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# **The Temporary Assistance for Needy Families (TANF) Block Grant: Subsidized Employment Demonstration Proposal: In Brief**

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## Introduction

The proposed Accelerating Individuals into the Workforce Act (H.R. 2842) would provide \$100 million in FY2018 funding under the Temporary Assistance for Needy Families (TANF) block grant for demonstrations to test two approaches—subsidized employment and “career pathways” programs—to help disadvantaged individuals. These funds would be provided in addition to the TANF basic block grant to the states. The \$100 million cost of the proposal would be financed by reserving funds from the FY2018 appropriation for the TANF contingency fund.

Subsidized employment programs are those where public funds are used to pay all or part of the wages, benefits, and other costs of employing an individual. Career pathways are a workforce development approach that combines education, training, and other services to help individuals enter or advance within a specific occupation or occupation grouping.

The bill was ordered reported from the House Ways and Means Committee on June 15, 2017. It is scheduled for House floor consideration the week of June 19, 2017.

## Background

TANF is a broad-purpose block grant to states, territories, and Indian tribes to help provide a wide range of benefits and services to ameliorate the effects of, and address the root causes of, childhood economic disadvantage.<sup>1</sup> TANF was created in the 1996 welfare reform law (the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, P.L. 104-193). It is best known for helping states provide monthly cash assistance (often called “welfare”) for needy families with children. However, TANF also helps fund a wide range of other benefits and services, such as child care; work supports for low-income working parents; early childhood programs; and services for children, and their families, who were subjected to or are at risk of abuse and neglect (“child welfare services”). It also funds employment and training activities. TANF is funded through a combination of federal grant funds and state expenditures under a “maintenance of effort” requirement.<sup>2</sup>

**Figure 1** shows the use of federal TANF and associated state dollars in FY2015. “Basic assistance” generally corresponds to spending on monthly cash assistance payments (welfare) to needy families with children. In FY2015 (the latest year for which data are available), states expended \$2.1 billion in both federal TANF and associated state funds on work, education, and training activities, including

- \$186 million for subsidized employment; and
- \$386 million for education and training.

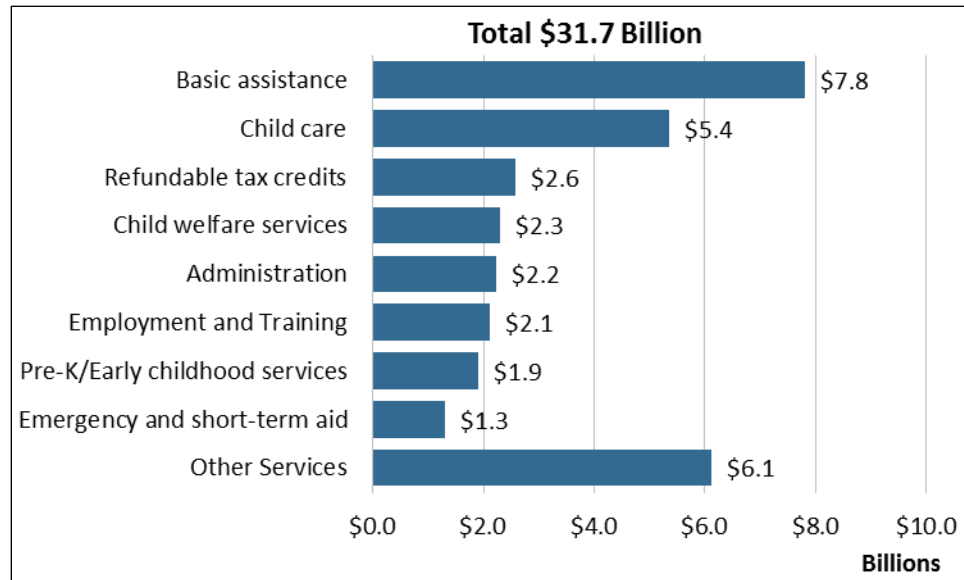
TANF funds employment and training services for both recipients of cash assistance and other disadvantaged parents and disadvantaged youth. It is not possible to determine from the TANF reports how much of these funds were spent on employment and training activities for recipients of assistance versus how much were spent on other disadvantaged parents and youth.

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<sup>1</sup> For an overview of TANF, see CRS In Focus IF10036, *The Temporary Assistance for Needy Families (TANF) Block Grant*.

<sup>2</sup> States are required to expend a minimum amount of their own funds on the TANF-related population and TANF-related programs (a total \$10.4 billion per year). This amount is based on historical expenditures in pre-TANF programs.

**Figure I. TANF and State Maintenance of Effort Funds Used in FY2015, By Spending Category**



**Source:** Congressional Research Service (CRS), based on data from the U.S. Department of Health and Human Services (HHS).

Currently, TANF is funded through the end of FY2018 (September 30, 2018). The Consolidated Appropriations Act, 2017 (P.L. 115-31) provided both an FY2017 and FY2018 TANF appropriation for its basic block grant to the states and tribes, with an additional appropriation of \$608 million for the TANF contingency fund.

## TANF Work Standards

In terms of employment and training for assistance recipients, TANF measures the performance of state welfare-to-work efforts through the federal work participation standard. TANF has federal rules for what activities count toward the standard and the minimum hours required to be considered “engaged in work.” The standards emphasize a “work-first” approach: either work in an unsubsidized job, a subsidized job, or short-term activities to promote rapid attachment to work (e.g., job search). Education and training activities are counted only for a limited time and under limited circumstances. (For more information, see CRS Report R44751, *Temporary Assistance for Needy Families (TANF): The Work Participation Standard and Engagement in Welfare-to-Work Activities*.)

States have generally met this performance measure through *unsubsidized* employment—recipients working in regular jobs in the competitive labor market while receiving assistance—rather than through subsidized employment, education and training, or other activities. In FY2015, states engaged about 20% of assistance recipients who were unemployed in such job preparation activities.

## Subsidized Employment and TANF

Under current law, states have the authority to operate subsidized employment programs as part of their TANF programs. Additionally, subsidized employment in the private and public sectors

are work activities that states may count toward meeting federal TANF work participation standards. While allowed under current law, subsidized employment has been a relatively small part of TANF, with the exception of a brief period when extra TANF funding for subsidized employment (and a limited set of other TANF benefits and activities) was provided in response to the 2007-2009 recession.<sup>3</sup> Relatively few cash assistance recipients participate in subsidized employment. In FY2015, a monthly average of 12,960 TANF recipients, out of a total of 1.2 million TANF “work-eligible” individuals, participated in subsidized private or public sector employment.

Subsidized employment as a welfare-to-work strategy has been studied since the 1970s. In general, evaluations of subsidized employment found the following:

- In the short term, subsidized employment programs are effective at employing those who otherwise would not be employed.
- The evidence that subsidized employment programs have positive long-term impacts on employment and earnings is mixed. Some programs have had positive impacts even after the program ended, while other programs have shown that positive impacts faded away once employment subsidies were no longer available.<sup>4</sup>

Both the Department of Health and Human Services (HHS) and the Department of Labor (DOL) are currently fielding experiments on subsidized employment programs. The HHS experiment is testing 13 programs, though only 3 of those programs focus on TANF assistance recipients. The DOL “Enhanced Transitional Jobs” demonstration is focused on populations other than TANF recipients.<sup>5</sup>

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<sup>3</sup> This was under the TANF emergency fund created by the American Recovery and Reinvestment Act (P.L. 111-5). For a discussion of subsidized employment programs under that fund, see Mary Farrell, Sam Elkin, and Joseph Broadus, et al., *Subsidizing Employment Opportunities for Low-Income Families. A Review of State Employment Programs Created Through the TANF Emergency Fund*, U.S. Department Health and Human Services, Administration for Children and Families, Office of Planning, Research, and Development, OPRE Report 2011-38, December 2011, [http://www.mdrc.org/sites/default/files/full\\_522.pdf](http://www.mdrc.org/sites/default/files/full_522.pdf).

<sup>4</sup> The National Supported Work Demonstration, fielded in the 1970s, produced positive impacts for long-term assistance recipients (usually single mothers) in terms of increased employment and earnings and reduced welfare receipt for a period of 27 months after entry into the program. See Board of Directors, Manpower Demonstration Research Corporation, *Summary and Findings of the National Supported Work Demonstration* (Cambridge, MA: Ballinger Publishing Company, 1980). In the 1980s, the AFDC Homemaker-Home Health Aide Demonstration included subsidized jobs, and produced positive impacts in terms of increased earnings and reduced welfare receipt. See Stephen H. Bell, Nancy R. Burstein, and Larry L. Orr, *Evaluation of the AFDC Homemaker-Home Health Aide Demonstrations, Overview of Evaluation Results*, Abt Associates, December 1987. The Supported Work and the AFDC Homemaker-Home Health Aide programs were multisite demonstrations. In the 1990s, the New Hope project, operated in Milwaukee, WI, also produced long-term positive impacts. The project included earnings supplements, child care, and guaranteed health insurance for those employed, and community services jobs for those who were not employed. See Aletha C. Huston, Cynthia Miller, and Lashawn Richburg-Hayes, et al., *New Hope for Families and Children, Five-Year Results of a Program to Reduce Poverty and Reform Welfare*, MDRC, June 2003. A transitional (subsidized) job program in Philadelphia for TANF recipients who received assistance for more than one year was tested in the 2000s. That program showed a positive impact in the first year of the evaluation on employment—both subsidized and unsubsidized. However, the impact faded after the first year. Thus, a subsidized job sped up employment but did not over the long term affect the likelihood that a recipient would be employed. See Erin Jacobs and Dan Bloom, *Alternative Employment Strategies for Hard-to-Employ TANF Recipients: Final Results from a Test of Transitional Jobs and Pre-employment Services in Philadelphia*, U.S. Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research, and Evaluation, OPRE Report 2011-19, December 2011.

<sup>5</sup> For information on the HHS Subsidized and Transitional Employment Demonstration (STED) project, see <http://www.mdrc.org/project/subsidized-and-transitional-employment-demonstration-sted-project#overview>. For (continued...)

## Education and Training and Cash Assistance

The pre-1996 welfare-to-work program emphasized education and training. However, evaluations of education and training-based programs in place before welfare reform found that they often failed to provide more positive impacts (e.g., increased employment and earnings) than did work-first programs that emphasized job search.<sup>6</sup> In particular, placing assistance recipients in GED programs without further education and training did not produce positive impacts for them. Most evidence on the impact of education and training for recipients of cash assistance predates welfare reform: it evaluated programs in the 1980s and early to mid-1990s. Hence, the results are dated. Newer types of education and training programs, such as those that use the “career pathways” model, have not been tested in a welfare-to-work context.

## H.R. 2842

H.R. 2842, as pending in the House, would establish a one-year (FY2018) subsidized employment demonstration program, administered by HHS. The demonstration would be funded at \$100 million.

## Demonstration Programs

The Secretary of HHS would award grants to states (in addition to the basic TANF block grant) for the development of subsidized employment demonstration projects that would evaluate strategies for providing wage subsidies to help low-income individuals obtain and retain employment. The bill would provide that wage subsidies extend for no more than 12 months, and that federal funds account for no more than 50% of a participant’s wage. The bill would require that at least one of the subsidized employment programs be an apprenticeship program

Additionally, the demonstration would test career pathways programs. Of the total \$100 million in funding, 15% (\$15 million) would be reserved for the operation of career pathways training programs.

## Individual Eligibility

The bill would require that those participating in the subsidized employment program

1. be unemployed;
2. have income at the time of program entry of less than 200% of the federal poverty guidelines; and

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information on the DOL enhanced transitional jobs demonstration, see <http://www.mdrc.org/project/enhanced-transitional-jobs-demonstration#overview>.

<sup>6</sup> The major evaluation often cited as evidence that education and training do not outperform work-first programs is the National Evaluation of Welfare to Work Strategies, fielded in the early 1990s and funded by the Department of Health and Human Services; U.S. Department of Health and Human Services and the U.S. Department of Education, *National Evaluation of Welfare-to-Work Strategies: How Effective are Different Welfare-to-Work Approaches? Five Year Adult and Child Impacts for Eleven Programs*, 2001. Before enactment of welfare, a study of a program in Riverside, CA, was also touted as evidence in favor of a work-first approach; James Riccio, Daniel Friedlander, and Stephen Freedman, *GAIN: Benefits, Costs, and Three-Year Impacts of a Welfare-to-Work Program. California’s Greater Avenues for Independence Program*, Manpower Demonstration Research Corporation, New York, September 1994.

3. be either recipients of assistance funded from TANF or state maintenance-of-effort (MOE) dollars, or noncustodial parents of children receiving such assistance.

Thus, the demonstration would focus on the population receiving TANF assistance: recipient custodial parents, other recipients who are relatives and care for children receiving TANF, or noncustodial parents of children receiving TANF. Outside of the demonstration, states may operate TANF-funded subsidized employment programs, but the population eligible for them is broader: disadvantaged parents or disadvantaged youths regardless of whether they are recipients of assistance.

### Other Requirements

States in the subsidized employment demonstration would be prohibited from displacing regular employees with subsidized job participants. The committee bill would require HHS to conduct an evaluation of the demonstration project using an experimental design with random assignment, unless such research design was not feasible. If it was not, the research would have to be conducted using other reliable evidence-based research methodologies. HHS would be required to report recommendations to Congress on how to increase employment, retention, and advancement of individuals currently receiving, or who formerly received, TANF assistance.

### The Offset: The TANF Contingency Fund

The demonstration would be funded using \$100 million of the FY2018 contingency fund appropriation. The contingency fund was established in the 1996 welfare reform law to provide extra funding to states during economic downturns. However, the contingency fund is not working as intended, as states continue to qualify for and receive funds well after the end of the economic downturn associated with the 2007-2009 recession.<sup>7</sup> Dissatisfaction with the fund has led to proposals to either “repurpose” the fund to other activities (President Obama’s FY2015 budget would have repurposed the fund for a subsidized employment program) or eliminate it (President Trump’s FY2018 budget would eliminate the fund). For more information on the contingency fund, see CRS Report R44188, *Temporary Assistance for Needy Families (TANF): Financing Issues*.

### Demonstrations and the TANF Work Participation Standard

The subsidized employment demonstration does not alter the rules for states of the TANF work participation standard. To be counted as “engaged in work” toward meeting that standard for any given month, a demonstration participant in subsidized employment would need to (1) be a recipient of assistance in that month, and (2) work at least 20 hours per week during the month. If the subsidized wage is provided in lieu of assistance—that is, the demonstration participant loses eligibility for assistance because he or she earns too high a wage—that individual would not be counted toward the TANF work standard.<sup>8</sup>

Participants in a career pathway demonstration could be counted toward a state meeting its participation standards under some circumstances.<sup>9</sup> However, the counting of such participation

<sup>7</sup> The states that received contingency funds in FY2016 can be found at <https://www.acf.hhs.gov/node/55325>.

<sup>8</sup> To count toward the standard, a state could make a special provision and continue to pay some assistance to the demonstration participant, who would otherwise be ineligible for cash assistance, and count them toward the standard.

<sup>9</sup> See U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family (continued...)

may be limited by TANF's restrictions on counting of education and training toward meeting the standard.

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