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IMPROVING THE SOCIAL SAFETY NET IN THE OLD LINE STATE

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Over the past several years, the nation's welfare system has experienced a dramatic overhaul as the federal government, in 1996, replaced the Aid to Families with Dependent Children (AFDC) program with the Temporary Assistance to Needy Families (TANF) program. In the process of reform, states were given a great deal of freedom to custom tailor their own welfare policy changes within their jurisdictions, subject to certain limits.

This began a broad new experiment in federalism. While every state was required to implement the federal welfare program, they did not have to do so in the same exact manner. That, in turn, allows various state policy outcomes to be scrutinized and evaluated.

This paper describes the recent history of welfare reform in the Old Line State and elsewhere. It will conclude with some policy recommendations for how to improve the Maryland system to better ensure that recipients stay out of poverty and gain economic self-sufficiency. In short, this report comes to the following conclusions:

- Since the mid-1990s, Maryland has seen a dramatic drop in welfare caseloads. Between fiscal years (FY) 1996 and 2002, caseloads have declined by nearly 68 percent, a more sizable decline than other states in the mid-Atlantic region or the nation as a whole.
- While the decline in caseloads is a decided bright spot in this report, few adults among Maryland's welfare population are required to work or engage in work-preparation activities. That detracts from their likelihood of becoming economically self-sufficient in the future. In this regard, Maryland ranks near the bottom.
- Although Maryland's poverty rate is low relative to the nation as a whole, increasing the number of its welfare recipients who work would decrease that number further.
- Finally, Maryland should continue and expand upon its efforts to reduce illegitimacy and increase marriage. Full-time work, combined with the marriage of single parents, is particularly effective in limiting poverty for families.

WELFARE REFORM

In 1996, Congress passed and President Bill Clinton signed the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), which replaced the AFDC program with the TANF program. The law dramatically changed America's welfare system to forward the goals of increasing work, decreasing welfare dependency, curtailing illegitimacy, and encouraging the formation of two-parent families.

Operationally, the 1996 reform changed welfare from an income-support entitlement program to a more temporary program in which recipients must actively work to self-sufficiency. Prior to reform, welfare analysts often lamented that the AFDC program encouraged long-term, intergenerational dependency. Under TANF, recipients will lose their general assistance cash if they do not work or if they are on the program more than 24 consecutive months.

WELFARE IN MARYLAND

To forward the goals of the TANF program, states decide how program dollars are spent and what recipients must do to receive benefits, within certain prescribed parameters. This flexibility has engendered what has been dubbed a "natural experiment" whereby the outcomes of various state efforts may be scrutinized and evaluated.

Maryland's welfare program is a federal/state partnership where the federal government allocates a block grant to the state for purposes of providing cash and other assistance to needy Maryland families. Total spending in the program is more than $400 million per year in cash assistance and other services.

The state's Family Independence Program has the following major components:[1]

- **Temporary Cash Assistance (TCA) —** the basic cash assistance program of the state. This program constitutes the bulk of the program funds. The combined TCA and food stamp benefit level is set by the legislature to be equal to 61 percent of the state's minimum living level. Over the past several years, the maximum TCA grant has increased roughly at the same rate as inflation.[2]
- **Welfare Avoidance Grants (WAG) —** a novel program that grants TANF dollars to families that might otherwise require assistance under the TCA/TANF program. Families who take lump-sum WAG grants generally cannot also receive TCA/TANF monies for a pre-determined amount of time (depending on the size of the grant). However, they may apply for other types of programs during the WAG timeframe, including food stamps and certain medical assistance programs. Operationally, the amount of the grant cannot exceed the value of 12 months of TCA/TANF.
- **Emergency Assistance to Families with Children —** cash assistance for emergency needs. As the name implies, this program provides funds to cover such emergencies as utility cutoff or eviction for needy families that do not otherwise have access to resources to deal with those kinds of problems.
- **Other alternative programs —** other types of programs allowable under the law. They include pregnancy prevention and fatherhood programs that were promoted in the original federal welfare reform law.

Most of the program dollars are spent in the TCA and WAG programs in Maryland. Eligibility for TCA/TANF also makes most recipients eligible for a number of other federal or state programs, including food stamps, housing, medical, child care, and transportation assistance. Under federal law, unspent general assistance dollars may, within certain limits, be transferred for child care or other social services. Maryland, like many states, has tailored its programs accordingly.

MID-ATLANTIC STATES

Nationwide, the effect of welfare reform has been dramatic; some 7.5 million individuals (about three million families) have left the rolls between 1996 and 2002. That represents a drop of more than 50 percent—a remarkable achievement that is even more astonishing given the state of the U.S. economy over that time.

While caseloads have declined in virtually every area of the nation, some states have seen more dramatic changes than others. Maryland, in particular, has performed very well in decreasing caseloads when compared either to the nation as a whole or to its peer states in the mid-Atlantic region.

Table 1 reports the average number of monthly welfare (either AFDC or TANF) caseloads in the United States and a selection of four states in the mid-Atlantic region. All have seen significant decreases in caseloads between FY 1996 and FY 2002. In Maryland, more than 200,000 individuals per month (on average) were recipients of the old AFDC program in FY 1996. In FY 2002, that number had been cut to just over 65,000 recipients of TANF.

Particularly noteworthy is the experience of Maryland versus its neighbor to the south, Virginia. Although Maryland has roughly 1.8 million fewer

1. For greater detail about these programs, see Maryland Department of Human Resources, Family Investment Administration, "Temporary Assistance for Needy Families: TANF State Plan," October 1, 2002.
2. In June of 2001, the maximum TCA grant for a family of three was $439 per month.

Table 1: Average Monthly Welfare Caseloads (Persons on AFDC/TANF)

Year	United States	Maryland	Virginia	Delaware	Pennsylvania
FY 1996	12,644,915	204,105	161,928	23,367	543,502
FY 1997	10,935,125	163,089	130,600	22,177	460,607
FY 1998	8,790,149	125,163	104,688	11,726	377,611
FY 1999	7,187,658	88,429	89,380	15,463	298,133
FY 2000	5,943,450	72,147	72,573	12,849	249,721
FY 2001	5,419,603	68,221	65,051	12,355	216,186
FY 2002	5,146,132	65,565	67,262	12,357	210,595

Sources: U.S Department of Health and Human Services's "Temporary Assistance for Needy Families Program (TANF) Fifth Annual Report to Congress (Feb. 2003)" and "TANF: Total Number of Recipients, Fiscal Year 2002."

Table 2: Percent Change in Welfare Caseloads, FY 1996 to FY 2002

State	Percent
United States	-59.3%
Maryland	-67.9%
Virginia	-58.5%
Delaware	-47.1%
Pennsylvania	-61.3%

Sources: U.S Department of Health and Human Services's "Temporary Assistance for Needy Families Program (TANF) Fifth Annual Report to Congress (Feb. 2003)" and "TANF: Total Number of Recipients, Fiscal Year 2002."

Table 3: Percent of Population on Welfare

Year	United States	Maryland	Virginia	Delaware	Pennsylvania
1996	4.69%	3.99%	2.40%	3.15%	4.45%
1997	4.01%	3.16%	1.91%	2.95%	3.77%
1998	3.19%	2.40%	1.52%	1.54%	3.08%
1999	2.58%	1.68%	1.28%	2.00%	2.43%
2000	2.11%	1.36%	1.02%	1.63%	2.03%
2001	1.90%	1.27%	0.90%	1.55%	1.76%
2002	1.79%	1.20%	0.92%	1.53%	1.71%

Sources: U.S. Census Bureau intercensal estimates, U.S Department of Health and Human Services's "Temporary Assistance for Needy Families Program (TANF) Fifth Annual Report to Congress (Feb. 2003)" and "TANF: Total Number of Recipients, Fiscal Year 2002."

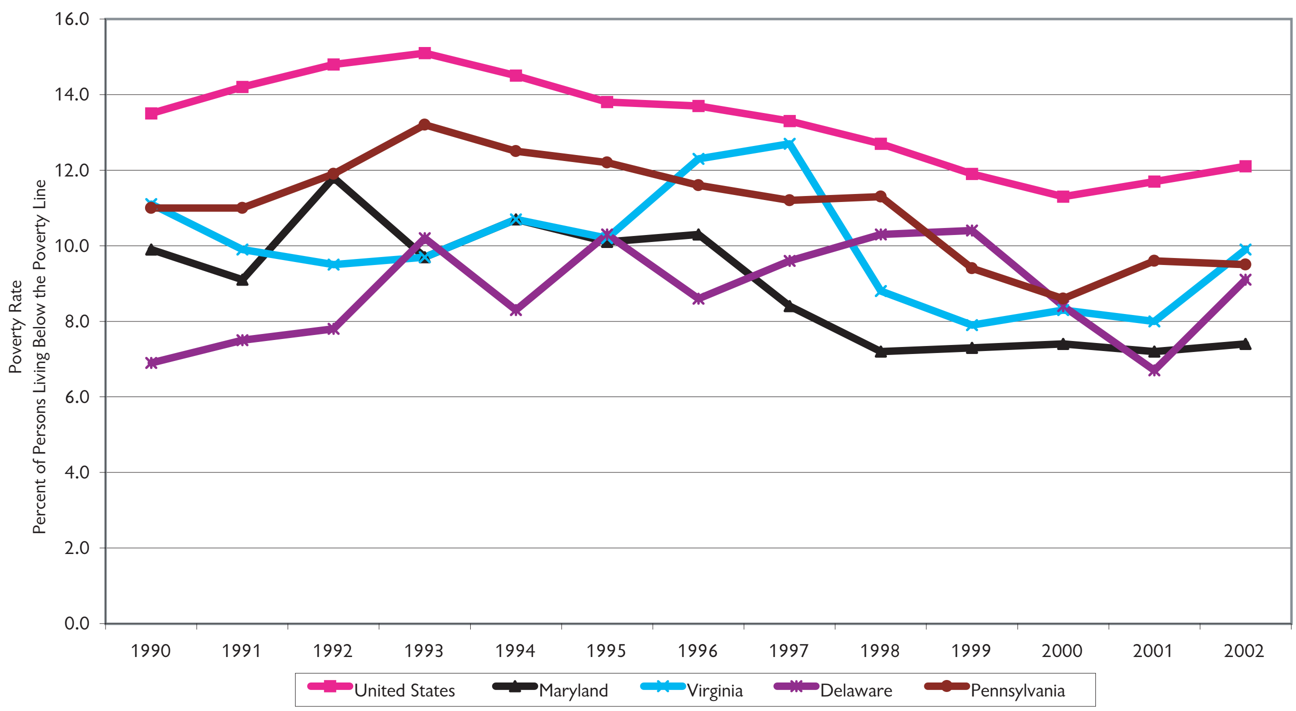
people than Virginia, it had 40,000 more welfare recipients in FY 1996. Since then, the precipitous decline in caseloads in Maryland has brought total caseloads to be about even with Virginia, at just over 65,000 total welfare recipients.

Table 2 shows the percent change in caseloads from FY 1996 to FY 2002. While the nation as a whole dropped just under 60 percent of its caseloads, Maryland showed a decrease of about 68 percent. No other state in the region matched Maryland's percent decrease in caseloads, although at a drop of 61.3 percent, Pennsylvania comes the closest.

Another way to express those caseload statistics is through the proportion of the population receiving welfare benefits. This method is particularly useful, given the unequal sizes of the states in this comparison. Nationwide, fewer than five percent of all people were receiving AFDC benefits in FY 1996 before reform, as shown in Table 3. In FY 2002, less than two percent of the total population was on TANF. Of the four states in the mid-Atlantic, Maryland fares very well in this metric; by FY 2002 it had only 1.2 percent of its population on TANF assistance. Only Virginia, at about 0.9 percent, can boast a lower percentage of people on TANF.

The TANF program has returned a great number of adults back to the labor force across America. Not surprisingly, this in turn has been a central factor in the decreasing poverty rate in the United States over the past several years. Figure 1 shows over time the percent of people living in poverty for the nation as a whole, and for the four states in the mid-Atlantic region. Nationwide, between 1981 and 1996, the poverty rate dropped below 13 percent only once (in 1989). Since 1998, the first full year after welfare reform, the overall poverty rate

Figure 1
DECREASING POVERTY: Maryland has a lower poverty rate than other mid-Atlantic states.



Source: U.S. Census Bureau, Current Population Survey (various years)

has never been higher than 13 percent; indeed, with the exception of 2002, the poverty rate was less than 12 percent. A number of research studies attribute this drop to the effects of welfare reform.[3]

Maryland's state poverty rate, like the other three states in the mid-Atlantic region, has been lower than the national average for some time. In the early to mid-1990s, Maryland's overall poverty rate hovered at around 10 percent. Since welfare reform, however, Maryland's poverty rate has consistently been below 7.5 percent, making it the lowest poverty rate among those states.[4]

In short, of the four states in the region selected for this comparison (Maryland, Virginia, Delaware, and Pennsylvania), Maryland has enjoyed the best outcomes by virtually every objective standard.

WHY HAS MARYLAND FARED SO WELL?

One of the reasons some analysts have described the 1996 welfare reform law as a "natural experiment" is because the TANF program allows for a great deal of flexibility on a state-by-state level. States receive a block grant for their welfare programs, which they may then allocate (within certain limits) to their program. Because of that, individual states can tailor their own welfare programs to meet the needs of their individual populations.

Maryland, in particular, has fared well because of the stringent requirements built into the program. The state requires welfare applicants to sign a "Family Independence Agreement," a schedule of activities that the applicant will do in order to become independent. One of the key provisions of this agreement requires applicants to continue to look

3. See, for example, Robert Rector and Patrick F. Fagan, "The Continuing Good News About Welfare Reform," Heritage Foundation *Backgrounder* No. 1620, February 6, 2003.

4. The state poverty rate statistics should be taken with some care, as they are highly variable, especially in particularly small states such as Delaware. Even when a three-year moving average poverty rate is used (as the Census Bureau often uses in this case), Maryland's poverty rate is lower than the other three states post-welfare reform, something that could not necessarily be claimed before reform.

for a job, even while their application is being reviewed.[5]

Most states are like Maryland in that they have a similar immediate work requirement. Some 16 states, however, allow recipients some time before they are required to work, which varies from two to 24 months.[6] Postponing the time to work only serves to postpone self-sufficiency. It is little wonder, then, that states with strong work requirements had more success than those states with work exemptions.

Recent academic research has shown that strong work requirements in particular are a substantial factor in raising incomes, which reduces dependency. A recent article by Rebecca Blank, a former member of President Clinton's Council of Economic Advisers, and Robert F. Schoeni describes a strong relationship between state work requirements and single-parent income.[7] In states with strong work requirements and incentives, poor single mothers were more likely to return to work, thereby increasing their earnings.

The role of incentives has likely played a central part in Maryland's success over the past few years. The state has instituted a set of sanctions for those individuals on the TCA/TANF program who do not comply with their Family Independence Agreement. If, for example, an individual on TCA/TANF fails to search for a job (or instead, gets a job that the recipient later quits), cash benefits will be suspended unless the recipient shows "good cause" as to why he or she failed to comply with the agreement.

The sanctions for noncompliance become increasingly severe thereafter. For those individuals who are not exempted from the work requirements and who fail to work or look for work a second time, benefits are suspended until they do so for a period of 10 days. The third time, TCA/TANF dollars are suspended until the recipient is in compliance for 30 days.[8]

HOW MARYLAND COULD DO BETTER

While all of this gives the appearance that Maryland is doing well, the Old Line State can do better. For one thing, the state exempts too many individuals from work requirements. This is not unusual nationwide, but in Maryland this problem is particularly acute. According to data from the U.S. Department of Health and Human Services, only 8.3 percent of all TANF families in Maryland were engaged in work activities in FY 2002.[9] While this is an increase from the rate of 6.6 percent in FY 2001, it is far below the national average of more than 30 percent. Only one state in the continental United States (Georgia) has a lower TANF work participation rate.

Put another way, of the 16,210 TANF-eligible families in Maryland (on average, per month in FY 2002), only 1,345 are engaged in some kind of approved work activity (or, about 8.3 percent of the eligible caseload).[10] Further, less than 900 of them are actually working.[11] The more that TCA/TANF recipients can do to become engaged in the labor market, the better their long-term prospects of self-sufficiency and economic security.

5. Under limited circumstances, the work requirement in Maryland may be waived. If the applicant has a child under 12 months of age, is physically or mentally disabled, cares for a child who is physically or mentally disabled, or is a parent with a child under six years old without access to child care, he or she may be excused from the work requirement.

6. See U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, *Temporary Assistance for Needy Families Program (TANF): Fifth Annual Report to Congress*, February 2003, Table 12:3, pp. XII-324 and XII-325.

7. Rebecca M. Blank and Robert F. Schoeni, "Changes in the Distribution of Children's Family Income Over the 1990's" *American Economic Review*, Vol. 93, No. 2 (May 2003), pp. 304-308.

8. For more on this point, see U.S. Department of Labor, "What You Need to Know About Maryland's TANF (Welfare) Program."

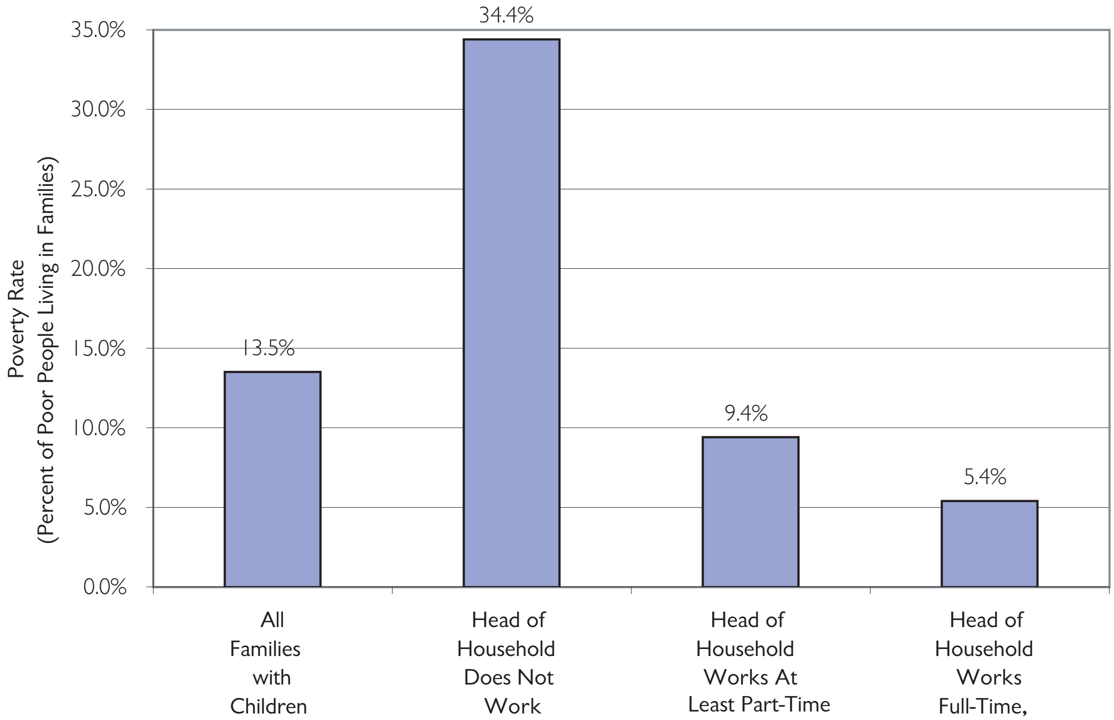
9. U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, "Temporary Assistance for Needy Families: TANF Work Participation Rates, Fiscal Year 2002, Table 1a."

10. This does not include the nearly 10,000 "child only" TANF cases that should, for obvious reasons, not be subject to the work requirements.

11. The rest are either searching for jobs or engaging in some kind of vocational education or training.

Figure 2

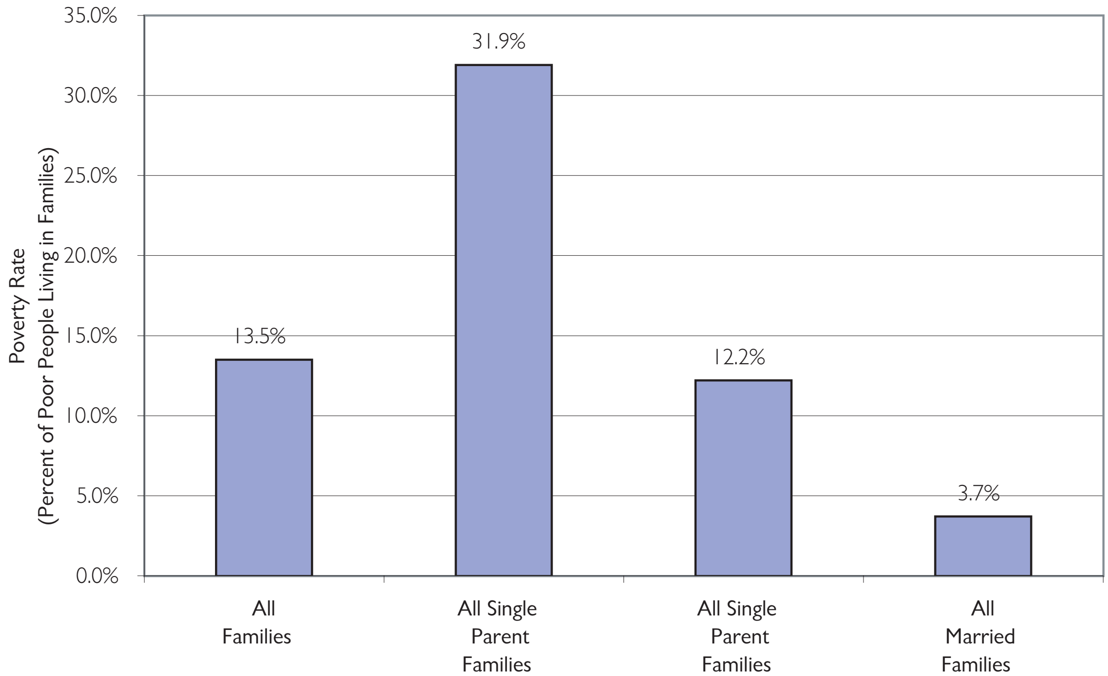
POVERTY AND EMPLOYMENT: Nationwide, families headed by a full-time, year-round worker are not often poor.



Source: Current Population Survey, March 2003, at *http://ferret.bls.census.gov/macro/032003/pov/new19_100_01.htm.*

Figure 3

POVERTY AND MARRIAGE: Nationwide married families with children headed by a full-time, year-round worker are not often poor.



Source: Current Population Survey, March 2003, at *http://ferret.bls.census.gov/macro/032003/pov/new19_100_01.htm.*

Maryland's general assistance welfare program is doing well, but it can do even better. While the state has done a good job of decreasing caseloads since the federal welfare reform law was instigated, the Maryland TCA/TANF program should also have an operational aim to decrease the incidence of poverty in the state. The old AFDC program did little nationwide to mitigate the problems of poverty, especially child poverty, in America. The TANF program, on the other hand, can and should be a way to not only provide a safety net of assistance for those in need, but also forward programs to ensure long-term self-sufficiency.

There are two major ways Maryland could strengthen its welfare and social service programs to promote long-term self-sufficiency. The state should encourage more full-time work and diminish the problem of illegitimacy by fostering healthy marriages and the formation of two-parent families.

Work Requirements First and foremost, Maryland is exempting far too many families with adults from the work requirements. Work requirements built into the law and Maryland's own TANF state plan are meaningless unless they have broad applicability throughout the program. To put it bluntly, the state's policies on paper talk tough, but have little follow-through. Maryland should have a goal of "universal engagement" of TANF recipients, modeled after successful efforts in other areas.[12]

Second, work requirements should be focused on moving able-bodied recipients to full-time work. A lack of full-time work is often to blame for persistent poverty. Indeed, according to the U.S. Census Bureau, nearly half of all poor families work less than 20 hours per week.[13] As Figure 2 demonstrates, poverty rates nationwide are very low for families with at least one full-time, year-round worker.

In 2002, the poverty rate for people living in families was 13.5 percent. Where the head of the household did not work, the poverty rate skyrocketed to nearly 35 percent. Although poverty decreases substantially to less than 10 percent for families headed by someone who works any amount, the poverty rate is lowest where a full-time, year-round worker heads the family.

On a nationwide level, TANF has a focus on work, but not full-time work. Under current law, 30 hours of work is all that is required among those recipients who are not exempted. The welfare reauthorization bill passed by the U.S. House of Representatives last year (H.R. 4787) would increase that requirement to 40 hours per week. Irrespective of what happens to the legislation, Maryland should take the lead to require 40 hours of work or constructive activities leading to work among its TCA/TANF recipients.

Legitimacy And Marriage Single parenthood is highly associated with long-term poverty and dependency. Children who were born in single-parent families (whose mothers never get married) have grim economic prospects. They will spend, on average, more than half their childhood living in poverty, according to data from the National Longitudinal Survey of Youth. Children born in an always-intact home, on the other hand, will spend on average less than seven percent of their youth in poverty.[14]

Fortunately, Maryland already has a plan to deal with the illegitimacy problem in the state,[15] but this plan is simply not ambitious enough. The state intends to cut the out-of-wedlock birth rate by only one percent between 1999 and 2005, but thousands of illegitimate children would continue to be born in Maryland every year. Maryland will never fully alleviate its poverty problem without substantial decreases in the teenage and out-of-wedlock birth rates.

The state of Maryland should also continue and expand its efforts on fostering healthy marriages.

12. A number of areas have enjoyed some success with universal engagement policies. For a description of one such program in New York City, see Jason Turner, "'Universal Engagement' of TANF Recipients: The Lessons of New York City," Heritage Foundation *Backgrounder* No. 1651, May 8, 2003.

13. For a detailed analysis of Census Bureau data on the subject, see Robert Rector and Rea S. Hederman, Jr., "The Role of Parental Work in Child Poverty," Heritage Foundation *Center for Data Analysis Report* #03-01, January 29, 2003.

14. Robert Rector and Kirk A. Johnson, "The Effects of Marriage and Maternal Education in Reducing Child Poverty," Heritage Foundation *Center for Data Analysis Report* #02-05, August 2, 2002.

15. See Maryland Department of Human Resources, Family Investment Administration, "Temporary Assistance for Needy Families: TANF State Plan," October 1, 2002.

President Bush has proposed a $300 million-per-year program for a "Healthy Marriage Initiative," which is a strategy to promote healthy relationships and marriage education among single parents. Social science has continually shown that children raised in two-parent families have better social and economic outcomes than those who live in single-parent homes.[16] This program, if enacted in the coming federal welfare reauthorization legislation, will provide a two-for-one matching grant to states for a broad range of services to foster healthy relationships.

Participation in the program would be voluntary. The program would seek to increase healthy marriage by providing target couples with:

- conflict resolution skills critical in any relationship;
- accurate information on the value of marriage in the lives of men, women, and children; and
- flexibility in reducing the current financial costs associated with all federal welfare programs.

The program would advance proven, effective programs that have been shown to increase happiness and stability among couples, especially unmarried parents. The program does not seek to merely persuade unmarried parents to get married, but would also seek to maintain and strengthen those relationships over the long-term.

Irrespective of whether or not this provision of the welfare reauthorization bill is finally enacted, Maryland should realize the importance marriage has in alleviating poverty and dependency. Figure 3 shows how marriage, in conjunction with full-time work, can virtually eliminate poverty among families with children.

One third of all people who live in single-parent families have incomes below the poverty line. Although that figure is cut substantially to 12.2 percent for those single parents who work full-time, the combination of work and marriage nearly eliminates poverty altogether. Married families, headed by a full-time, year-round worker, are poor less than four percent of the time.

Increasingly, left-leaning and right-leaning policy analysts have come to the same conclusion on this subject: Work and marriage combined are effective ways out of the cycle of poverty and dependency.[17] To the extent that Maryland can infuse its welfare system with this philosophy, there will be improved outcomes for parents and children alike in the system.

CONCLUSION

The Old Line State's recent experience with its welfare system can be described as successful, but it is still not actualizing its full potential. While welfare caseloads have dropped dramatically since before the 1996 reform, the vast majority of adult welfare recipients are exempted from the work requirements in the law, which does little to help prepare recipients for the world of work.

Maryland will continue seeing caseloads decline and the economic fortunes of low-income residents improve if the state can put more of an emphasis on full-time work in its welfare programs and formulate policies to decrease the incidence of out-of-wedlock births and long-term single parenthood. Increasing work and marriage among single-parent families are keys to eliminating poverty and dependency in Maryland and beyond.

Irrespective of what policies the federal government enacts in this year's welfare reform law, Maryland should be at the vanguard of implementing policies that further self-sufficiency and independence, rather than poverty and penury.

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16. For a discussion of these various social and economic outcomes, see Patrick F. Fagan, Robert E. Rector, Kirk A. Johnson, and America Peterson, *The Positive Effects of Marriage: A Book of Charts*, Washington, D.C.: The Heritage Foundation, April 2002.
17. On the left, see Ron Haskins and Isabel Sawhill, "Work and Marriage: The Way to End Poverty and Welfare," Brookings Institution Policy Brief, *Welfare Reform & Beyond* #28, September 2003. On the right, see Robert Rector et al. *op cit.*