

THE BROOKINGS INSTITUTION

WELFARE REFORM & BEYOND

1775 MASSACHUSETTS AVENUE, NW WASHINGTON, DC 20036-2188

TEL: 202-797-6297 FAX: 202-797-6004 WWW.BROOKINGS.EDU/WRB



ANALYSIS OF PARTICIPATION RATE POLICY OPTIONS

By Adam Thomas

ABSTRACT

The question as to what proportion of the welfare caseload should be required to work – and for how many hours – has become one of the most contentious aspects of the welfare reauthorization debate. The Bush Administration has proposed substantial increases in the work participation requirements that states must meet in order to receive the full amount of their welfare block grants. Legislation recently passed by the House of Representatives contains most of the work-participation provisions proposed by the Administration, with a few important modifications. There are also a number of alternative plans under consideration as the Senate turns its attention to welfare reauthorization. This analysis compares the estimated effects of some of these proposals.

OVERVIEW

For each proposal, we estimate the extent to which states' work participation requirements would exceed their actual participation rates to date, assuming that states make no changes to their current welfare systems. It is, of course, reasonable to assume that many states would make changes in order to meet any new requirements; these analyses are intended only to illustrate the extent of the policy changes that might need to be made.

We refer to the percentage-point difference between states' participation requirements and their actual participation rates as "participation rate deficits." Using national-level administrative data, we find that states would face a considerable participation rate deficit (about thirty percentage points) under the Administration's proposal, once it is fully phased in. According to our analysis, modifications made to the Administration's proposal in the bill passed by the House would further increase participation rate deficits. However, our analysis also suggests that some of the alternative proposals currently under consideration could help to reduce these deficits substantially.

POLICIES SIMULATED

We simulate the following proposals for this analysis:

The Administration's Proposal

- ✓ Gradually raises the work participation standard from 50% to 70%.
- ✓ Phases out (and eventually eliminates) the caseload reduction credit.
- ✓ Increases the number of hours per week that an individual must work in order to be counted toward a state's participation rate.
- ✓ Allows states to exempt families in their first month of assistance from participation requirements.
- ✓ Allows states to claim prorated credit for families that work at least 24 hours in their participation rate calculations.
- ✓ Implements a job leavers' allowance whereby states are allowed to count employed leavers toward their participation rates for up to three months.

Three-Year Caseload Reduction Credit & Superachiever Credit

- ✓ Changes the structure of the caseload reduction credit by basing a state's credit on the number of percentage points by which its caseload has fallen over the previous three years, rather than since 1995. This policy – which would replace the Administration's job leavers' allowance – would be phased in gradually. The 2003 credit would be calculated based on the caseload decline between 1996 and 2002, and the 2004 credit would be based on the decline between 1998 and 2003. After 2004, the credit would be based on the decline in caseloads over the previous three years.
- ✓ Includes a "superachiever" provision that provides states with additional credit to the extent that their caseload decline since 1995 exceeds 60%.
- ✓ The three-year caseload reduction credit and superachiever credit – both of which were included in the legislation recently passed by the House of Representatives – are simulated in conjunction with all of the other above-listed features of the Administration's proposal, including an increase in the work participation standard, a higher hours-worked requirement, the proration of part-time working families, and an exemption for families in their first month of assistance.

Twelve-Month Job Leavers' Allowance

- ✓ Extends the period of time over which welfare leavers can be counted toward a state's participation rate. The Administration's proposal would allow states to count leavers for up to three months. This option would allow states to count leavers for up to twelve months.
- ✓ This provision is simulated in conjunction with all of the other above-listed features of the Administration's proposal, including an increase in the work participation standard, a higher hours-worked requirement, the phase-out of the caseload reduction credit, the proration of part-time working families, and an exemption for families in their first month of assistance.

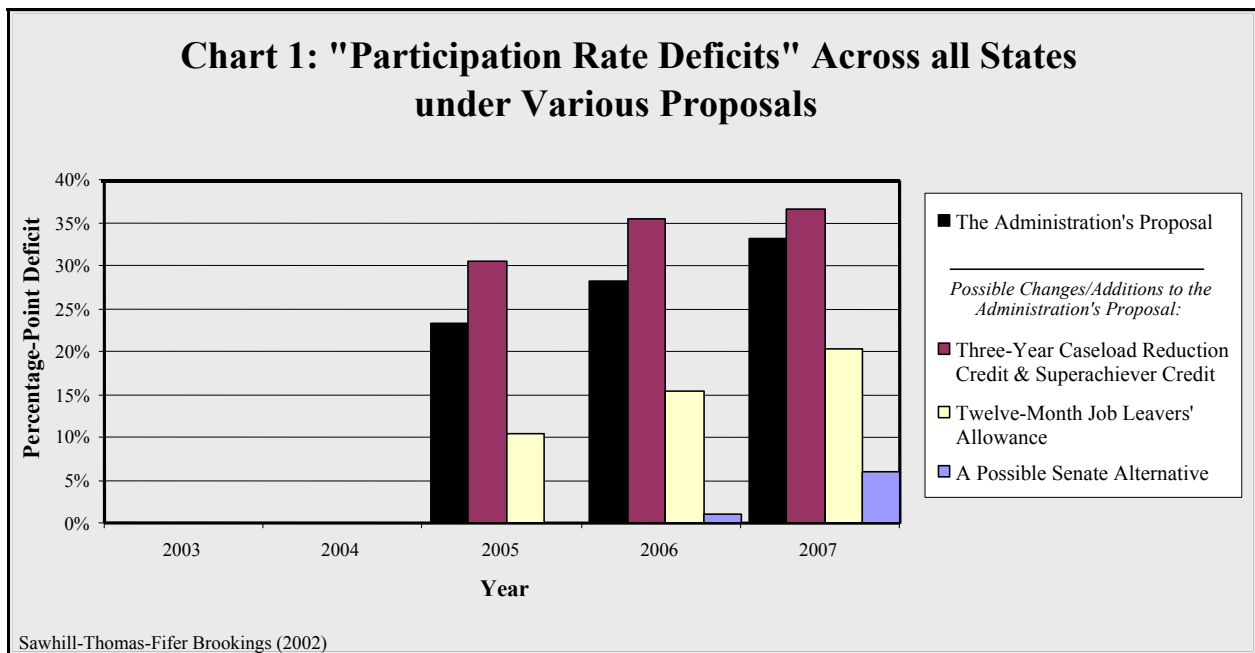
A Possible Senate Alternative

- ✓ Replaces the caseload reduction credit with an employment credit modeled after the Levin-Lincoln proposal (which is also part of the Senate Finance Committee's tripartisan plan). The credit is equal to two times the number of families that cease to

- receive cash payments in one quarter and are employed in the next quarter, as a percent of the state's average monthly caseload. Families that leave welfare for work *and* earn at least 33% of their state's average wage are counted as 1.5 families.
- ✓ Maintains the current-law 30-hour work requirement, while increasing from 20 to 24 the number of hours that must be spent in work-focused activities.
 - ✓ Allows states to claim prorated credit for families that work at least half-time in their participation rate calculations. (Fifteen hours of work per week are assumed to constitute half-time work in this context.)
 - ✓ Retains the current-law 20-hour work requirement for families with children under six years of age. The Bush proposal would boost the work requirement for these families to 40 hours.
 - ✓ Increases the work participation standard in the same way as the Administration's proposal.

RESULTS

Chart 1 shows our estimates of participation rate deficits for each proposal in each year from 2003 to 2007.¹ There are no deficits in 2003 or 2004, which is partially due to the fact that the required participation standard (which increases at the same rate in all proposals) is only raised from its current-law level of 50% to 55% by 2004. However, after 2004 – as participation standards continue to rise and the caseload reduction credit is phased out or modified under most proposals – states begin to incur participation rate deficits. These deficits increase each year through 2007. Although states would incur substantial deficits under the Administration's plan – thirty percentage points by 2007 – these deficits would be even larger if the Administration's proposed job leavers' allowance were replaced with a three-year caseload reduction credit and superachiever credit, as was done in the legislation passed by the House of Representatives.



The “Twelve-Month Job Leavers’ Allowance” proposal is the same as the Administration’s original proposal, except that the time-frame of the job leavers’ allowance is expanded from three months to twelve. This modification would considerably reduce states’ participation rate deficits. We further find that these deficits would be even smaller if the “Possible Senate Alternative” were enacted in lieu of the other proposals analyzed here.

Adam Thomas is a senior research analyst at the Brookings Institution. For a detailed summary of the methodology underlying these analyses, please contact the author at athomas@brookings.edu.

Note: The views expressed in this piece are those of the author and should not be attributed to the staff, officers or trustees of the Brookings Institution.

¹ In order to meet the higher work participation standard, states may need to engage a larger percentage of the caseload than would be suggested by these deficits. Knowledgeable analysts stress that, even after having been engaged, some families will not meet the participation requirement because they are between activities, because jobs do not offer the required number of hours of work, or for other reasons.