

# CRS Report for Congress

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## Short History of the 1996 Welfare Reform Law

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### Summary

The 1996 Personal Responsibility and Work Opportunity Reconciliation Act (P.L. 104-193) changed the face of federal-state family welfare programs and most other federally supported aid for the poor. Some 3 years' debate followed President Clinton's call "to end welfare as we know it." Early (1993-1994) proposals retained the existing Aid to Families with Dependent Children (AFDC) program, but placed time limits on welfare receipt not conditioned on work. In 1995, the debate shifted when the House approved H.R. 4 (the Personal Responsibility Act) and created Temporary Assistance for Needy Families (TANF) block grants to replace AFDC. This measure time-limited welfare receipt, added to work requirements, and expanded welfare reform to include myriad changes in other programs like food stamps. The Senate adopted the House structure with notable changes affecting the grants' funding structure and other matters (the Work Opportunity Act). But a House-Senate compromise on H.R. 4 was twice vetoed at the end of 1995. In 1996, the vetoed H.R. 4 was again picked up and, with significant changes, adopted by Congress as part of an FY1997 budget reconciliation law and signed by the President on August 22, 1996.

The 1996 welfare reform law supplanted the main existing welfare program for families, Aid to Families with Dependent Children (AFDC) and its work/training component (JOBS), and greatly changed most other federally supported aid to the poor. It was enacted after debate stretching over 3 years and two Presidential vetoes.

Under AFDC, states received unlimited federal matching money for AFDC benefits and a "capped" federal match for JOBS programs for AFDC recipients. If families met state-set needs standards, states had to cover single-parent poor families (and many two-parent families with an incapacitated/unemployed parent), and there were no time limits on aid. JOBS programs had participation requirements, but did not mandate work, and mothers with young children were mostly exempt. The move to reform this system was prompted by soaring AFDC rolls and higher costs, extant federal waivers for more than half the states to undertake their own welfare reforms, frustration with the long AFDC tenure and youth of many recipient parents, concerns over the extent of unwed parenthood among recipients, reaction to AFDC's unrestricted entitlement nature, and disillusion with the most recent attempt at reform (the 1988 Family Support Act).

**Early Proposals.** As a candidate, President Clinton proposed “to end welfare as we know it” – stressing time limits on welfare receipt not tied to work and greater support for work efforts by recipients (“making work pay”). This challenge was taken up in the Republican leadership bills of 1993-1994. They split AFDC into “transition” (work preparation) and “work” programs, imposed time limits on welfare receipt (2 years for transition help), extended work requirements to mothers of very young children, and ended aid for minor parents not living at home, recipients’ additional children, and most noncitizens. They also capped federal welfare funding and allowed states to convert their federal welfare dollars to block grants and to end aid to families after 5 years (including 3 years of supported work). Separately, some Republicans introduced a measure to ban aid to never-married mothers under 21.

The Clinton Administration bill (1994) phased in a 2-year limit on AFDC benefits for nonworking *adults* without younger children, then required work programs for those without jobs after 2 years (with supplementary welfare payments if necessary). It also ended AFDC for minor parents not living at home, increased money for work/training efforts and child care, and encouraged broader coverage of two-parent families. Congressional Democrats’ response was divided. Some objected to “arbitrary” time limits, while other endorsed limits and advanced time-limit-then-work proposals similar to the President’s.

While time limits and some other themes in later welfare reform initiatives were evident, reform was not taken up actively in the 103<sup>rd</sup> Congress, other than enactment of an expansion of the Earned Income Tax Credit to add to the benefits of work for lower-income families.

**The “Contract with America” and H.R. 4.** The welfare portion of the House Republicans’ Contract with America agenda was introduced as the Personal Responsibility Act (H.R. 4) in January 1995. It required recipients to work after 2 years of AFDC and placed an absolute 5-year limit on benefits (including up to 3 years in a work program). It also barred AFDC to minor unwed mothers and new babies in AFDC families. Federal money for AFDC and child care programs was capped, but states could convert AFDC funds into a block grant. Finally, food stamp aid was block granted, and most aliens were denied major federal assistance.

However, the version of H.R. 4 reported by the three committees involved and passed by the House (basically along party lines) on March 24, 1995, was significantly different. To a great extent, it reflected a desire to shrink the federal role (generally unlimited entitlements) through block grants in several arenas, and many changes occurred after extensive discussions with Governors. In a general policy sense, the March 24<sup>th</sup> bill formed the template for all later reform bills adopted in Congress.

The March 24<sup>th</sup> Personal Responsibility Act replaced federally matched AFDC/JOBS individual entitlements with state entitlements to Temporary Assistance for Needy Families (TANF) block grants, based on past federal matching spending for the programs the measure ended. It also repealed AFDC-related child care programs, merging them into the separate child care block grant. Federal rules for TANF grants included: a requirement to engage in “work activities” after 2 years’ transition benefits and a ban on any benefits after 5 years, a mandate on states to increase participation in work programs, and a bar to aid for unmarried minor mothers and enrollees’ new children. In related areas, the House:

preserved food stamps (but capped spending, reduced benefits, added a work rule for able-bodied adults without dependents, and allowed more state control and state-option block grants), added to child support enforcement efforts, and barred most aid to the majority of aliens.

**The Senate.** In mid-1995, the welfare reform debate entered a new phase. During June, the three Senate committees with welfare reform roles reported their contributions to reform legislation, and the President endorsed a major Senate Democratic leadership alternative (the Work First Act). However, with serious disputes over the reported measures (e.g., distribution of block grant funds), floor consideration was delayed while the Republican Leader developed a revised package and further discussions were held with Governors and other interested parties.

By a large majority, the Senate approved its version of H.R. 4 (the Work Opportunity Act) on September 19, 1995. In doing so, it accepted significant bipartisan and other amendments to the Leader's bill, but voted down the Democratic alternative (which time limited adults' benefits, mandated more work/training, and added money for work programs, but did *not* block grant federal support). The Senate adopted much of the basic House structure: TANF block grants ending individual entitlements, 2- and 5-year time limits, increased work program participation, major revisions to food stamps and child support enforcement, and eligibility bars for most noncitizens. But it also differed. It changed the funding structure for the grants (e.g., by adding a state "maintenance of effort" spending requirement and money for high-unemployment contingencies and states with low pre-TANF welfare spending). It also set aside block grant funds for child care, allowed aid for unwed minor mothers living under adult supervision and recipients' additional children, and added "charitable choice" provisions to permit increased participation by faith-based organizations in the provision of welfare-related services.

**House-Senate Agreement and Presidential Vetoes.** While negotiations on H.R. 4 differences continued, a preliminary House-Senate agreement was added to the 1995 Balanced Budget Act (H.R. 2491, a budget reconciliation measure) in late November 1995. Excepting some small but controversial items (e.g., limits on aid for additional children), it contained the gist of the final accord on H.R. 4. President Clinton vetoed it on December 6, 1995 – objecting to Medicaid reform provisions in the larger measure. Then, on December 21-22, 1995, Congress approved the final House-Senate H.R. 4 agreement (the Personal Responsibility and Work Opportunity Act). The President also vetoed this free-standing H.R. 4 accord on January 9, 1996, citing insufficient child care and work support provisions. Reports at the time also warned of an increase in poor children from the bill, 1 million by some accounts.

The vetoed H.R. 4 included TANF block grants based on past federal matching spending (with a compromise state maintenance-of-effort requirement). State adjustments or special funding were provided for population growth, low pre-TANF state welfare spending and high-unemployment contingencies (Senate), grants to reduce out-of-wedlock births, a rainy day loan fund, and performance bonuses. Support for child care (viewed by some as integral to reform) was increased above levels in the House and Senate bills with mandatory child care block grant money. The accord incorporated time limits (with compromise "hardship" exemptions), a mandate to increase work program participation, permission to aid unwed minor mothers (subject to adult supervision and other requirements), and a state option to limit benefits for additional children. Finally, the

vetoed bill included compromises on extensive revisions to food stamps and child support enforcement, a bar against providing major federally supported benefits/services to most noncitizens, and “charitable choice” language (Senate).

**The Final Steps to Enactment.** The provisions of the vetoed H.R. 4 resolved the bulk of the issues surrounding welfare reform for the majority in Congress (e.g., time limits, work rules). However, as 1996 began, there were still outstanding areas of concern – linking welfare reform to major Medicaid revisions, bars against assistance to noncitizens, limited block grants for food stamps and the new food stamp work rule for able-bodied adults without dependents, and the amount of support for child care and contingencies. And the Administration continued to press for an alternative rejecting block grants, bars against noncitizens, and linkage to Medicaid changes, but including time-limited conditional entitlements to aid.

Near the close of May 1996, House and Senate Republicans introduced measures essentially incorporating the vetoed H.R. 4 and responding to the National Governors Association call for more money for child care and contingencies. By the end of June, this approach was incorporated in H.R. 3734 (the FY1997 budget reconciliation bill), which also included Medicaid reforms. With Medicaid amendments dropped, slightly different versions of H.R. 3734 were adopted by the House and Senate on July 18 and 23, 1996. The House-Senate conference agreement on what was now the Personal Responsibility and Work Opportunity Reconciliation Act was filed July 30, 1996; it settled the last issues (notably, dropping food stamp block grants and loosening the new food stamp work rule, but retaining the ban on aid to noncitizens). The agreement was approved by the House and Senate on July 31 and August 1, 1996. On August 22, 1996, the President signed the welfare reform law, but cited his serious concerns over the ban on noncitizens and the new food stamp work rule for able-bodied adults without children (both of which were to be revisited in later years).

**Related Programs.** Medicaid, child welfare (e.g., foster care), child nutrition, Supplemental Security Income (SSI) eligibility, housing, and the Social Services Block Grant also entered the reform debate. Initial proposals generally maintained “transitional” Medicaid for those leaving welfare. With the advent of block grants to replace AFDC, a new feature was added: continued Medicaid eligibility for those who would have been covered under states’ AFDC programs. Sweeping child welfare provisions – restructuring federal child welfare support into one or more block grants – were in versions of welfare reform through 1995, but only a Medicaid-like adjunct eligibility rule found its way into law. Child nutrition initiatives also were controversial (at one point holding up the agreement on H.R. 4). Block granting School Lunch and other child nutrition programs was strongly opposed in the Senate. And the final accord eschewed even pilot block grants, substituting Administration-backed cuts in child nutrition subsidies for child care providers serving higher-income families to gain needed savings. H.R. 4 did not adopt Senate changes in housing programs to support work efforts, but included restrictions on disabled children’s eligibility for SSI benefits (because of burgeoning rolls) in all the various reform bills from early 1995 on. Finally, with the emphasis on services in other block grants and the ability to transfer money from TANF in the bill, money for the Social Services Block Grant was reduced under a proposal originating in the Senate.

**Costs and Savings.** Budget effects were evident throughout consideration of reform legislation, and savings were seen by some as a major goal. Federal budget

reduction targets were implicitly or explicitly part of the debate all along. And a number of components of the reform package were crafted and included so as to fit cost/savings limitations. Savings from reforms closely related to TANF decreased over the course of the reform debate and, in the end, *increased* costs were attributed to family support programs, particularly because of child care commitments. At enactment, the overall federal spending reduction projected to be achieved through the welfare reform effort was more than \$50 billion over 6 years. But these savings were largely obtained by dramatic reductions in food stamps and support for noncitizens and lesser cuts in SSI, child nutrition, and other programs.

**Highlights of the Enacted Welfare Reform Law.** The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA; P.L. 104-193; enacted August 22, 1996) dramatically reshaped federally supported welfare programs and helped reduce federal welfare-related spending. It replaced the Depression-born AFDC program with a TANF block grant to states. It also imposed a citizenship requirement for many benefits and reduced spending on food stamps, SSI, child nutrition, and the SSBG. However, it increased funding for child care and created a mandatory block grant for care of children in low-income families. At the time of passage, the Congressional Budget Office (CBO) estimated that the law would cut mandatory federal spending by a net total of \$54.1 billion over 6 years. Restrictions on benefits for noncitizens accounted for 44% of this total, and food stamp revisions for 43%.<sup>1</sup>

**Family Cash Aid.** TANF ended unlimited matching funding for family cash welfare (AFDC) and created fixed block grants for state-designed programs of time-limited and work-conditioned aid to needy families with children. It broadened the goals of welfare to include reducing non-marital pregnancies and promoting two-parent families. It imposed a 5-year limit on basic ongoing aid paid with federal funds. It required states to engage recipients in state-defined “work” after 24 months of aid, achieve minimum participation rates in federally recognized work activities, and spend on needy families from their own funds at least 75% of the sum they spent in FY1994 on programs replaced by TANF (a maintenance-of-effort, “MOE” rule).

**Food Stamps.** The 1996 law made the most extensive changes in food stamps since the 1977 rewrite of the Food Stamp Act. It gave states more control over food stamp operations and coordination with family cash aid, added a work rule for able-bodied adults without dependents and expanded existing work rules, cut future benefits and tightened financial and non-financial eligibility tests, expanded penalties for violating rules and controls over trafficking, and encouraged electronic delivery of benefits.

**Child Care.** The new law created a mandatory block grant for child care to low-income families and gave states more flexibility to design child care policies. The block

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<sup>1</sup> **Note:** The 105<sup>th</sup> and 106<sup>th</sup> Congresses rescinded and modified some of the 1996 cuts – restoring SSI, Medicaid, and food stamp benefits to many noncitizens, boosting spending on work/training for food stamp recipients, and expanding food stamp benefits for those with high shelter costs and eligibility for low-income households with cars. Further, the 105<sup>th</sup> Congress created Welfare-to-Work (WtW) grants to help states move severely disadvantaged TANF recipients into jobs and reduced federal payments to states for food stamp administrative costs (to correct for funding received under TANF block grants).

grant entitled states to the amount of federal funds previously received for AFDC work-related child care, transitional child care, and at-risk child care. It also entitled states that meet an MOE child care spending requirement to extra funds, which they must match with state dollars. Appropriated for the block grant was \$13.9 billion over 6 years, more than \$4 billion above spending levels estimated by CBO for the replaced programs. The law also authorized \$7 billion in funding through FY2002 for the Child Care and Development Block Grant (CCDBG), and it permitted states to transfer up to 30% of their TANF grant to CCDBG. The combined funding streams provided by the 1996 law now are referred to as the Child Care and Development Fund (CCDF).

**Alien Eligibility.** The 1996 law barred federally funded TANF for newly arriving aliens (other than refugees/asylees) for the first 5 years of residence unless they have a substantial U.S. work history or military/veteran connection – leaving eligibility in other cases up to the states. Without regard to their arrival date, the same noncitizens were barred from food stamps and SSI, and the law placed similar constraints on Medicaid eligibility.

**Social Services Block Grant (SSBG).** The welfare reform law reduced the \$2.8 billion entitlement ceiling for the SSBG under Title XX of the Social Security Act by 15% and entitled states to \$2.38 billion annually in FY1997-FY2002. TANF law also allowed states to transfer up to 10% of their TANF grant to SSBG.

**Child Support Enforcement.** The new law required the federal government and the states to establish automated registries of child support orders and a directory of new employees (New Hires Directory) so as to track and locate absent parents. It also mandated that states operate an automated centralized collection and disbursement unit, streamline the paternity determination process, implement procedures to withhold, suspend, or restrict the use of drivers' licenses (and some other licenses) of debtor parents.

**Medicaid.** The 1996 law required states to provide Medicaid to families who would be eligible for AFDC if that program still existed (as on July 16, 1996, with some modifications permitted in treatment of income). Transitional Medicaid for those leaving welfare was continued.

**Other Programs.** Budget cuts also were made by changing other welfare and non-welfare programs. The new law established a separate disability definition for children in the SSI program, which narrowed eligibility, and it reduced child nutrition subsidies, notably for day care homes serving children from higher-income families.

## References

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