaptation is part of a continual process of learning and improving performance, keeping services aligned with the ever changing needs of poor New Yorkers.

HRA's development of these contract models has resulted in four key lessons. First, the design of the contract payment milestones can be a powerful engine for influencing what service providers do. Second, a strong technology and management infrastructure is an essential prerequisite for managing relationships with contractors. Third, managing a portfolio of contracted vendors requires careful attention to each vendor's unique capacity and performance as well as the effectiveness of its strategies. Finally, on-going adaptation and flexibility are necessary to improve system performance; performance-based systems cannot remain effective without frequent monitoring and adjustment.

Welfare Reform and Welfare-to-Work Contracts in New York City

Onset of Welfare Reform

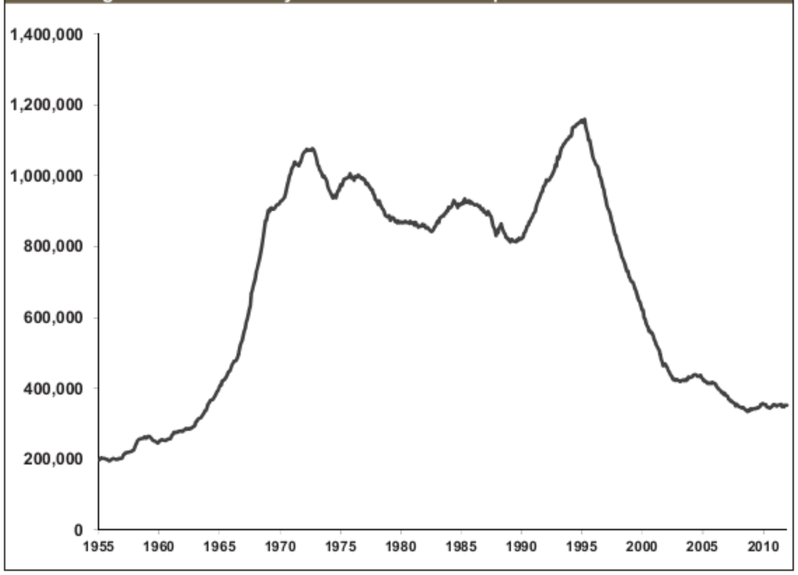
The enactment of The Personal Responsibility and Work Opportunities Reconciliation Act (PRWORA) by Congress in 1996 replaced the federal entitlement program, Aid to Families with Dependent Children (AFDC), with a new federal program, Temporary Aid to Needy Families (TANF). PRWORA brought about many changes in programs for low-income families in the U.S. For instance, a new work requirement for benefit recipients shifted the emphasis of cash assistance programs from income maintenance to finding employment.[1] The work requirement, along with the time limit and the caseload reduction credit, were partly responsible for reducing the size of the cash assistance caseload and increasing client participation in work activities.

Under PRWORA, states were given greater discretion over how to utilize the funds they received. This gave states freedom to develop innovative strategies for moving cash assistance recipients into jobs. In this new environment some states and localities began to change their core approach to delivering services, and utilized nongovernmental contractors to supply services that had long been provided by the public sector. While some states contracted-out core operations such as determining eligibility for benefits, a more common practice was to contract for welfare-to-work services, where vendors worked with welfare recipients to prepare for jobs and to find employment.[2] New York City embraced this strategy, becoming a large-scale, high-profile example of this new model.

Welfare Reform in NYC

Reforming welfare programs in New York City had gained attention as early as 1993 with the election of Mayor Rudolph Giuliani, whose campaign platform included reducing the City's welfare population. With over one million individuals receiving welfare in a city with a total of eight million residents, his campaign highlighted this as a significant social and financial concern. When the election was held, one out of every eighteen cash

Figure 1. New York City Cash Assistance Recipients from 1955 to 2011



Source: New York City Human Resources Administration.

recipients in the nation lived in New York City.[3]

In 1995, when the caseload peaked at over 1.1 million, the Giuliani administration's initial set of efforts to reduce the cash assistance caseload focused on reducing fraud. The City soon began to see a significant and sustained decrease in the size of the cash assistance caseload for the first time in years (Figure 1). Following this early caseload decline, the passage of PRWORA in 1996 provided the City with the additional tools to increase the scale and depth of services needed to move recipients from welfare into work.

Like many other state and local government welfare agencies, New York City's HRA did not have strong employment components in its programs in the mid-1990s. But the City began to make large structural changes in the delivery of employment services for welfare recipients with the 1998 appointment of Jason Turner as commissioner of HRA. Turner believed that all welfare recipients could and should find jobs or participate in activities leading to employment as paths to individual self-sufficiency.

Under the Turner administration, the agency implemented strategies to engage the entire caseload in appropriate employment-related activities. Those with barriers that limited their ability to fully participate in employment programs were engaged through alternative activities. This strategy, also known as "full engagement," required that HRA develop a wide range of programs to meet the diverse needs of the entire cash assistance caseload. To simulate an employment work week, the City established a requirement that individuals receiving assistance participate in 35 hours of activities each week, a threshold above the federal benchmark of 30 hours. To accompany this new strategy, HRA also increased its focus on sanctions and sanction-related program components for those who failed to comply with required activities.

Commissioner Turner's philosophy was that the nongovernmental sector would be most effective at providing the services needed to move welfare recipients into employment. He strongly believed that contracting out would enable NYC to expand capacity and restructure the employment service delivery system quickly and with flexibility. According to his first Deputy Commissioner Mark Hoover, "Government is best at setting outcomes, designing policy and overseeing and supervising performance. It is not great at operational activities and service delivery. There are simply too many processes and inefficiencies. Contracting out is better, cheaper and more flexible, allowing you to add and subtract when needed."[4]

1999-2002

New York City implemented this new vision for employment services in 1999 through two new programs. The Skills Assessment and Job Placement (SAJP) program focused on servicing cash assistance applicants when their application for assistance was pending. The Employment Services and Placement (ESP) program focused on services for individuals who were receiving cash assistance.[5] Services for both programs were delivered by nongovernmental contractors, and consolidated what had been a network of approximately 100 relationships funded through the Job Training Partnership Act into five contracts for SAJP and twelve contracts for ESP. In procuring the contracts, HRA sought contractors who could operate at the large scale demanded by the new program design. Service providers that lacked experience operating at a large scale or that did not possess a robust network of employment opportunities were encouraged to partner with other larger organizations. Similarly, organizations that had special strengths in training or case management, but lacked job placement expertise, could work with larger organizations that would be responsible to HRA for overall contractual performance.[6]

The organizations that were awarded contracts included a wide range of service providers. They included nonprofit organizations, for-profit companies, and community colleges. The vendors included a mix of large and small organizations, as well as both national and local contractors. Some of these contractors, often referred to as primary or prime contractors, then entered into subcontractual relationships with other organizations to provide some of the services, while the prime contractor retained overall responsibility for performance and management of the contract.

The new contracts employed a 100 percent performance-based payment structure; all payments to the contractor were based on the contractor's ability to achieve employment outcomes for the clients they served.

The new contracts employed a 100 percent performance-based payment structure; all payments to the contractor were based on the contractor's ability to achieve employment outcomes for the clients they served. For each outcome milestone, contractors received a set amount. If they did not achieve the negotiated outcomes, they were paid nothing. Vendors that performed better could receive more of their contract value.

Contract design and milestone development went hand-in-hand. As described by Commissioner Turner,

> [A]s HRA wanted applicants to get jobs quickly, the higher proportion of unit price was allocated to job placement in both SAJP and ESP. Also SAJP allowed for a lower per client performance payment because the vendor had access to all new

> applicants, not just long term recipients who are presumably harder to place. We wanted to "cream" the easy to serve cheaply, leaving larger performance payments for ESP for those needing more help. The result would be that overall costs to HRA would be lower and that the higher payments reserved for ESP would permit more intensive service, as opposed to a standard lower blended rate for both applicants and recipients. Also SAJP had access to referrals for a fixed period, four to six weeks, after which they were referred to an ESP. Therefore SAPs had every incentive to work with all referrals to the max.[7]

Using this strategy, HRA could more efficiently fund services for both groups of clients than could be achieved under a single rate for both applicants and recipients. In 1999, when the initial contracts were awarded, the annual value of SAJP contracts was $29.9 million and the value of the ESP contracts was $78.5 million.[8] (See Appendix A.)

Since the SAJP program was focused exclusively on cash assistance applicants, the service model was molded around the short four- to six-week window of time as mentioned earlier by Commissioner Turner, while the participant's application was under review by the agency. While engagement of individuals in activities once they were receiving assistance was part of the new TANF legislation nationwide, the City's decision to operate the applicant-only SAJP program was part of an optional strategy, aimed at replacing the need for cash assistance with new employment earnings.

Given the brief application period, the SAJP service model focused on quickly achieving success with participants prior to the determination on their cash assistance application. This rapid employment philosophy was embodied through a range of short-term services by the vendor, which could include job interviews, résumé preparation, and brief workshops. The fast-paced program model required a close working relationship with the HRA's job centers.[9] Referrals were made from the job center to the vendor on a daily basis, and vendors were co-located within the centers to begin the process of orienting, assessing, and engaging applicants immediately. The client would continue with SAJP services offsite at the vendor location, where they engaged in the mandated 35-hour simulated work week with the vendor.

A vendor could earn a total of $2,500 per client in SAJP, compared to up to $5,500 under ESP. The individual payment milestones in both contracts included payments for placement and at least three months of job retention. Despite the lower payment amount to SAJP vendors, they had every incentive to quickly place all individuals they received since their participants could only be with them during the application phase (4-6 weeks).

The ESP program picked up the employment services continuum for clients at the point where the SAJP program ended. The program provided services for employable cash recipients, both those newly receiving assistance as well as those receiving assistance for a period of months or years. In 1999, when soliciting for the ESP contract, HRA estimated that the population would be over 70 percent female, 20 percent would be 24 years old or younger, 26 percent would be over 45, and the remaining 54 percent would be between 25 and 44. HRA also estimated that nearly 60 percent would have been on cash assistance for five years or more. Given that such a large proportion of individuals were expected to be long-term recipients, it was assumed that overall the group would have more significant barriers to employment than the pool of applicants served through the SAJP program. These barriers could include substance abuse, homelessness, low educational attainment, or a lack of work history.[10]

In contrast to the accelerated pace of the SAJP program, the ESP program was designed to provide more in-depth services targeted to a less prepared pool of job seekers. Rather than the rapid, daily referral system used for applicants, the ESP program started a new cohort of job seekers every two weeks. After an initial two-week orientation period where participants participated full time with the vendor, participants moved into a schedule that blended two days of job search at the ESP vendor with three days per week at a Work Experience Program (WEP) site.[11] In addition to the job connections, résumé creation, and interview preparation services provided by the SAJP program, ESP services were more likely to employ strategies that included short-term training, such as computer instruction or training in specific occupational fields such as home health care, security, or food service.

HRA's new commissioner was more focused on job retention than the prior administration, emphasizing long-term labor force attachment as the alternative to benefit receipt. Therefore, in the renewed contracts HRA redistributed the contract milestone payments amounts to emphasize retention outcomes.

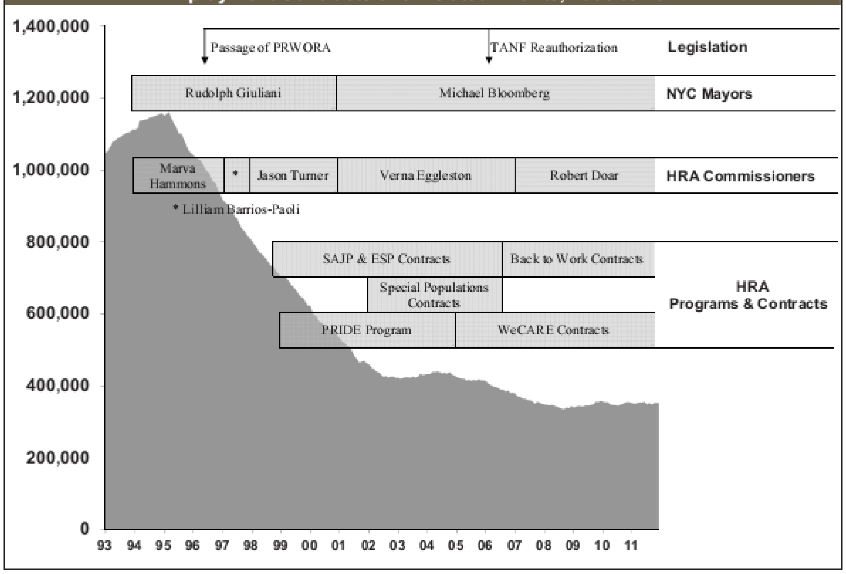
2002-2006

In 2002, the contracts for both programs were renewed. Data from the first three years of the contract showed that across both programs vendors had failed to meet performance expectations for job retention even though placement milestones were achieved. This was also the year Mayor Michael Bloomberg took office and Verna Eggleston was appointed as commissioner of HRA. HRA's new commissioner was more focused on job retention than the prior administration, emphasizing long-term labor force attachment as the alternative to benefit receipt.

Therefore, in the renewed contracts HRA redistributed the contract milestone payments amounts to emphasize retention outcomes (see Appendix A). The overall value of renewed contracts declined from $108.4 million to $87.7 million. Over the course of the contract, the continued focus on full engagement, job placements, and a stronger emphasis on retention led to additional declines in the caseload (Figure 2).

Another development during this period was the addition of a new program focused on serving clients with high levels of service needs who were also deemed to be employable. The program, known as the Special Populations program, included services for individuals with housing, ex-offender, substance abuse, or language barriers. As with SAJP and ESP, the program services were provided by nongovernmental providers.

Figure 2. Timeline of NYC Human Resources Administration Employment Contracts and Related Events, 1993 to 2011



Source: New York City Human Resources Administration.

Additionally, the PRIDE (Personal Roads to Individual Development and Employment) program, which focused on people with mental and physical barriers, was converted into the more comprehensive WeCARE (Wellness, Comprehensive Assessment, Rehabilitation and Employment) program. The WeCARE contracts combined medical and employment services and were a mixture of output and outcome milestone payments, not a pure performance-based contract. The goal of this contract was to stabilize medical conditions for participants so that they could engage in work activities and seek employment or obtain Social Security awards for those deemed disabled.

2006 to Present

A new generation of employment programs began in mid-2006 to replace the SAJP and ESP programs (see Appendix A). The new program, Back To Work (BTW), merged the services of SAJP and ESP together into a single, unified program. The model for the new program strengthened the continuity of services for participants by having a single vendor seamlessly handle employment services for each participant. This service time frame started at the point that clients first applied for assistance, continued through the length of time they received assistance, and included at least six months of retention after a client had found employment and left assistance. If a client returned to HRA after having lost a job, the same vendor remained responsible for helping the client secure new employment. Under this new program model, vendor accountability for the long-term success of the client was increased. Additionally, the relationship between HRA and the individual vendors was strengthened by having services for each job center provided exclusively by a single BTW vendor, creating a more robust long-term relationship.

The BTW contract model kept in place one of the core strategies used in the SAJP and ESP contracts by retaining a 100 percent performance-based payment structure. Individual payment milestones to vendors for client outcomes were similar to the prior generation of contracts, and remained focused on helping participants to find and retain employment. As part of a continuing emphasis on improving long-term outcomes for clients, the BTW program only paid vendors for job placements if they could demonstrate that the client had retained the job for at least thirty days. If a client kept their job for less than a month, then the vendor did not earn any payment.

In 2007, Robert Doar became the commissioner of HRA and maintained the performance-based, employment-focused model. In 2011, HRA issued a new Request for Proposal, which built on the basic features of the previous contracts while incentivizing improved performance and a greater focus on certain populations.

Lessons Learned From Performance-Based Contracting

From their inception in 1999 through the end of 2011, these multiple generations of welfare-to-work contracts have provided employment services for New Yorkers receiving or applying for Cash Assistance. Over the past decade, HRA has achieved over 800,000 job placements, while the cash assistance caseload has dropped dramatically. There have been wide swings in economic cycles, and the New York City labor market continues to change with constant adaptation by employers to new local, national, and global contexts. For HRA the experience of delivering services through these contracts has demonstrated the adaptability of performance-based employment services contracts to a continually evolving situation.

Through the ongoing administration of these contracts, HRA has learned what works in the design and management of performance-based welfare-to-work contracts. This section highlights some of these lessons, based on over a decade of practical experience and institutional knowledge. In particular, all of the lessons shared here underscore how contract design and management decisions significantly affect performance.

- *Lesson one: the design of the contact payment milestones is critical for success.* In an era where the public sector is focused more intensely than ever on performance, the best leverage points for achieving high performance are embedded in the details of how milestone payments are constructed. There are two fundamental aspects in designing an optimal milestone structure. First is how the overall program goals are translated into contract payments that create incentives for vendors that produce the most effective and efficient results. The second is how milestones payments are weighted and balanced within the contract in order to encourage contractors to successfully achieve multiple goals.
- *Lesson two: technology and performance management systems are essential to managing contracts successfully.* The use of performance-based contracts shifts the public sector into the

role of contract manager as opposed to service provider. This transition creates the need for smart and effective systems that give public managers the tools to effectively monitor outcomes and performance.

- *Lesson three: individual contractors do not behave the same way, and contract design and management decisions must anticipate a variety of vendor responses.* Different strengths and program strategies among contractors are an important component of a high-performing system that fosters diversity and competition. This can also present significant challenges for management and performance known as "principal-agent" problem.[12] Since a performance-based contract gives vendors the ability to make decisions about the process of service delivery, government managers must adapt their management strategies to the way that different contractors actually behave.
- *Lesson four: ensure there is flexibility in the contract, and learn from past performance.* In the social services arena, the need and context for services continually evolves, putting demand on programs for new and more effective solutions to difficult problems. Ensuring that there is adaptability within the contract structure can help services stay synchronized with changing needs of local welfare populations. Building strong programs requires continual evaluation of the program and contract models to determine what works and what can be improved.

Lesson One: The Design of Payment Milestones Is Critical for Success

A well-designed performance-based contract for social services creates payments to contractors that are aligned with overall program goals. The payments drive contracted vendors to achieve the desired outcomes since their revenue is tied to their ability to achieve specific outcomes. Thus, contractors assume the financial risk or reward attached to their performance. Vendors that can meet goals and achieve outcomes will earn the revenue needed to sustain and also invest in their programs, while low-performing vendors will earn less. Low performance could also mean that vendors cannot meet their financial bottom line. The payment framework creates a climate that will propel vendors to find the most effective and efficient ways to deliver services so that they can maximize their revenue.[13]

This puts enormous leverage in the hands of the contracting agency. There is a delicate balance in designing the payment points that incentivize optimal performance. There is seeming simplicity in the adage "you get what you pay for," but the complex reality of a social service contract quickly reveals that *what* to pay for and *how much* to pay are crucial and delicate questions that can determine the overall success of the contracted program.

At a practical level, there are many different leverage points in the hands of the contracting agency when designing a payment structure. How should the agency's goals be translated into achievable and trackable outcomes that can be converted into payments? How can multiple goals be balanced within a single contract? Given the high stakes regarding the quality of services for clients and fiscal stewardship considerations, finding the right payment structure is critical. Finding the answers to these two questions has been important in HRA's effort to manage performance.[14]

Given the high stakes regarding the quality of services for clients and fiscal stewardship considerations, finding the right payment structure is critical.

Uncovering Assumptions About Performance

The financial models for performance-based contracts are based on assumptions about behavior and service needs. For example, the models for the contracts discussed in this paper include premises about how welfare applicants and recipients will respond to the program model and how effective the program will be. They include expectations about how the contractors respond to increasing or decreasing numbers of clients, and how the needs of clients change over time.

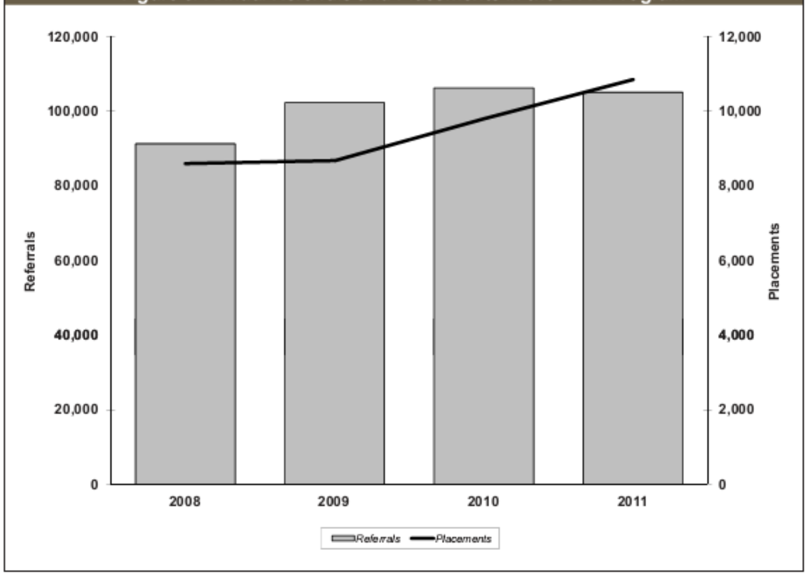
The model also incorporates assumptions about how contractors will respond to incentives in the payment structure when they design their programs. Contractors must build financial models and budgets of their own. These include the details of their service model, the level of services they provide under the contract, and how their performance translates into the revenue necessary to keep their business operating. Given the different perspectives from either side of the contract relationship, there is likely to be divergence in the core assumptions between the two parties.

Divergent assumptions can be seen in something as basic as the volume of referrals in a contract. While other social service contracts may involve a guarantee or cap on the volume of referrals, HRA's employment program model requires vendors to provide services to *all* participants in need of employment services. Since demand fluctuates, neither HRA nor the vendors can predict the future volume of referrals with certainty.

How the current BTW contracts have responded to increasing volume is shown in Figure 3. From 2008 through 2010 the volume of *referrals* to the BTW program grew by around 15,000 per year, leveling off in 2011 with a fourth quarter drop in volume. Comparatively, from 2008 to 2009 the number of *placements* made by BTW vendors was stagnant. Placements rose in 2010, driven primarily by performance in the later half of the year, and continued trending up throughout 2011. The data show that the BTW program was slow to increase job placements in proportion to the growth in referrals.

The slow response by vendors in expanding placements appears to run counter to the incentives in the contract model. With payments per placement, a larger pool of referrals should offer

Figure 3. Annual Referrals and Placements in the BTW Program



Source: New York City Human Resources Administration — NYCWAY and PaCS.

more placement opportunities and more revenues for vendors.

A potential explanation for this slow response is how vendors view the risks involved with scaling their programs. Vendors were initially hesitant to increase the size of their program, not knowing if the increasing number of clients would be sustained. In order for a vendor to achieve more placements, they would need to invest funds to grow the size of their program. Increasing staff and acquiring additional space to service a larger volume of clients require significant financial investment from a vendor. While a vendor may have some ability to scale down their staff, a multiyear lease in New York City can be a significant financial investment. Without a guarantee of a sustained trend in the volume, vendors would shoulder the financial risk. Given that risk, vendors might be satisfied with their performance and payment levels and choose not to expand. From the agency perspective, this lack of expansion represents a decrease in performance, since the rate of job placement achievement drops if the job placements stagnate while the number of participants increases.

HRA has explored different approaches to counteract this divergence in viewpoints. One strategy involved aggressive contract management that emphasized increasing performance. Starting in mid-2010 the program put a renewed focus on the placement *rate*, measuring the number of placements relative to the volume of participants in the program. By emphasizing the rate, HRA reiterated the necessity of ensuring that placements increase as the program grows.

A second strategy employed by HRA was adopted in 2011, when the agency set specific numerical placement goals for each contracted vendor. All vendors were required to increase the number of placements. This new goal became a consistent focus in contract management, and helped drive the total number of placements up over the course of the year, even as the referrals leveled off. This increase can be seen in Figure 3, which shows the increase in job placements relative to referrals. Given the success of the approach, HRA has included a formalized version of this goal-based system in the proposed BTW 2 contract design. The new model proposes that vendors continue to earn payments for each job outcome, but they can also earn a bonus payment for meeting the agency's expectation regarding the total number of placements. This payment will help provide additional incentives for vendors to quickly scale their services and respond to changes in program volume.

Redistributing Payments to Improve Performance

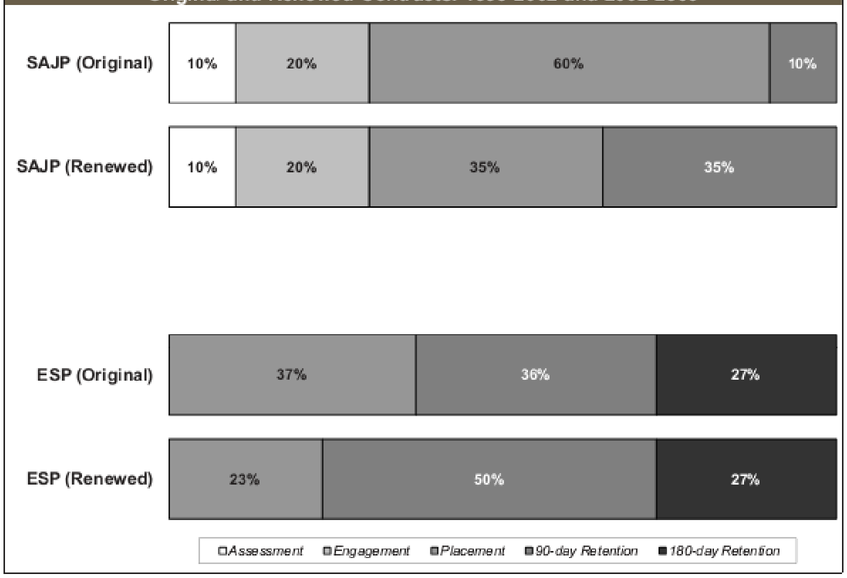
Given the complexity of delivering social services, programs can rarely be summed up in a single goal. Instead, programs assist participants in meeting multiple objectives over time. Once the program goals have been translated into payment milestones, the distribution of the payment amounts sends a powerful message to vendors about which goals should be given the highest priority.

In HRA's employment programs, vendors work with participants on meeting both placement and job retention goals. HRA expects the vendors to balance these objectives and achieve high performance for both. With finite resources, vendors must adjust their services, since the types of assistance that helps participants find employment are often different from the services that help them retain their jobs. How the balance of contract payments affects performance between these two areas is illustrated by changes that HRA made to payments milestone amounts in the SAJP and ESP programs. In this case, HRA used the opportunity of a contract renewal to rebalance payments in order to improve retention rates.

The original payment structure for performance milestones in the SAJP and ESP programs reflected the approach of Commissioner Turner, with a strong emphasis on placements. Through the SAJP contracts, a vendor would earn 60 percent, or $1,500, of their maximum payment per client through the achievement of placements, compared to 37 percent, or $2,000, per client under the ESP contract.[15] In both contracts, the agency was placing significant emphasis on helping participants connect to the labor market. Figure 4 shows the distribution of payment amounts across the milestones.

As the programs rolled out, it was clear that while the employment focus of the contracts was succeeding, the retention rates for the program were not meeting HRA's expectations. In 2001, retention rates for both programs were below 10 percent, as shown in Figure 5. Since the initial three-year contract period was waning, HRA had the opportunity to restructure the amount paid for each specific milestone when renewing the contract. For both contracts, HRA increased the value paid for 90 days of job retention while decreasing the amount paid for placements. What the contract paid for remained the same, as did the maximum amount that a vendor could earn per person; the alteration only affected the balance between the payment points. In the SAJP contracts, the amount paid for the 90-day job

Figure 4. Payments for SAJP and ESP Programs — Original and Renewed Contracts: 1999-2002 and 2002-2006

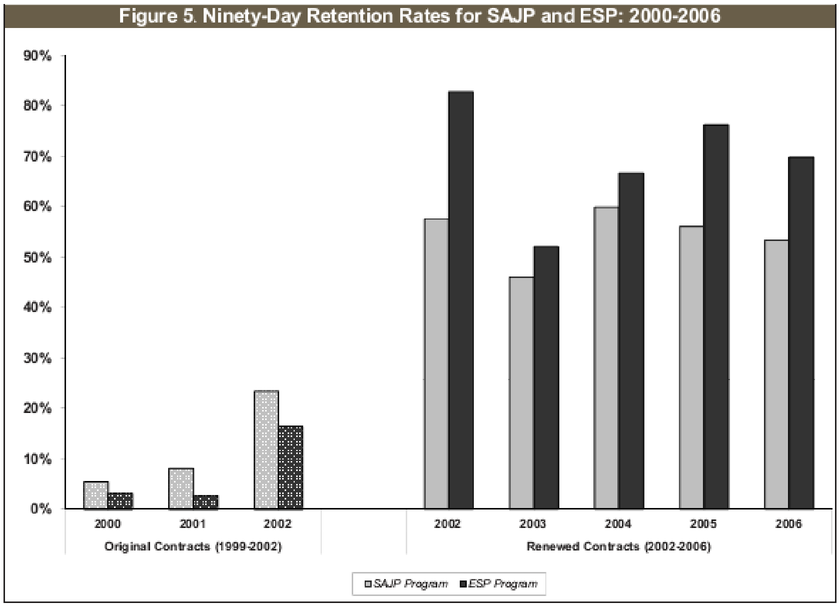


Source: New York City Human Resources Administration.

retention increased from 10 percent of the per person amount that contractor could earn to 35 percent. With the ESP renewal contracts, the 90-day job retention payment increased from 36 percent to 50 percent as shown in Figure 4. This shift in how vendors earned their payment helped to drive the retention performance for the system upwards. For the SAJP program, the average retention rates rose to 54 percent and the ESP rose even higher to 67 percent, as shown in Figure 5.

This rebalancing of payment amounts between placements and retention was effective because three important things occurred:

Figure 5. Ninety-Day Retention Rates for SAJP and ESP: 2000-2006



Source: New York City Human Resources Administration — NYCWAY and PaCS.

1. HRA recognized that the payment milestones were not producing the desired outcome; contractors were making placements, but the retention efforts were flagging. This meant that vendors were responding to the incentives created by payments in their contract but the balance of payments was not encouraging vendors to meet all the goals of the program.
2. HRA changed how vendors earned their revenue. The new distribution of payments placed a much greater emphasis on achieving retention milestones. In order to increase retention and earn retention milestones, vendors still had to focus on placements. But since the amount of revenue that vendors could earn from placing clients was reduced, they were driven to seek new ways to achieve better retention performance in order to meet their fiscal bottom line.
3. The change in payments was accompanied by clearly communicated new expectations to the vendors. HRA renewed its nonfiscal management efforts to improve retention. Vendor performance management reports were revised to place an increased emphasis on job retention. Likewise, contract management meetings began to include more emphasis on retention outcomes and the strategies that vendors employed to improve their performance.

Operating together, these changes helped to drive retention rates upwards.

A large payment could swing performance in unintended ways. … A bonus that is too small might not influence the behavior of contracted vendors. Finding the optimal balance is critical.

Finding the Right Size for Incentives to Work

Some of HRA's performance-based contracts have utilized supplemental payments to promote high-quality performance and achieve additional goals. These incentives are usually bonus payments. HRA has used this type of payment to encourage full-time employment over part-time, to focus on jobs that pay above minimum wage, to promote job advancement, and to encourage placements for a targeted population. The bonus payments become part of a balancing act for the contracting agency; they should support additional goals without sacrificing the core performance of the program. A large payment could swing performance in unintended ways; for example, by encouraging vendors to delay placing a participant in a job because the wage is not high enough to earn the vendor the bonus. A bonus that is too small might not influence the behavior of contracted vendors. Finding the optimal balance is critical.

An example of working to find the right size for this type of payment is illustrated through HRA's use of a bonus payment to encourage placements for individuals with a long history of receiving cash assistance. In 2005, around 30 percent of referrals to the ESP program were for long-term cash assistance recipients, but placements for this group were below that of the rest of the ESP program. Typically long-term cash assistance clients have more significant barriers to finding employment, given the amount of time they have been disconnected from the labor market. The bonus was introduced in the BTW contract, and represented a renewed focus by the agency to make sure that employment programs were focused on all employable populations, including those who may have more barriers.[16] With the average placement value of $1,140 across the BTW contracts, the value of the bonus represented an additional 31 percent, or $350.

But there was no evidence of an upward change in performance with the implementation of the bonus. Over time, the placement rate for long-term cash assistance recipients actually fell. While it is possible that the placements for this group would have been lower in the absence of this bonus, the declining placement rate suggests that there is a growing gap in placements for this group. The original design of the payment milestone did not appear to have its intended effect.

Two potential answers may explain why the milestone design did not achieve the intended results. Since the framework of performance-based contracts assumes that vendors will try to maximize their revenue while minimizing costs, the $350 payment may not have matched the investment required of vendors to achieve the desired performance. From the vendor's standpoint, if the placement of a long-term recipient required resources greater than the amount of the bonus payment, it may not make the investment in the additional services needed for this population outside of its regular program model.

Similarly, it is also possible that this bonus payment may have been eclipsed in the overall payment structure. The value of the bonus represented 8 percent of the maximum amount that a vendor could earn per participant. This is only slightly more than the amount that vendors could earn by completing an assessment for the same participant. The value of the milestone was significantly lower than some of the major milestones; for example, it was around a quarter of what the vendor could earn for a ninety-day retention milestone. It is possible that given the other contract goals, the bonus amount was too small to encourage vendors to prioritize services for this group.

As a solution to this issue, HRA's next contract, BTW 2, adjusts the payment incentives for this group. HRA is creating a specialized services component within the new program for those that the agency has identified as having some of the greatest barriers to employment, including long-term cash assistance recipients. In the new model, retention payments to vendors for this group could be twice as much as those offered to vendors for achieving retention among other program participants. In BTW the incentive for working with these clients was worth 8 percent of the maximum a vendor could earn per participant. In the new contract it could be as much as 40 percent of the per-participant maximum. By increasing the size of the payment and simultaneously requiring that contractors develop specific program services, HRA is making sure that the services for this group are appropriately incentivized.

Lesson Two: The Importance of Technology and Management

Technology is an integral tool for improving efficiency and effectiveness of large-scale social service programs that involve service delivery to tens of thousands of individuals each month. While performance-based contracting shifts the public sector into the role of contract manager as opposed to service provider, this shift emphasizes the need for a technology and management infrastructure that works across a whole portfolio of contracts to ensure accurate exchange of data, financial claims, and performance information. This framework provides the necessary solutions for understanding if the program is meeting its goals, and for giving public contract managers the tools to direct performance with the scale, accuracy, and timeliness also expected of vendors.

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New York City Work, Accountability and You (NYCWAY)

While planning the SAJP and ESP contracts, HRA knew that, in order to manage contracts with such a large volume of participant activity, the information flow between the agency and contractors would need to be seamless and automated. The agency had the beginnings of this infrastructure in place with a system called New York City Work, Accountability and You (NYCWAY). This system was first developed in 1995 as a subsystem to New York State's benefit eligibility system, the Welfare Management System (WMS), to track clients' employment activities.

In 1999, NYCWAY was enhanced to include participant referral, assignment, compliance, and outcome activity for the SAJP and ESP contracts. While NYCWAY was not designed as a comprehensive case management system, these new features made the system a management tool useful both for contractors and HRA. NYCWAY brought both parties onto the same page regarding such questions as how many participants were referred to a contractor at any given time, how many showed up, how long they stayed, and how many got jobs. The ability to closely monitor contractors' performance in real time was a foundation for integrating vendor services into HRA's monitoring of each program participant's case. Without the management information system utilized by both parties, according to Barnow and Trutko, "HRA would have a very difficult — if not impossible — time in implementing performance-based contracts."[17]

Payment and Claiming System (PaCS)

Performance-based contracts, especially those that are 100 percent performance-based, need to be supported by a timely and accurate payment processing system. In 1999 when the ESP and SAJP contracts started, this model was so new in New York City that HRA did not have a financial system in place to handle this type of payment activity.

The time delay between delivery of services and receipt of payment posed a hurdle for contractors that struggled under a payment model that required demonstrated performance before receiving any revenue. In response, HRA advanced some start-up funds under the agreement that money would be recouped once milestones were achieved. In 2000, one year after the start of the contracts, HRA built a new computerized Payment and Claiming System (PaCS), which automated the entire billing and payment process for these contracts. PaCS could identify milestones achieved in real-time from NYCWAY, reconcile necessary documentation needed for verification of milestone achievement, and process payments to the vendor. The creation of PaCS tightened the connection between attainment of the contract goals and payment for performance.

VendorStat

Leveraging the automated data from NYCWAY, PaCS, and other HRA data systems, in 2000 HRA developed a performance measurement system called VendorStat, which used up-to-date data to monitor contractor performance. Using the basic principals of a performance management system, the VendorStat model consists of three parts:

1. A monthly report compares each vendor site and vendor to itself and to all other vendors over time, based on several key performance measures (see Appendix B).
2. HRA conducts weekly meetings with a vendor, during which performance data are reviewed.
3. A follow-up action item tracking system documents issues, assigns issues to responsible parties, and tracks resolutions.

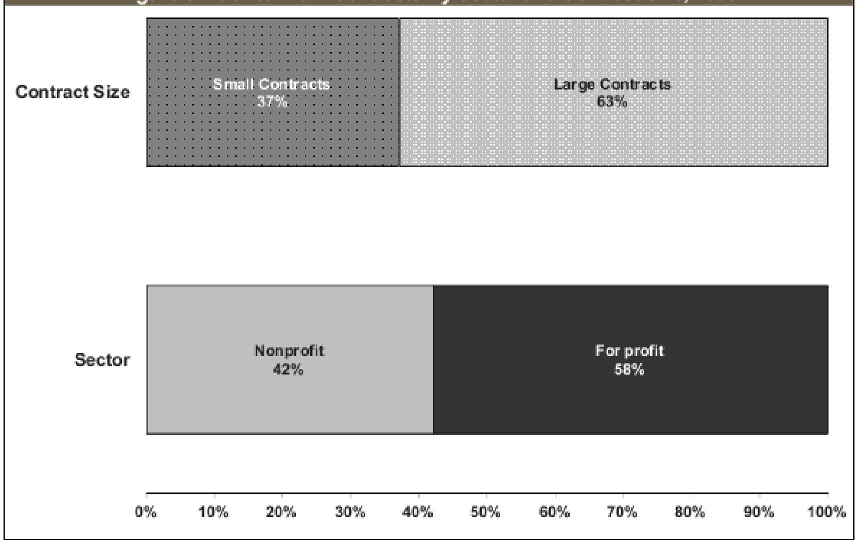
These three tools provide a platform for HRA and the employment vendors to track and manage performance in a timely manner.

HRA had long been committed to managing with data, and VendorStat is a prime example of it. According to Seth Diamond, former executive deputy commissioner at HRA, "VendorStat is a statement of agency priorities. The items contained in the tool should be the most important to the agency and should tell the contractors which areas should be their heaviest focus." Contractors seemed to concur. According to one senior executive, "We find it to be a good management tool for us. It allows for full transparency of the information. At the end of year/contract there are 'no surprises.'"[18]

Lesson Three: Tailor Management Strategies to Vendors

One of the strengths of the welfare-to-work programs in New York City has been the diverse community of vendors that have provided these services. While theories and models of contracting are often based on the assumption that contractors' decisions about service delivery are driven by financial calculus, the everyday reality in the human services sphere is more complex than

Figure 6. Back to Work Contracts By Sector and Contract Size, 2006



Source: New York City Human Resources Administration.[19]

financial considerations alone. Implementing management strategies that acknowledge these considerations and help recognize vendor differences are an important component of managing a performance-based contract. Organizational resources, philosophy, service delivery options, and management practices are all unique to a vendor and influence the performance they are able to achieve. The public sector's management strategy must consider how individual contractors behave and perform.

Figure 6 shows how the contracts for HRA's BTW program break down by two different factors. The BTW portfolio includes three contracts in excess of $10 million per year that make up 63 percent of the total portfolio, while the remaining five contracts make up 37 percent. Four contracts held by for-profit vendors comprise 58 percent of the portfolio, while nonprofits make up 42 percent.

Vendor differences do not imply that expectations for performance should be adjusted, but they may suggest differences in *how* vendors achieve the goals of the contract. For government administrators, effectively managing this diversity can allow cross-pollination of ideas and innovations while creating a laboratory for figuring out what works in the delivery of program services in the local context.

With regards to contract size, a notable pattern has emerged at HRA in the BTW contracts, where the placement rates for the small contracts (annual value of contract is less than $10 million) have averaged higher than those for large contracts (annual value of the contract is greater than $10 million). On average, vendors with small contracts achieved a 23 percent placement rate over the five-year period of 2006-2011, compared to a 21 percent rate for vendors with large contracts. To put this rate difference in perspective, if the performance by the larger vendors increased by the same rate as the smaller vendors, the BTW program would generate over 1,000 additional placements per year.

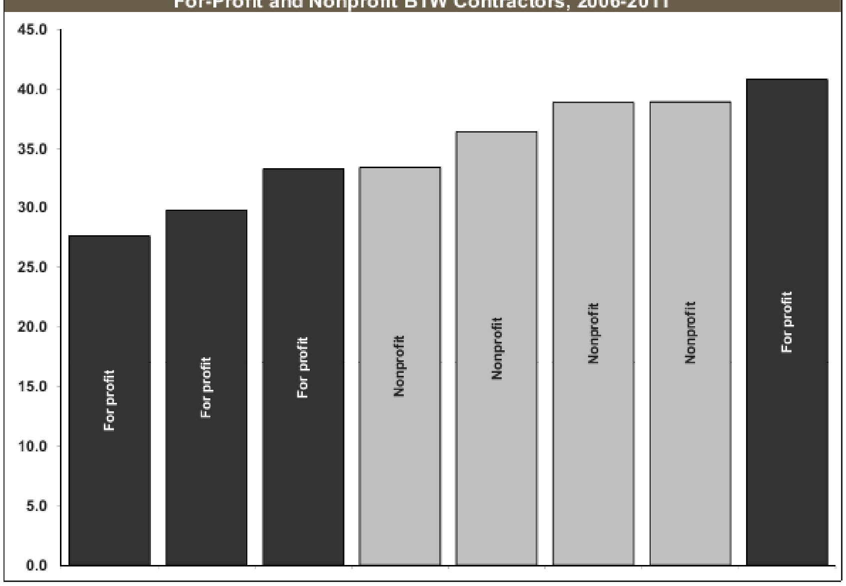
The size of the contract is only one structural characteristic that differentiates contractors. Contractors' strategies may also relate to differences in performance. For example, the speed of placements can indicate how focused a vendor is on a rapid attachment strategy. Another illustration is that higher paying starting wages may indicate greater selectivity regarding the initial labor market connection as part of a strategy that aims for tighter job matches.

The difference between nonprofits and for-profits highlights some of the ways that these vendor strategies can be seen in administrative data.[20] In the BTW program there has not been a significant overall difference in the placement and retention rates of for-profits versus nonprofits. Yet different service strategies show up in other data measures. With regards to initial wage for job placements from 2006 to 2011, for-profit vendors averaged $9.18, compared to the $9.45 achieved by nonprofit vendors. In terms of placement speed, the three vendors with the fastest placement timing are for-profit vendors, with averages from 28 days to 33 days, compared to 33 days to 39 days for the four nonprofit vendors. Figure 7 shows the full distribution of the average days to placement.[21]

Management of for-profit vendors has therefore stressed the importance of making quick placements while still meeting the retention milestones at 30, 90 and 180 days. Management of nonprofit vendors has focused on the need to ensure that service strategies still produce a high volume of placements despite the longer time it takes to find a job for clients. However, the differences between for-profit and nonrofit vendors are not perfect. One for-profit vendor averaged 40 days, the longest average period between referral and placement among the eight vendors. Vendor behavior is thus not easy to predict; similar vendors may perform in very different ways.

Given the complexities of human service program delivery, these factors provide a rough map for understanding how vendors are operating. These examples point to the need for a management strategy that looks at differences and similarities across the portfolio, and that focuses on ensuring that vendor strategies

Figure 7. Average Days From Referral to Placement of For-Profit and Nonprofit BTW Contractors, 2006-2011



Source: New York City Human Resources Administration, Back to Work VendorStat Report.[22]

are aligned with agency goals.

Lesson Four: Ensure Flexibility and Learn From Experience

Over time, the context for programs changes. Internal contexts, such as the characteristics of cash assistance recipients, can change. External contexts, including the economy, local job markets, and governmental policy, can all change as well. For programs to stay relevant, the agency needs to learn from its experience with contracts, and continually adapt to these changing contexts. In performance-based contracts, making sure that the contracts adapt is essential.

An example of the need for flexibility in a contract was discussed in an earlier example, where HRA used a contract renewal to rebalance payment milestone amounts in 2002. While changing what the contract paid for was not possible without a new round of procurement, how much the contract paid for each payment point could be adjusted. Since the overall amount that HRA was paying per participant was unchanged, the adjustment was possible. Without this flexibility, HRA's strategy for improving job retention would not have been possible.

For programs to stay relevant, the agency needs to learn from its experience with contracts, and continually adapt to these changing contexts. In performance-based contracts, making sure that the contracts adapt is essential.

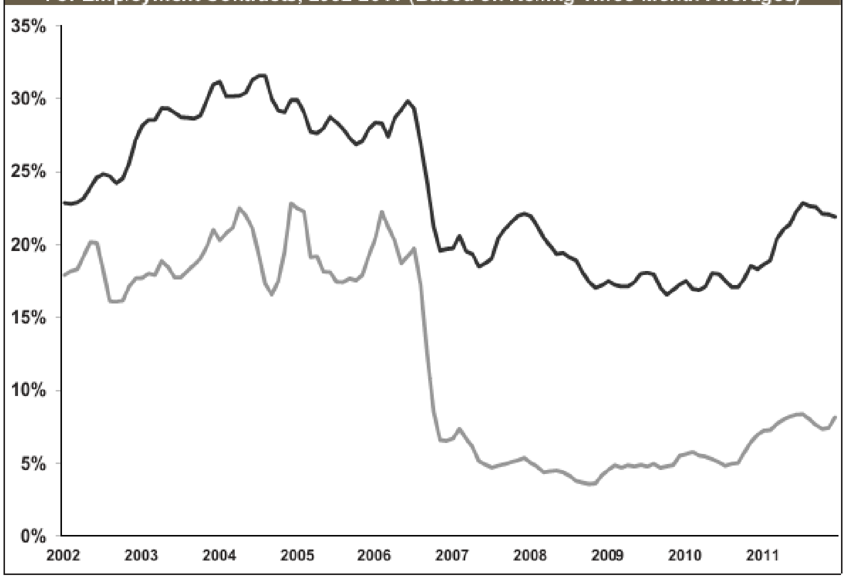
Changing the Service Delivery Model

HRA's first generation of performance-based employment programs split participants between two different contracts, one focused on *applicants* for cash assistance and the other on cash assistance *recipients*. In the early stages of the program, HRA found value in this model. It was the first time many of these participants had ever been engaged in an employment program, and the vendors successfully connected thousands of clients to jobs and self-sufficiency. Over time, as the most job-ready participants left the program for work, it was clear that the participants who were now entering the program needed more in terms of time and services.

When designing the BTW program, HRA re-evaluated the service model, with an eye on how to keep participants seamlessly engaged with their vendor. A lack of this relationship was reflected in high no-show rates by participants referred by the job center to the vendor for employment services. Under the ESP program, if a participant did not report to the assigned vendor, they were eventually assigned to a different vendor, allowing them to cycle through different vendors and limiting the accountability between vendors and job centers. The BTW program design addressed this issue by requiring the contractors to serve both cash assistance applicants and recipients and linking each job center to only one vendor. The goal was to build better relationships between job centers and contracted vendors, and between clients and vendors.

Figure 8 shows that this change led to the desired result and improved the overall front-end efficiency of the employment system. Between 2002 and 2006, the first generation of contracts had

Figure 8. Failure to Report to Initial Appointment Rates For Employment Contracts, 2002-2011 (Based on Rolling Three-Month Averages)



Source: New York City Human Resources Administration.

"failure to report" (FTR) rates of between 25 percent and 30 percent. Starting with the new BTW contract at the end of 2006, the FTR rates dropped dramatically from 30 percent to around 15 percent, and remained stable at that level. The sudden drop came from a renewed management focus by job centers and the structural changes in the contract to create more efficient program operations.

The Perspectives of Contracted Vendors

A performance-based contract requires a nimble vendor that can operate within the constraints of performance payments, survive with back-end payments, handle a large flow of clients, and adapt as HRA's needs change.[23] Since some may not be able to operate under these conditions, they may struggle under performance-based contracts.

When TANF was first implemented in the late 1990s, the for-profit service delivery sector began to play a larger role in providing employment services under government contracts. For-profit contractors felt that they could provide these services more efficiently and at a lower cost than nonprofit organizations and governments. A number of for-profit organizations operated nationally and they brought their experience and management expertise in setting up and running programs in NYC. If necessary, they subcontracted with local community-based organizations (CBOs) to provide services in which they did not have expertise.

Recent interviews with for-profit vendors revealed that they have been pleased with performance-based contracts from the beginning to the present.[24] These findings echo those reported by Barnow and Trutko in a 2003 article, which showed, that in comparison to other types of contractors, for-profit contractors were much more enthusiastic about performance-based contracts.[25] In an interview with Barnow and Trutko, one of the for-profit contractors, enthusiastic about the private sector spirit, said that "with performance-based contract you get paid for results, not process."[26]

This changing profile of service providers appeared during the renewal of SAJP and ESP contracts. Of the original 15 SAJP and ESP contracts, nine were nonprofits and six were for-profits.[27] All but two nonprofit organizations, and half of the for-profits, were based in New York City. Two of the ESP nonprofit contractors could not perform under these conditions and withdrew. But the number of BTW contracts fell quickly. Eight of the original 15 contractors, four for-profit and four nonprofit, were awarded BTW contracts in 2006.

Interviews with contractors show that vendors are mostly happy with the contract arrangement. According to one contractor, "We want to get paid for our results and will do well under this system. If you are good, competition is useful."[28] In a 2011 interview, an executive of a large nonprofit, who has participated in HRA's performance-based contracts from the beginning, expressed a similar sentiment; "A performance-based contract gives us autonomy and allows us to be creative. It also allows us to change the program and incorporate the best-practices from what we have learned."[29]

Recent interviews with two for-profit organizations show that they too continue to be satisfied with performance-based contracts. According to one vendor, "performance-based contracts create a level playing field." They feel that contractors who can deliver services with innovative strategies and respond to changes in clients will be competitive.[30] At the same time, a small for-profit contractor felt that the burden of paperwork in the Back to Work contracts has increased, especially after TANF reauthorization when states and localities were required to track attendance. According to this vendor, the contract should be hybrid, a line item for extra paperwork and a performance payment for outcomes such as placement and retention.

Agency Outcomes

HRA implemented performance-based contracts for welfare-to-work employment services as part of a strategy to increase the employment and job retention for New Yorkers in the cash assistance system. Since the early 1990s, HRA has seen large declines in the caseload, increases in placements, and a steady upward trend in job retention. HRA's performance-based employment contracts have contributed to these outcomes, even across ups and downs in economic cycles.

Sustained Declines in the Caseload Coupled With Continued Strong Employment

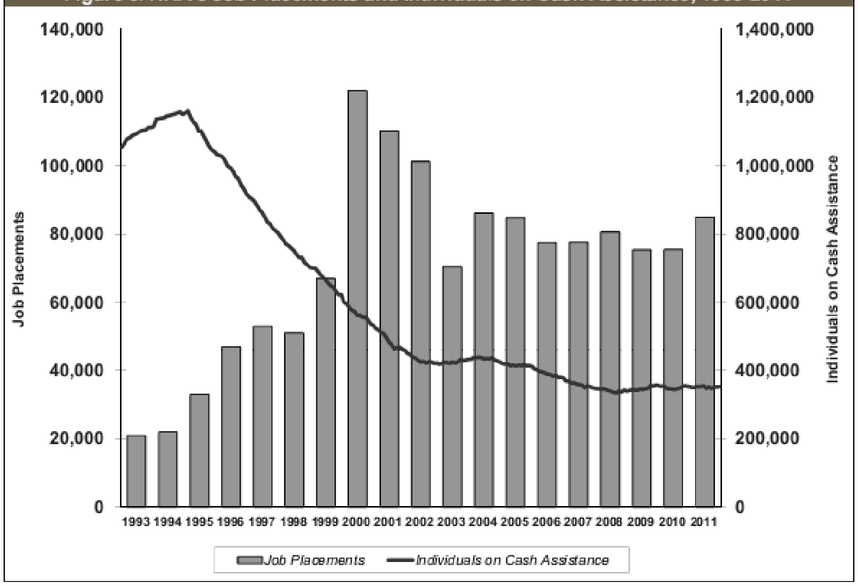
From the caseload peak in 1995 at 1.1 million, the number of individuals receiving cash assistance in New York City fell nearly 70 percent as of the end of 2011. Following steady declines through the 1990s, the caseload has resumed its general downward trend over the past decade despite several periods of temporary increases. The caseload remains at low levels last seen in the 1960s (see Figure 1).

Prior to HRA's adoption of full engagement and the employment-focused strategies discussed earlier, the agency had achieved annual placements in the range of 20,000 to 30,000. The focus on full engagement in the late 1990s coincided with an upward push in placements. When the new employment contracts began operating partway through 1999, the number of placements rose to around 65,000. During the initial full year of contracted operations, HRA achieved over 120,000 placements, a 300 percent increase over 1995 (see Figure 9).

HRA's employment contracts have had both a direct and an indirect effect on the improved agency placements. Table 1 shows the total agency placements, and the percentage of placements that were directly attributed to vendor reported placements. This measure of the direct effect shows that between 8 percent and 17 percent of placements are reported by vendors. This under-reports the vendor contributions, since some vendor placements may not get attributed through this method unless the job is immediately reported by the vendor before it is captured at an HRA job center. The overall role of vendors on outcomes is larger than what is captured in Table 1.

Part of the continuing success of HRA's approach has been that the strategy has helped motivate some participants to search for and find jobs on their own. Those who have needed the services provided through the employment programs have been able to work with a vendor to successfully connect to a job, while others have used other resources or new found motivation to find employment. Had there not been a focus on full engagement and mandated vendor participation, fewer participants may have searched for jobs on their own, as shown in Figure 9 by the lower placements prior to the implementation of these strategies. This significant portion of indirect placements has made HRA's overall high volume of

Figure 9. HRA's Job Placements and Individuals on Cash Assistance, 1993-2011



Source: New York City Human Resources Administration.[31]

Table 1. HRA's Job Placements and Percentage of Placements From Vendors 2000-2010

Year	HRA Placements	Percent of Placements Directly Reported by Vendors
2000	121,971	8%
2001	110,261	10%
2002	101,212	11%
2003	70,410	14%
2004	86,152	17%
2005	84,729	12%
2006	77,482	17%
2007	77,568	12%
2008	80,559	12%
2009	75,398	13%
2010	75,438	14%

Source: New York City Human Resources Administration – NYCWAY and PaCS.[32]

placements possible. While the agency pays for the direct placements achieved by the vendors, the entire system benefits from the indirectly achieved placements.

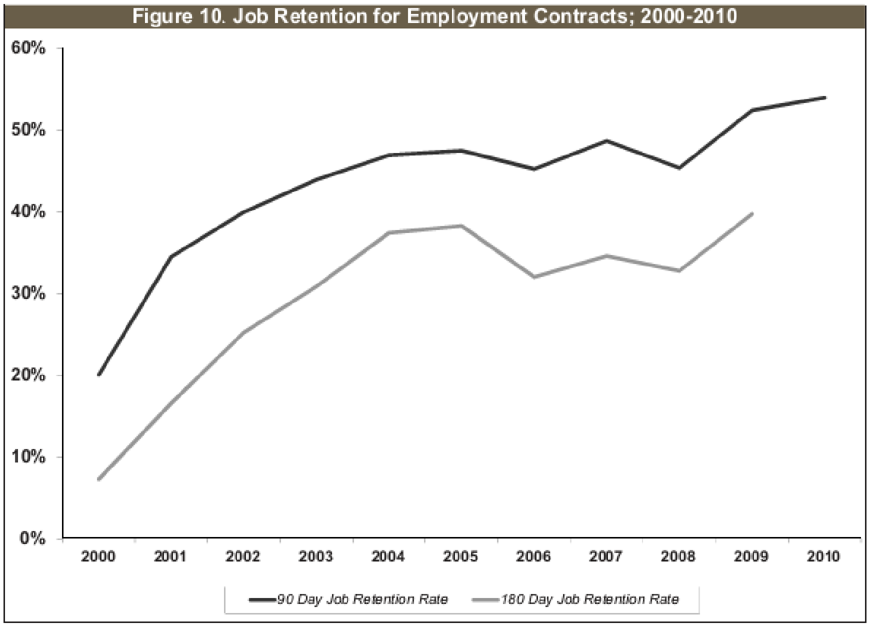
Additionally, throughout the past decade, as the caseload has remained low, the high volume of placements for the agency has been sustained. Since 2004, the agency has achieved over 75,000 placement each year, showing that HRA's employment strategy remains a relevant approach to achieving the agency's overall mission of self-sufficiency for New Yorkers.

Retention Increased and Remained Stable

The agency's inclusion of retention payment milestones has focused vendors on ensuring not only job placement but also continued employment and advancement as a path to self-sufficiency. As shown below in Figure 10, the employment program retention rates have increased significantly over the past decade.

Vendors have continued to improve and expand their retention strategies — from giving clients transportation vouchers, to providing access to professional business attire, to giving them a financial bonus for employment retention milestones. The sustained retention numbers demonstrate that vendors work with participants to stay connected to the labor market and to navigate the potential hurdles in the early stages of their new-found employment.

Figure 10. Job Retention for Employment Contracts; 2000-2010



Source: New York City Human Resources Administration — NYCWAY and PaCS.[33]

Conclusion

The primary reason to rely on performance-based contracting is to align the vendors' interests with those of the party that issued the contract, commonly referred to as the "principal-agent" problem. A well designed and managed performance-based contract can provide strong incentives for the contractor (agent) to adopt not only the objectives of those who contracted (principal) but also adapt to changing circumstances over time.

The lessons articulated here have emerged over the years as HRA has used performance-based contracts to improve the delivery of employment services for tens of thousands of job seekers each year. HRA has used data-based management and continuous monitoring to improve the performance of the employment system. Such improvements allowed contractors to respond quickly to changes in policy and labor market environments and meet the needs of job seekers referred by HRA. These data-driven illustrations describe some of the strategies that HRA used to harness the power of performance-based contracts. The results and lessons learned also support the findings summarized in Heinrich and Marschke.[34] The contract dynamics explored here show the concrete ways management choices can drive contractors' performances.

HRA's use of performance-based contracts for welfare-to-work employment programs has demonstrated the adaptability of this strategy for helping participants find and retain employment. This paper has shared a number of lessons about the design, implementation, and management of these types of contracts, detailing how decisions by public managers can affect contract performance.

Appendix A. Employment Contracts 1999-2011

		Skill Assessment & Placement Contracts (SAP)		Employment Services & Placement Contracts (ESP)		Back-To-Work Contracts (BTW)
		Original	Renewed	Original	Renewed	Original and Renewed
Dates		1999-2002	2003-2006	1999-2002	2003-2006	2006-Present (will expire in 2012)
Annual value		$29,900,000	$42,000,000	$78,500,000	$45,700,000	$53,200,000
Acquisition		Negotiated acquisition		Negotiated acquisition		Competitive RFP process
Number of prime contractors		5	4	12	10	7
Primary target population		Cash assistance applicants		Cash assistance recipients (Also included WIA eligible populations through 2002)		Cash assistance applicants & recipients
Vendor Assignment		Each center is served by one vendor		Random assignment of participants based on geography		Each center is served by one vendor
Service duration		Up to six weeks		Up to six months with a single vendor		Vendor works with participant as long as the Agency assigns them to job search
Max payment per participant		$2,500		$5,350 average ($4,600 - $5,500)		$3,800 average ($2,700 - $5,500)
Contract structure		*Individual milestones:* • Assessment • Engagement • Full-time job placement -or- Part-time job placement • 90-day job retention *Bonus milestones:* • Case closure due to earnings (at 90 days)		*Individual milestones:* • Job placement • 90-day job retention • 180-day job retention *Bonus milestones:* • High wage (at 90 days) • Case closure due to earnings (at 180 days)		*Aggregate population milestones:* • Engagement • Participation (discontinued 2010) *Individual milestones:* • Assessment • 30-day job placement • Job retention & career plan (discontinued 2011) • 90-day job retention • 180-day job retention *Bonus milestones:* • Job placement for sanctioned or time-limited participants • Case closure (at 90 days) • Wage gain (at 180 days)
Distribution*	Assessment	10%	10%	-	-	5%
	Engagement	20%	20%	-	-	-
	Placement	60%	35%	37%	23%	35%
	Job retention plan	-	-	-	-	5%
	90 day retention	10%	35%	36%	50%	29%
	180 day retention	-	-	27%	27%	25%

* Percentages based on weighted averages. Distribution does not include aggregate milestones. Payment point distribution includes associated bonus payments. May not add to 100% due to rounding.

Appendix B. Sample Back To Work VandorStat Report v2.0

HUMAN RESOURCES ADMINISTRATION
BTW Vendor
Back to Work VendorStat
September, 2011

		Contract/Site									Vendor									All Vendors				
	Month	Dates	Sep-11	Rk	3 Mo.	Rk	YTD	Rk	Prog TD	Rk	Dates	Sep-11	Rk	3 Mo.	Rk	YTD	Rk	Prog TD	Rk	Dates	Sep-11	3 Mo.	YTD	Prog TD
Assessment & Compliance																								
1 Paid EP Completion Rate NonFTR	Aug-11																							
2 Unpaid EP Rate	May 11																							
3 Failure to Comply (Applicants)																								
4 Failure to Comply (Undercare)																								
Placements																								
6 Paid 30 Day Placement Rate	May-11																							
7 % of 160 FP paid	Jun-11																							
8 % of 160 D paid	Jun-11																							
9 Mean Wage																								
10 Median Wage																								
11 JRCP Paid Rate	Jul-11																							
Retention																								
12 90 Day Paid Retention	Apr-11																							
13 90 Day Returned to CA (Unbilled)	Apr-11																							
14 90 Day Unbilled	Apr-11																							
15 180 Day Paid Retention	Jan-11																							
16 180 Day Returned to CA (Unbilled)	Jan-11																							
17 180 Day Unbilled	Jan-11																							
Other																								
18 % of Previously Seen Referrals																								
19 % of Good Cause Granted	Aug-11																							

	2011												YTD Avg			
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2011	2010	2009	2008
Referrals																
Applicants																
Undercare (Rollover)																
Undercare (Return 90 days)																
Undercare (New 90 days)																
Open Cases																
Applicant																
Undercare																
160 FPs Entered																
Applicant																
Undercare																
Full Time																
Part Time																
Paid Milestones																
Employment Plan																
30 Day Placement																
160FP Paid																
160D Paid																
160G Paid																
JRCP																
90 Day Retention																
180 Day Retention																

Director:
Sr. Manager:
Contract Term:
Centers Served:

Demographics	Sep-11
Avg Age	
% of Cases with Child < 13	
% Female	
% Male	

% TANF	
% SNET	
% CONV	

Language Spoken	
English	
Spanish	
Chinese	
Russian	
Other	

No. of Months on CA	Sep-11	3 Mo.	YTD
No. of Months on CA			

Contract Expenditure Rate	CTD
% of Contract Amount Spent	
% of Contract Elapsed	

Employ Svcs Referrals	Sep-11	Aug-11	Jul-11
BEGIN			
TAG			
Business Link appts.			

ETA Training	Sep-11	Aug-11	Jul-11
Part-time Training			
Full-time Training			

DECEMBER 2006

ASPE RESEARCH BRIEF

OFFICE OF THE ASSISTANT SECRETARY FOR PLANNING AND EVALUATION

OFFICE OF HUMAN SERVICES POLICY - U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

THE OKLAHOMA MARRIAGE INITIATIVE

An Overview of the Longest-Running Statewide Marriage Initiative in the U.S.

In the late 1990s, Oklahoma undertook an innovative strategy to strengthen families by reducing its divorce and nonmarital childbearing rates. With leadership and commitment from the highest levels, the state set out to build public support and develop a sustainable multisector initiative through a public-private collaboration. Since then, the Oklahoma Marriage Initiative (OMI) has focused on building statewide capacity to deliver instruction in marriage and relationship skills—an approach that has stimulated public awareness and dialogue about the effects of marriage and divorce.

Recognizing the consequences of its high rates of divorce and nonmarital childbearing, the State of Oklahoma, through its highest policy level—the Office of the Governor—made a major commitment in 1999 to create what is now known as the Oklahoma Marriage Initiative (OMI). This pioneering effort came before the current national and local activities to support healthy marriage that were stimulated by the federal administration's 2001 announcement of a Healthy Marriage Initiative—making the OMI the longest operating marriage initiative in the U.S.

Besides having the longest history, the OMI is also the country's only statewide initiative. It aims to provide access to marriage support services in every county of the state and to Oklahomans from all walks of life. Oklahoma reports that an estimated 100,000 people have completed at least 12 hours of marriage education since October 2001. As this brief describes, the OMI expects that its strategy will lead to specific behavior change at the individual level—for example, by helping distressed married couples address their issues and avoid divorce, and by preparing engaged couples for marriage. Just as importantly, the OMI expects that as these services become more and more widely available, known, and used, changes in norms and attitudes about marriage will come about at the broad community level, restoring support for the institution of marriage as a valued social good.

ABOUT THIS BRIEF

This ASPE Research Brief provides an overview of the origins and development of the Oklahoma Marriage Initiative, drawing on findings from an in-depth process evaluation being conducted by researchers at Mathematica Policy Research, Inc. under contract to ASPE. This brief was prepared by M. Robin Dion. Future briefs will focus on specific aspects of the initiative's implementation, including the successes and challenges encountered by the OMI, and strategies that were used to address those challenges.

Office of the Assistant Secretary for Planning and Evaluation

US Department of Health and Human Services
Washington, DC 20201

Jerry Regier, ***Principal Deputy Assistant Secretary for Planning and Evaluation***

Leadership, Vision, and Commitment in Support of a Clear Goal

High-level leadership, a bold public goal, designated funding, and an institutional home base were essential factors in the founding of the OMI. Nearly eight years ago, Oklahoma's then-Cabinet Secretary for Health and Human Services, Jerry Regier, encouraged then-Governor Frank Keating to take action to strengthen Oklahoma's families, in response to emerging research and the increased emphasis on two-parent families in the 1996 federal welfare reform legislation. Further influenced by an Oklahoma-specific economic report suggesting a link between the state's economy and its family structure, Governor Keating gave public recognition to the issue, brought together leaders in Oklahoma society to discuss and pledge support, encouraged a public-private collaborative approach, and boldly announced a goal of reducing the divorce rate by one-third by the year 2010. Oklahoma's Department of Human Services (DHS) committed $10 million to the effort from surplus funds in its federal Temporary Assistance to Needy Families (TANF) block grant and contracted with Public Strategies, Inc. (PSI—a private, for-profit firm) to develop and manage the initiative. After the first couple of foundational years, Howard Hendrick succeeded Regier as Cabinet Secretary and used his agency to continue leadership and support for the initiative, guiding its evolution and full-scale implementation.

Since Oklahoma was a pioneer in this area, DHS and PSI began the OMI with little guidance from others' experiences, and so they weighed opportunities, options, and progress as they went. PSI began with no background in marriage programming and there were no results from other large marriage initiatives to suggest fruitful directions or pitfalls to be avoided. Under general supervision from DHS, PSI tried out various approaches to advance overall initiative goals, using an entrepreneurial spirit, creativity, and learning from successes and challenges along the way. The OMI has grown to be a true initiative rather than a narrowly defined program; it is a major public-private collaboration with component parts that are continually being developed, refined, and fine-tuned.

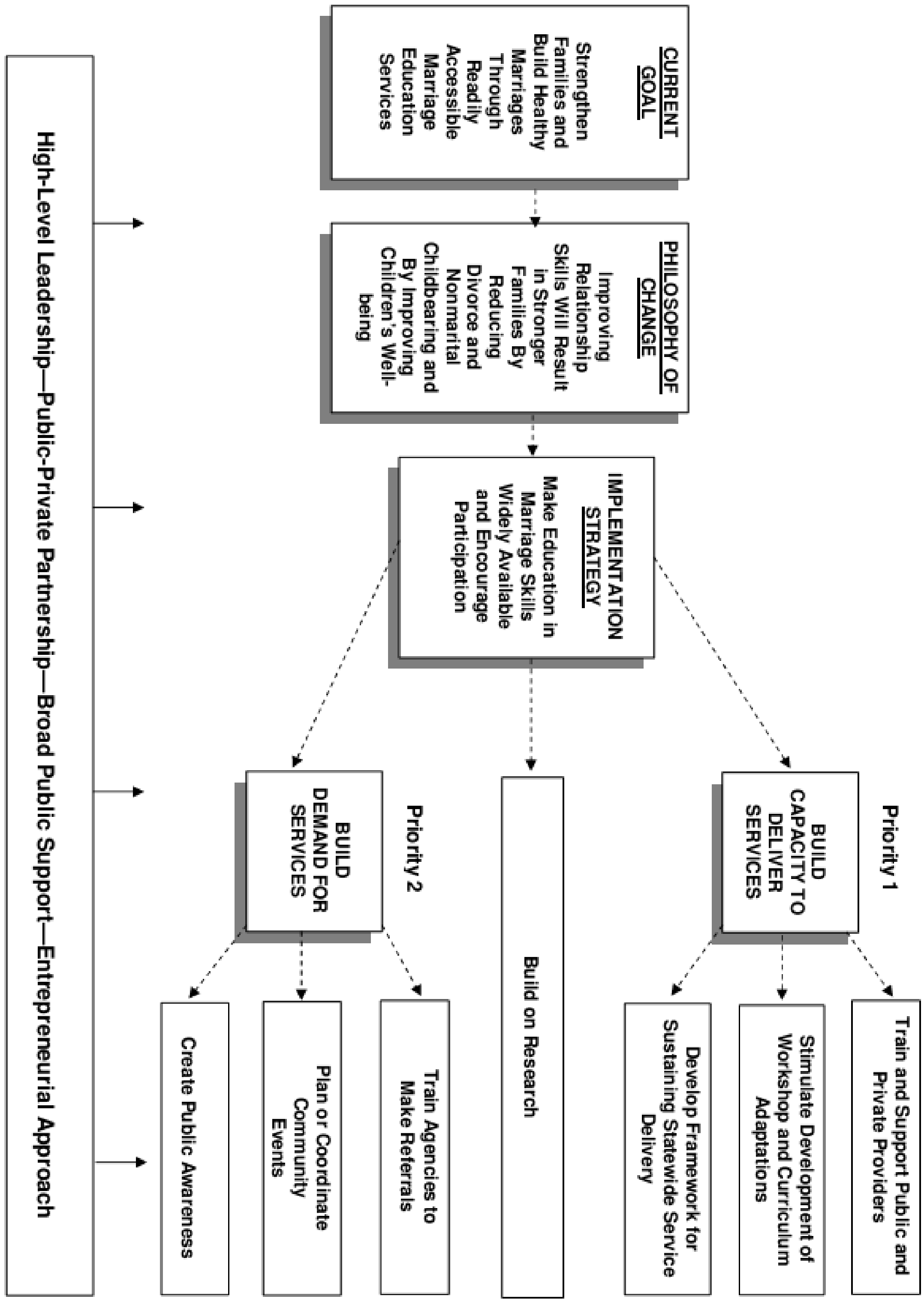
Although the OMI is constantly evolving, Figure 1 depicts the context, development, and logic of the initiative as it stands today. The remainder of this brief describes the main elements in this figure: the OMI's philosophy of change, its implementation strategy for facilitating change, its process for building on research, and how it has gone about building capacity as well as building demand for marriage education services throughout the state.

Developing a Philosophy of Change

Once consensus was reached on the need for action, the OMI had to identify a mechanism for creating change. Around that time, other states were considering ways to strengthen marriage through legislative reforms, incentives for marriage in public policies, or appointed commissions to study the problem. Oklahoma considered two main approaches. First, it discussed using media campaigns to promote the value of marriage and educate the public on its benefits for society, adults, and children. Second, the OMI considered services that could be provided to couples and individuals to provide them with the information, knowledge, and skills needed to develop and maintain healthy relationships and marriage.

The OMI chose to put the highest priority on building capacity to deliver services aimed at improving relationship and marital quality before building demand, for two reasons. First, the OMI expected that focused services would be necessary in order to create not just attitude change, but behavior change. Second, OMI leaders were concerned that media campaigns stressing the importance of healthy marriage could stimulate demand for services that could not be met until capacity was developed. Over time, the OMI has begun to stimulate demand as well. For example, the OMI offers abbreviated versions of services to large numbers of individuals drawn to widely marketed public events, thus stimulating demand, and, at the same time, providing at least some services in response.

Figure 1. Current Implementation of the Oklahoma Marriage Initiative



Selecting an Implementation Strategy for Facilitating Change

After considering a variety of strategies, the OMI selected a structured relationship skills program as its primary vehicle for facilitating behavior change—the Prevention and Relationship Enhancement Program (PREP). PREP is a research-based 10-12 hour educational curriculum that teaches skills and principles associated with healthy relationships and marriage, including effective communication skills, conflict management, and problem-solving. It also covers such topics as handling expectations, understanding commitment, identifying core beliefs, and focusing on friendship and fun. The curriculum material can be delivered in a variety of formats by trained workshop leaders.

The OMI envisioned a strategy that would make PREP widely available and accessible to all populations and areas within the state. It planned to involve as many sectors of society as possible—both public and private—to build support and provide broad coverage in service delivery. To unify the effort and provide a common language regardless of the service delivery setting, the OMI chose to implement only a single relationship skills program (although adaptations of PREP are sometimes made for specific groups).

The OMI was faced with selecting a relationship skills curriculum out of more than a hundred such programs that are on the market today. Ultimately, its choice of curriculum was guided by the OMI's desire to implement a program that had some basis in research and had been evaluated. These attributes were thought to lead to a greater likelihood of success in achieving the OMI's goals. An additional benefit was that using a program with a foundation in research could make it more defensible to possible critics.

Building on Research

Early in its development, the OMI convened a group of experts on marriage and relationship skills education and family formation policy to serve on a research advisory group. The purpose of the group, which meets annually, is to provide research-based input into the development of the initiative. The group includes sociologists, psychologists, social workers, and others from outside Oklahoma, as well as representatives from the research division of Oklahoma's Department of Human Services and Oklahoma State University's Bureau of Social Research (OSU-BSR), which often collects data for the OMI.

One of the earliest steps taken by the advisory group was to develop and field a statewide survey in 2001 of Oklahomans' attitudes toward and experiences with marriage and divorce. Advisory group members contributed to the survey's development and analysis. The data helped the state understand the issues it is facing with respect to marriage and divorce (such as its low average age at first marriage), and guided it toward the development of certain service delivery features (such as marriage education for high school students). It also provided a "baseline" snapshot of marriage and divorce as the OMI began. With guidance from the research advisory group, the OMI has commissioned other data collection from time to time to help refine implementation and understand operational barriers, such as surveys of workshop leaders to learn about barriers to providing marriage education. Another example of the OMI's research efforts was a survey designed to obtain better information about the relationship issues faced by lower-income populations in Oklahoma. This survey was intended to inform the development of a program specifically for low-income expectant parents, Family Expectations.

Building Statewide Capacity to Deliver Relationship Skills Education

Training and Supporting Public and Private Providers. To build the state's capacity to deliver relationship skills workshops, the OMI focused on two broad approaches: training the staff of public agencies to provide workshops for their clients, and training private individuals who wish to serve their own local communities.

The OMI focused on training public agency staff for several reasons. First, engaging government and other agencies in delivering services could be an effective way to gain public support for the initiative's goals. Second, public agencies tend to serve low-income clients, who otherwise may be difficult to reach. And third, such agencies tend to have a statewide infrastructure or network of staff that might be enlisted to efficiently support workshop delivery throughout the state. As shown in Table 1, the OMI has worked with institutions and agencies in several sectors, including Education, Health, Corrections, Social Services, and the Military, whose employees, when providing PREP workshops, do so as a part of their regular jobs.

There is broad variation in the origins and underlying motivation for implementing OMI services in these particular agencies. In some cases, implementation occurred in response to a policy priority, such as policies to support adoptive/foster parents or to increase accessibility of services to low-income families. In other cases, the implementation was motivated by research, such as the finding that Oklahomans tend to marry young (which contributed to the focus on educating high school students). Other populations, like prisoners, are a focus of the OMI because the relevant agency recognized a need for relationship services for its clientele and requested the OMI's help. Future briefs will provide more detailed information on the motivation, evolution, and development of OMI services for the specific populations served by these public agencies and will discuss why some institutions have been more involved in the OMI than others.

Table 1. Selected Public Agencies Involved in Providing OMI Services

Sector	Oklahoma Agency Sponsor	Target Population	Workshop Leaders
Education	Department of Career Technology	High school students	Family and Consumer Sciences teachers
	Oklahoma State University (OSU) Cooperative Extension Services	Adult students; GED class participants	OSU educators
Corrections	Department of Corrections	Prison inmates and their partners/spouses	Prison chaplains
	Association of Youth Services (OAYS)	Adolescent first offenders and their parents	OAYS staff
Health	Department of Health (OSDH), Child Guidance	Parents	Child Guidance counselors
Social Services	Department of Human Services (DHS)	TANF recipients	DHS and PSI staff
	Department of Human Services (DHS)	Adoptive and foster parents	DHS and PSI staff
	Community Action or Head Start agencies	Low-income parents	Head Start workers
Military	Army, Air Force, and National Guard	Members of the military and their partners/spouses; base and post employees	Family Advocacy and Family Support staff; chaplains; Employee Assistance Counselors

To help make relationship skills education more widely available at the community level, the OMI also emphasized building capacity for service delivery in local communities. In exchange for receiving free workshop training from the PREP curriculum developers, volunteers agree to provide at least four free workshops in their communities. These volunteer workshop leaders generally function independently of public agencies or programs and decide for themselves where, when and to whom they will offer workshops. Although the majority of the independent workshop leaders are not paid through their jobs or the OMI for their time when delivering OMI services, some have incorporated PREP as one of the services offered in their private professional practices, such as mental health counseling, or marriage and family therapy. Many volunteers are members of the faith community, such as pastors or counselors, but a wide range of individuals from other areas have also been trained, including individuals representing law enforcement, business, and family services.

Stimulating Development of Workshop Adaptations. As the OMI expanded services, it became clear that adaptations were sometimes needed, both to the core curriculum itself and in the delivery of the curriculum. The most common type of adaptation—a presentation adaptation—is made by local workshop leaders or OMI staff and involves changes to illustrations or examples used in the curriculum, but not to overall content. For example, chaplains teaching PREP in Oklahoma prisons may refer to the unique challenges of communicating with a partner on the "outside." Such modifications are not intended to alter the general principles or assumptions of the curriculum, but to tailor the "look and feel" of the service so that it adequately matches the needs of a particular population group. The second kind of more formal adaptation—a curriculum adaptation—involves changes by the original PREP curriculum developers, which results in a new product containing additional or revised content for specific target populations. For example, the developers created a new curriculum based on PREP called "Within My Reach" (WMR), specifically for use with TANF recipients, who are often not in a couple relationship. WMR is designed for use with individuals, rather than couples, and departs from the core assumption in the traditional PREP curriculum that there is a viable couple relationship that can be sustained. Desired outcomes for WMR participants include a better understanding of the difference between a healthy and a dangerous relationship, and skills for making positive relationship choices in the future.

Developing a Framework for Sustained Statewide Service Delivery. The OMI found that using volunteers as workshop leaders was challenging because of "turnover" after being trained, and because of a lack of infrastructure to support service delivery. They found that just training volunteers does not, by itself, translate into year-round sustained capacity. There may be gaps of service coverage in certain areas, for certain groups, or at certain times. To address this issue, the OMI put special efforts into building up, supporting, and sustaining the ongoing delivery of workshops in specific geographic areas and among certain groups, such as Latinos and Native Americans. PSI staff provide technical assistance to foster long-term delivery capabilities in several ways: by helping communities or organizations schedule and coordinate classes for year-round coverage; by identifying ongoing referral sources; by locating facilities for workshops; or by finding program supports such as child care or refreshments for workshop participants and their families.

Building Demand for Relationship Skills Education

Training Agency Staff to Make Referrals. Because marriage and relationship skills education are not widely known among the general population, the OMI has worked to promote demand for OMI workshops by training staff at public agencies to make referrals. The training helps staff, such as TANF caseworkers, understand PREP workshops as well as the goals and purpose of the OMI. In its early years, the OMI conducted large training sessions involving individuals from a wide variety of agencies, however they noted that staff sometimes had different concerns and needs, depending on the culture of their individual agencies. The OMI addressed this issue by tailoring the training to the needs and concerns of specific agency staff and by shifting to agency-specific presentations.

Stimulating and Coordinating Community Events. Many OMI activities that support service delivery tend to create interest among the public in relationship skills education. To further stimulate this demand, the OMI also coordinates various types of community-level events such as Sweetheart's Weekends. These events often provide a shortened version of PREP at one sitting, and are designed to increase the visibility of the OMI, increase awareness of the availability of relationship skills education, and stimulate interest in attending full PREP workshops.

Creating Public Awareness. To create further awareness of the value of marriage education and the availability of services, OMI staff frequently make in-person presentations at local community organizations and at public agencies. Staff also enlist the assistance of media, generate publicity for community events, and operate a website where individuals can learn information about marriage and access information about OMI services.

Summary and Future Briefs

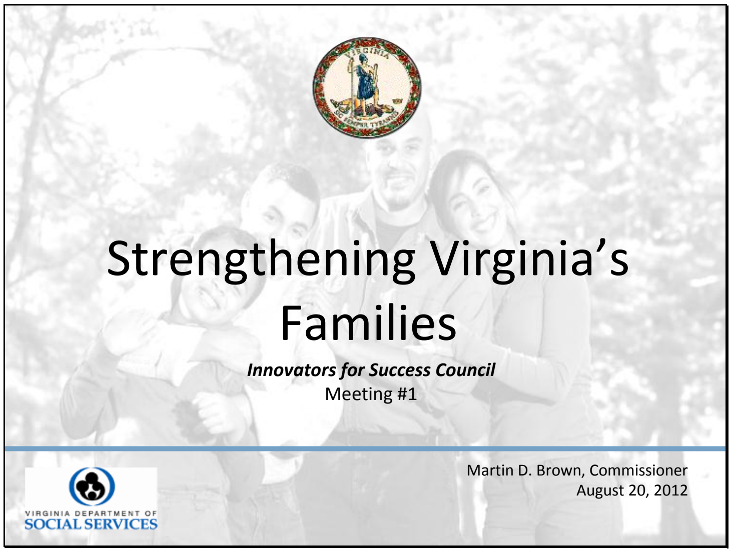
The OMI is a blend of two models for supporting healthy marriage. One model, commonly called community saturation, seeks to blanket a community with messages about marriage and foster widespread interest in seeking ways to strengthen marriage. A second model focuses on targeting services to specific populations. The OMI is pursuing aspects of both. It aims to make tangible services accessible to people of all ages and socioeconomic backgrounds, across the range of relationship statuses, throughout the state. The OMI expects that as more and more people gain the skills needed to identify healthy potential partners and enter and sustain healthy marriages, the state will see fewer divorces and less unmarried childbearing. It expects to change Oklahoma's culture, which is now marked by early marriage and high rates of divorce. The OMI aims to encourage people to prepare consciously for marriage through relationship skills education and, for those already married, to seek help before marital problems or thoughts of divorce become deep-seated. The effect of the OMI on these outcomes is not yet known, but much is being learned about designing and implementing large-scale statewide initiatives.

Since its inception in the late '90s, the OMI has enjoyed the support of two different gubernatorial administrations and agency leaders. While this brief provides an overview of the current structure of the OMI, future briefs will seek to answer such questions as: What has led to the OMI's success in sustaining itself so far? Which design and implementation strategies have been successful? Which did not work and why? Why were some choices made over others? To what extent has the OMI reached the public with its messages and services? What lessons has Oklahoma learned that initiatives in other states might benefit from? Future briefs will also address the obstacles the OMI faced in developing each component, the strategies used to address those obstacles, and the apparent success of those strategies.

The next research brief in this series will focus on the early years of the OMI. It will explain how and why supporting marriage became part of the state's policy agenda, the principles that the OMI's early leadership established to guide its development, and how the OMI ultimately developed a foundation. Suggesting lessons for others interested in building statewide or community-wide initiatives, it will discuss the pragmatic approach the OMI took, how and why marriage education was selected as the primary intervention strategy, and the public-private partnership between PSI and DHS.

Evaluation Methodology for the OMI Process Study

Information reported in the OMI research brief series is based on an analysis of data gathered during an ongoing multiyear study of the initiative's design, development, and implementation. Study tasks include semi-structured interviews with individuals and groups, direct observation of program operations, focus groups with staff and participants, and secondary analysis of data from existing reports and surveys. The research team will meet directly with a total of approximately 280 individuals involved with the OMI in various ways, focusing on implementation in the Education, Social Services, Health, Military, and Community Volunteer sectors, and including a special emphasis on OMI services within the state's Correctional System. Mathematica's research team includes: Robin Dion, Alan Hershey, Debra Strong, Heather Zaveri, Nikki Aikens, Shawn Marsh, and Tim Silman.

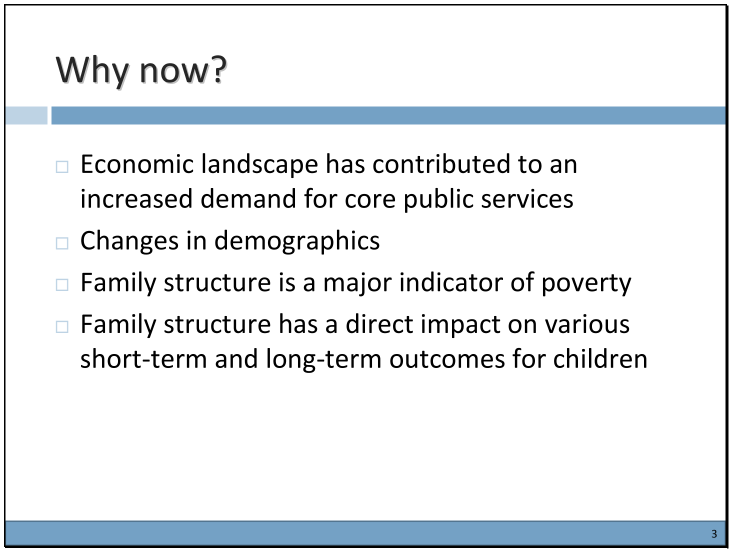


Background: Where We've Been

Context for Moving Forward: *Protective Factors Framework*

Sustaining Promising Practices: Innovators for Success Council

***Background:** Where We've Been*



According to the Census Bureau, the median household money income for the nation was $49,400 in 2010, a decline of 2.3 percent from 2009.

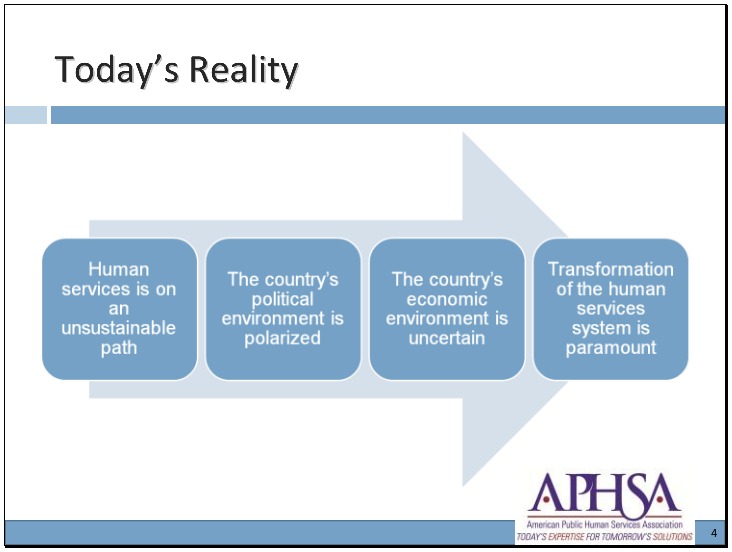
The 2010 official poverty rate for the nation was 15.1 percent, up from 14.3 percent in 2009, with 46.2 million people in poverty, an increase of 2.6 million since 2009.

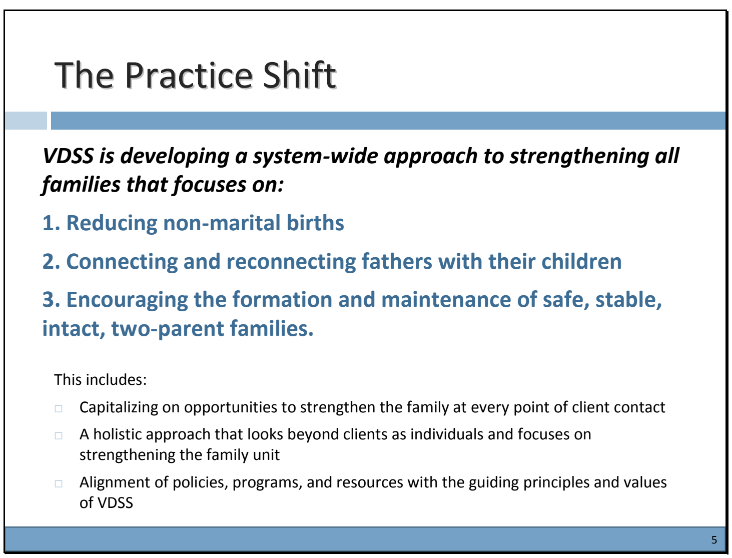
Medicaid and SNAP caseload increases since 2000

Demographic Change: Number of Virginians choosing to get married is decreasing - Historically, marriage has been integral to American life. As the central institution of society, marriage was the typical step forward into adulthood. Yet the marriage rate today is less than half the level of 1969. Fewer people are getting married, and they are waiting longer to get married.

Demographic Change: Number of children born to unwed parents is rising - Changes in marital patterns have had a major impact on the lives of children in this country. Marriage in no longer considered a prerequisite for parenthood. Over the past 50 years, the number of children born to unmarried mothers has risen dramatically – increasing eightfold from 5% in 1960 to 41% in 2008 (nationally). In Virginia, 1 out of every 3 births is to unwed parents (35.8% in 2009). Common misconception that this is a teenage pregnancy phenomenon. The reality is that teenage pregnancy rates actually rates are going down. 79% of non-marital births occur in women over the age of 20.

Demographic Change: Number of children raised in single-parent families continues to rise in Virginia - Consider this, according to the U.S. Census Bureau, only 11% of children lived in homes without their fathers in 1960. Over 24 million children live apart from their biological fathers (1 out of every 3)





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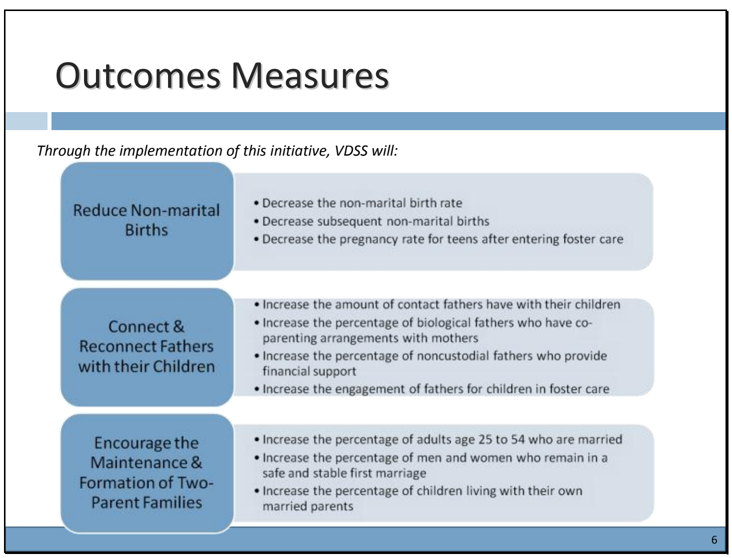
We serve approximately 1.5 million people in the Commonwealth – there are many opportunities to positively impact the people we serve.

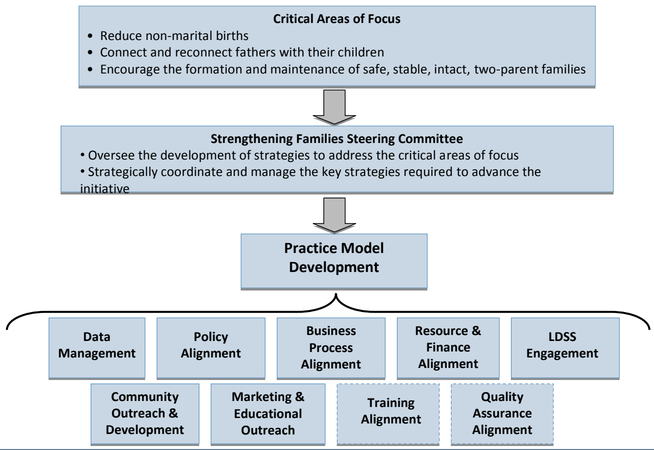
This initiative is not about a new program, a new policy, or a new practice – it is about improving the ways in which we already work with clients and rethinking how to best support them and their families.

Already aligns with the four primary goals of TANF:

- Assist needy families so that children can be cared for in their own homes
- Reduce the dependency of needy parents by promoting job preparation, work and marriage
- Prevent out-of-wedlock pregnancies
- Encourage the formation and maintenance of two-parent families



Process Overview



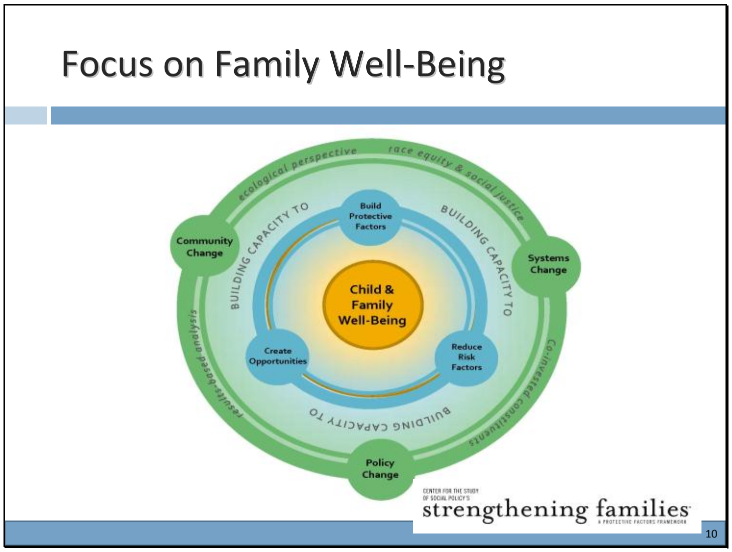
7

Plans Ahead

- Continue cross-functional workgroups
- Continue comprehensive outreach efforts with community stakeholders
  - Conduct targeted outreach with faith community through focus groups, forums, and training institutes
  - Work with a contractor to provide research, training, and community outreach to faith leaders, businesses, local programs, philanthropic organizations, and colleges and universities
- Work with a contractor to launch a comprehensive marketing and public awareness campaign
- Align state plans
- Pursue waiver opportunities
- Execute the Innovators for Success Council

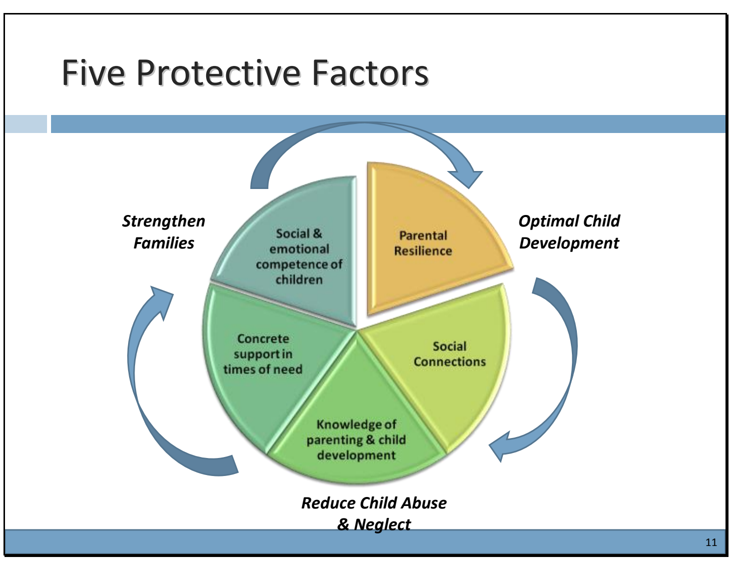
8

Context for Moving Forward:
Protective Factors Framework



Strengthening Families is an integral part of the work of the Center for the Study of Social Policy. CSSP uses a unified theory of change that applies to all its work. They believe that this is achieved by building protective factors, reducing risk and creating opportunities for families. Their particular everyday role is building capacity to do these things through community change, systems change and policy change

The Doris Duke child abuse prevention idea that became Strengthening Families is one illustration of how CSSP strives to incorporate the whole theory of change as individual ideas and project develop over time. An idea like Strengthening Families may start in one place but over time will integrate other aspects of the Center's work as well. Similarly, this is happening in Virginia as well.



Research shows this framework builds on family strengths, promotes optimal child development, and reduces child abuse and neglect. It is also a way to practically link the 3 goals of Virginia's Strengthening Families Initiative to the work that take place every day in local departments of social services.

More than 30 states are working to promote these protective factors through the alignment of policy and resources through home visiting efforts, child welfare services, and early childhood development systems. They do this through contracting, regulation, performance monitoring and outcome evaluation to create and reinforce the use of protective factors as a frame for improved outcomes

The National Alliance of Children's Trust and Prevention Funds is making available a series of online training courses to support implementation of the evidence based Strengthening Families™ Protective Factors Framework in multiple settings. This training – ***Bringing the Protective Factors Framework to Life in Your Work: A Resource for Action*** – includes new materials on partnering with parents and addresses promising strategies to help families build protective factors and provide safe and caring homes for their children. To sign up, you may go to the Alliance website at http://www.ctfalliance.org/onlinetraining.htm and click on the link in the left column that says "Go to the online training course."

Purpose: Innovators for Success Council

- Diversity across the Commonwealth
- Changes must take place and state and local level
- Lessons learned from Children's Services System Transformation and Council on Reform and other VDSS initiatives

13

Innovators for Success Council

- Albemarle
- Alexandria
- Arlington
- Bedford
- Buchanan
- Charlottesville
- Culpeper
- Frederick
- Isle of Wight
- James City
- King William
- Lee
- Louisa
- Norfolk
- Orange
- Powhatan
- Prince William
- Richmond City
- Richmond County
- Roanoke City
- Sussex
- Washington
- Winchester

14

VDSS Strengthening Families Initiative
Innovators for Success Council

15

Areas of Interest

Topic of Interest	Percentage of Responses
Engaging Fathers	86%
Healthy Marriages	52%
Healthy Parenting	91%
Working with Male Youth	26%
Working with Ex-Offenders	26%
Building Community Partnerships	52%
Helping Families Build Financial Assets	52%
Job Readiness & Career Development	56%
Addressing the Needs of Military Families	>1%
Serving Rural Communities	52%

16

“If young people finish high school, get a job, and get married before they have children, they have a 2% chance of falling into poverty.”

- Brookings economists Ron Haskins and Isabel Sawhill

17

For more information, visit
www.vastrengtheningfamilies.com

18