11-7-2024

Strengthening Work Requirements? Forecasting Impacts of Reforming Cash Assistance

Josep M. Nadal-Fernandez
Michigan State University, nadalfer@msu.edu

Gabrielle Pepin
W.E. Upjohn Institute for Employment Research, pepin@upjohn.org

Kane Schrader
W.E. Upjohn Institute for Employment Research, Schrader@upjohn.org

Upjohn Institute working paper ; 24-408

Strengthening Work Requirements? Forecasting Impacts of Reforming Cash Assistance

Authors

Josep M. Nadal-Fernandez, *Michigan State University*
Gabrielle Pepin, *W.E. Upjohn Institute for Employment Research*
Kane Schrader, *W.E. Upjohn Institute for Employment Research*

Upjohn Author(s) ORCID Identifier

https://orcid.org/0000-0002-3156-0268

https://orcid.org/0000-0002-0331-4561

W.E. UPJOHN INSTITUTE
FOR EMPLOYMENT RESEARCH
Researching the causes and consequences of unemployment

Strengthening Work Requirements? Forecasting Impacts of Reforming Cash Assistance

Upjohn Institute Working Paper 24-408

Josep M. Nadal-Fernandez
Michigan State University
Email: nadalfer@msu.edu

Gabrielle Pepin
W.E. Upjohn Institute for Employment Research
Email: Pepin@upjohn.org

Kane Schrader
W.E. Upjohn Institute for Employment Research
Email: Schrader@upjohn.org

November 2024

ABSTRACT

Work requirements are perhaps the most controversial aspect of the Temporary Assistance for Needy Families (TANF) program, America's sole federal cash assistance program for low-income families with children. In 2025, for the first time in nearly 20 years, the Fiscal Responsibility Act of 2023 (FRA) will implement policy changes intended to strengthen states' work requirements. However, researcher' and policymakers' understanding of how FRA will impact states' compliance with federal requirements is hampered by a lack of research and publicly available data.

We tie information from reports submitted to the U.S. Department of Health and Human Services that are collected to administrative caseload and expenditure data to document several strategies that states currently use to comply with federal work requirements. We estimate that FRA will increase the stringency of work requirements in 23 states and that 5 states will begin to fall short of requirements. We note that several compliance strategies available to those states do not encourage work. We discuss changes in states' work requirements that would promote better long-term economic and labor market outcomes for TANF recipients.

JEL Classification Codes: J38, H75

Key Words: Cash assistance, Temporary Assistance for Needy Families, Fiscal Responsibility Act of 2023, forecasting

Acknowledgments: This work has been supported by Grant #2310-45233 from the Russell Sage Foundation. Any opinions expressed are those of the principal investigators alone and should not be construed as representing the opinions of the funder.

Work requirements are perhaps the most controversial aspect of the Temporary Assistance for Needy Families program (TANF), America's sole federal cash assistance program for low-income families with children. The program requires that a certain portion of each state's beneficiaries be engaged in work-related activities such as employment and job training. However, states' benchmarks are quite flexible because current TANF policies offer them several strategies to comply, and not all of these strategies actually encourage work.

In 2025, for the first time in nearly 20 years, the Fiscal Responsibility Act of 2023 (FRA) will implement policy changes intended to strengthen states' work requirements. However, researchers' and policymakers' understanding of how FRA will impact states' compliance with federal requirements—and how states' strategies to stay in compliance will, in turn, affect low-income families—is hampered by a lack of research and publicly available data. This is particularly concerning because states face limited policy options for increasing recipients' work participation rates in response to FRA: Virtually all states already require parents to work at least 30 hours per week, and failure to meet this requirement may result in reduced benefits or case closure. As TANF serves some of the lowest-income families with children in the United States, new federal work requirements may lead states to implement program changes that will have negative impacts on the nation's most vulnerable households.

The Deficit Reduction Act of 2005 (DRA), the most recent change to states' TANF work requirements, offers insights into how states may respond to FRA. DRA limited measures available to states to boost their work participation rates, made changes to which individuals count toward the federal work requirement, and created a new penalty for states that failed to meet federal requirements. Several states responded to DRA's stricter work requirements by engaging in exercises criticized by third-party evaluators as "simply creative accounting" (Hahn et al., 2012), such

as shifting non-employed recipients onto assistance programs that operated outside of TANF and were not subject to its requirements, or providing very small in-kind benefits to additional groups of employed parents to add them to the TANF rolls (Pavetti et al., 2009). We build on this research on effects of DRA to examine expected effects of FRA.

TANF POLICY ENVIRONMENT

TANF replaced the United States' previous means-tested cash transfer program as part of a broader package of "welfare reforms" around 1996. TANF eligibility is limited to families with children who have low income and few assets. States set all policy parameters and administer TANF payments but receive about half of their funding from a federal block grant if they meet spending requirements and have specified portions of their caseloads engaged in certain work-related activities, such as subsidized or unsubsidized employment, job training, and community service programs. TANF work requirements give states an incentive to help recipients connect with employment and leave the TANF rolls. However, many parents who would otherwise be eligible for TANF face multiple barriers to steady, remunerative employment, including low levels of formal education and the need to care for their young children (Danziger et al., 2000). As a result, work requirements can also serve as a barrier to access.

At first glance, state-level TANF work requirements appear extremely stringent, with substantial financial penalties for noncompliance. Under federal law, at least half of each state's work-eligible TANF recipients must be engaged in work-related activities for at least 30 hours per week.[1]

[1]Not all TANF recipients are work-eligible. In particular, in some cases, parents who have young children or care for disabled family members are not considered work-eligible. Additionally, at least 90 percent of two-parent families must complete a combined 35 hours of work-related activities per week; this increases to 55 hours for two-parent families receiving federally funded child care assistance. We focus our analyses on states' requirements for all TANF families because only 6 percent of cases are two-parent families (Office of Family Assistance, Administration for Children and Families, U.S. Department of Health and Human Services, TANF Caseload Data 2022,

Families do not count toward the state work requirement unless they fulfill all required hours, and states must reduce benefits for individuals who fail to satisfy work requirements without good cause. States that fail to satisfy the federal work requirement are subject to penalties of up to 5 percent of their federal block grants during the first year of noncompliance. Penalties increase by 2 percentage points for each year of noncompliance, up to a maximum penalty of 21 percent of the state's federal block grant. While under penalty, states must use their own spending to compensate for decreases in federal TANF funding or risk an additional penalty.[2]

Despite these seemingly stringent requirements, states can use a complex "caseload reduction credit" calculation to reduce their work requirements. We identify six distinct compliance strategies that states may select to comply with work requirements. Each has direct consequences for families' outcomes.

Strategy 1. Decrease the caseload.

Through the caseload reduction credit calculation, decreases in a state's caseload, or its number of families receiving TANF benefits, since 2005 translate directly into decreases in work requirements. This plays a large role in easing work requirements, as TANF has been wildly successful in reducing the number of families receiving welfare benefits: Had TANF maintained the same reach to families in poverty as the previous U.S. cash assistance program, about two million more families would have received benefits in 2019 (Shrivastava & Thompson, 2021). Decreases in caseloads due to stricter eligibility criteria, such as tighter income eligibility requirements and shorter time limits on cash assistance, do not count toward states' caseload reduction credits, but

https://www.acf.hhs.gov/ofa/data/tanf-caseload-data-2022).

[2]If states fall out of compliance with federal work requirements, they may avoid federal penalties by submitting corrective action plans to the U.S. Department of Health and Human Services (HHS). Penalties are waived if HHS approves a state's plan to meet its work requirements and the state complies with plan directives. Additionally, penalties may be waived in specific cases, such as a determination that a state's failure to meet its work requirement was due to a natural disaster or pandemic.

states are responsible for estimating how changes in policies have affected their caseloads, and the methodologies they typically use for these calculations may yield substantial underestimates.[3]

Under FRA, the caseload reduction credit will be based on the change in a state's caseload since fiscal year (FY) 2015, rather than FY 2005. While the U.S. TANF caseload decreased by about 20 percent from FY 2005 to FY 2015, individual states experienced considerably different caseload trends. Specifically, changes across states ranged from an 80 percent reduction to a 193 percent increase in caseload size, with 10 states experiencing an increase in caseloads during this time.[4] Differences in caseload trends across states should translate into varying impacts of FRA.

Strategy 2. Increase the severity of sanctions to remove nonworking parents from TANF.

Many states responded to DRA by increasing both individual work requirements and penalties for parents who do not meet those requirements. For instance, as of 2005, only 2 states closed families' TANF cases the first time they failed to meet work requirements. By 2022, 9 states were closing such cases.[5] Closing the cases of work-eligible individuals who do not meet work requirements boosts the state work participation rate, but it also leaves vulnerable families without support.

Strategy 3. Increase spending on any of TANF's four priorities.

States may reduce their work requirements by increasing spending (called "maintenance of effort" [MOE]) on a broad range of programs under the TANF banner. MOE spending can be

[3]For example, in its FY 2018 report to the U.S. Department of Health and Human Services (HHS), Michigan estimated that shortening its time limit on cash assistance in 2011 decreased its average monthly caseload in 2018 by about 1,000 families. This constituted the actual number of case closures and eligibility denials due to the policy change. Michigan's methodology fails to account for behavioral effects of a stricter time limit, including fewer households applying for benefits under a less generous program, and how decreases in flows onto cash assistance over time affected the stock of families in 2018. Evidence from Pepin (2022), who estimates effects of Michigan's time limit using causal inference methods, suggests that it decreased the state's 2018 caseload by nearly 14,000 families.

[4]Office of Family Assistance, Administration for Children and Families, U.S. Department of Health and Human Services, State TANF Data and Reports, https://www.acf.hhs.gov/ofa/programs/tanf/data-reports.

[5]Urban Institute, Welfare Rules Databook, https://wrd.urban.org/welfare-rules-databook.

related to any of TANF's four priorities: 1) to provide assistance to needy families so that children can be cared for in their own homes or in the homes of relatives; 2) to end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage; 3) to prevent and reduce the incidence of out-of-wedlock pregnancies; and 4) to encourage the formation and maintenance of two-parent families.

While TANF is often thought of principally as a cash and job assistance program, this accounts for only about a quarter of TANF spending.[6] Other spending categories include child care, pre-kindergarten programs, refundable state tax credits, child and youth services, programs to prevent out-of-wedlock pregnancies, and fatherhood programs. Because the term "needy" is not defined for TANF's first two priorities, many programs serve families that are not especially low-income, and evidence suggests that states strategically shift existing programs to the TANF ledger (Pavetti et al., 2021). For example, HHS estimates that, during FY 2021, states allocated over $1 billion in TANF dollars to college scholarship programs (including scholarships for moderate-to-high-income and childless students) under the guise of preventing out-of-wedlock pregnancies.[7]

While states are required to meet certain benchmarks for MOE spending in order to receive their federal block grants, they may spend additional MOE dollars to boost their caseload reduction credits. A state that spends MOE funds in excess of its statutory requirement may exclude from its base year caseload the share of cases receiving assistance funded with "excess MOE." As the MOE requirement is not indexed to inflation and has decreased substantially in real value over time, many states use the excess MOE provision to increase their caseload reduction credits.

[6]Office of Family Assistance, Administration for Children and Families, U.S. Department of Health and Human Services, TANF Financial Data - FY 2022, Table A.1, "Federal TANF and State MOE Expenditures Summary by ACF-196R Spending Category, FY 2022," https://www.acf.hhs.gov/ofa/data/tanf-financial-data-fy-2022.

[7]*Federal Register* 88, no. 189 (October 2, 2023): 67697-67720, https://www.govinfo.gov/content/pkg/FR-2023-10-02/pdf/2023-21169.pdf.

Strategy 4. Increase the number of working families "receiving assistance."

States can exploit HHS' permissive definition of "families receiving assistance," which includes families receiving in-kind benefits for basic needs, such as food vouchers and child care services. Since DRA, a number of states have used this flexibility to offer small, in-kind food benefits to parents who are already working (U.S. Government Accountability Office, 2010). States can increase their shares of working families on TANF considerably by implementing these programs. For example, Maine's caseload doubled when the state began offering $15 food benefit payments to low-income working households not already receiving TANF.[8] Because the time spent receiving such benefits counts against families' lifetime TANF time limits, these in-kind benefit programs can prevent them from receiving cash assistance in the future.[9]

Strategy 5. Move nonworking TANF recipients to alternative programs.

In addition to TANF, several states operate solely state-funded (SSF) programs that operate completely outside of TANF and are not subject to any of its requirements. As of 2008, 26 states operated SSFs (Pavetti et al., 2009). Moving nonworking families that face substantial barriers to employment into SSF programs boosts states' work participation rates while allowing these families to continue receiving cash assistance.

Strategy 6. Enroll nonworking TANF recipients in subsidized employment programs.

States can boost work participation rates by requiring nonworking TANF recipients to work in subsidized employment. Evidence suggests that high-quality subsidized employment programs can help to "make work pay" for welfare recipients. Randomized controlled trials of subsidized

[8]Office of Family Assistance, Administration for Children and Families, U.S. Department of Health and Human Services, TANF Caseload Data 2012, "TANF & SSP: Total Number of Families," https://www.acf.hhs.gov/archive/ofa/data/resource/caseload-data-2012.

[9]Under FRA, states will no longer be allowed to count families receiving benefits of less than $35 per month toward the federal work requirement but may continue to count families receiving benefits worth $35 per month or more.

job programs for TANF recipients all find positive impacts on near-term employment and earnings (as expected), as well as decreases in benefit receipt (Anderson et al., 2019; Butler et al., 2012; Webster, 2019). Programs that fully subsidize work for around six months while providing job-readiness and counseling services also increase longer-term earnings (Anderson et al., 2019; Webster, 2019). Notably, expanding subsidized employment programs is the only one of these six strategies that directly aims to move existing TANF recipients into employment.

To illustrate how states can combine strategies to meet the federal work requirement under FRA, Figure 1 shows a hypothetical caseload reduction calculation. First, work requirements are reduced by the percentage decrease in a state's TANF caseload between FY 2015 and FY 2025 (Strategy 1). In the example, the caseload decreases from 20,000 to 18,000, or by 10 percent, during that time. If there were no other changes to the caseload reduction credit, only 40 percent of the state's work-eligible individuals would need to be engaged in work-related activities. However, this hypothetical state estimates that 500 families do not receive TANF due to policy changes, so those families are removed from its caseload reduction credit calculation.

Additionally, the hypothetical state in Figure 1 spends "excess MOE" to increase its caseload reduction (Strategy 3). The state's MOE requirement is $200 million, but it spends $300 million on activities under the TANF banner, and its average case on assistance costs $40,000. Thus, $100 million divided by $40,000 yields 2,500 excess MOE cases. The final caseload reduction credit is 20 percent after accounting for policy changes and excess MOE. This yields an adjusted work participation rate requirement of 30 percent.

IMPACTS OF FRA ON STATES' COMPLIANCE WITH WORK REQUIREMENTS

We use two primary sources of data to estimate impacts of FRA on states' compliance with work requirements: publicly available state-level administrative data from HHS and information we collected from reports that states must file with HHS. The administrative data document the TANF caseload in each state and month from FY 2005 to FY 2022.[10] The data also include information on states' annual work participation rates, work requirements, numbers of cases with work-eligible individuals, and MOE expenditures.

Because the HHS data do not contain estimates of policy impacts on caseloads, a key component of states' caseload reduction credits, we collected the FY 2023 ACF-202 reports that states submitted to HHS to claim their caseload reduction credits. The reports include detailed information on every policy change that the state has implemented since DRA, including a description of the change, an implementation date, an estimated impact on the current year's caseload, and the methodology used for the impact estimate.[11]

Using these data, we find that although virtually all states currently meet the federal work requirement, states achieve compliance by different margins and in different ways.[12] As Figure 2 shows, 7 states fall within 10 percentage points of the current federal work requirement, and seven states exceed it by at least 50 percentage points.[13]

[10]The caseload measure also captures the number of families receiving cash assistance through separate state programs (SSPs), which are funded solely with state dollars, operate outside of TANF, and are not subject to all of its requirements. Some states use SSPs to continue to provide assistance to individuals who have reached the 60-month time limit that is imposed on federal cash assistance dollars. Nonetheless, states' spending on cash assistance via SSPs counts toward their MOE spending requirements, and SSP cases count in states' work participation rates.

[11]A few states provided us with FY 2022 ACF-202 reports instead of FY 2023 reports. Additionally, while Illinois's FY 2023 ACF-202 report included the state's policy changes, it did not include estimated impacts on caseloads. We therefore use estimates from its publicly available FY 2016 ACF-202 report.

[12]We assume that estimated caseload impacts of policies implemented from FY 2005–FY 2021 for FY 2023 are similar to estimated impacts for FY 2022.

[13]We consider Washington, D.C., a state in this analysis.

Figure 2 shows that work participation rates (dark blue) are extremely varied, ranging from 4 percent to 78 percent, but only 6 states rely exclusively on work participation rates to meet the federal requirement. Another 32 states could meet the target based on caseload reduction alone (light blue). No state could meet the federal requirement based solely on excess MOE (yellow), but it comprises a substantial portion of the requirement in several states. Accounting for state-estimated policy impacts in the caseload reduction credit calculation raises the work requirement in 21 states (gray diamonds). The figure highlights how FRA is much more likely to bind in some states than in others.

Next, we use the data to estimate impacts of FRA on states' compliance with work requirements. Because states' caseload reduction credits are a function of changes in caseloads over time and FRA does not take effect until FY 2026, we must account for expected changes in caseloads from FY 2022 (the most recent year for which complete data are available) to FY 2025. (The caseload reduction credit is calculated based on data from the previous year.) We use forecasting methods to estimate each state's future TANF caseloads and assume that historical caseload trends provide good approximations for states' future caseload trajectories.[14]

We then use our estimated changes in caseloads, along with data on excess MOE spending from HHS and states' estimated impacts of policy changes from the ACF-202 reports, to estimate states' caseload reduction credits as of FY 2026.[15] Figure 3 displays estimates of the difference between states' work participation rates and their work requirements, adjusted for the caseload reduction credit, as of FY 2026. Five states that currently are in compliance and provided cash assistance to

[14]Details regarding the forecasting procedure can be found in the appendix.

[15]We assume that states that did not use the caseload reduction credit in FY 2023 will not use it in FY 2026. In our preferred specifications, we also assume that states' excess MOE spending, estimated policy change impacts, and work participation rates will remain constant between FY 2022 and FY 2025, but we test the robustness of results to plausibly sized changes over time in the appendix.

about 50,000 families each month during FY 2022—Georgia, Kansas, Montana, North Carolina, and Rhode Island—are expected to fall short of the federal work requirement under FRA.[16] We find that work requirements will become stricter in 24 states (below the 45 degree line) and less strict in 22 states (above the 45 degree line).

POLICY IMPLICATIONS

Our study yields several policy implications. First, policymakers should be wary of enacting policies before understanding their expected impacts. While FRA will succeed in its goal of strengthening work requirements in around half of states, it also will loosen work requirements for a similar number of states. As this differs from policymakers' expected impacts of FRA, we recommend that, going forward, they consider how applying the same TANF policy across states could lead to very different outcomes due to varying policy environments.

Second, we expect that states that fall short of work requirements under FRA will implement some of the compliance strategies we outline in this article. The only strategy that directly aims to move existing TANF recipients into employment—expanding subsidized employment programs—likely is much more expensive for states to implement than "creative accounting" strategies, like offering small, in-kind benefits to working families, moving nonworking TANF recipients to alternative programs, or shifting existing state spending from other streams onto TANF's ledger. We therefore expect that FRA will lead states to focus on these accounting measures rather than solutions to recipients' employment barriers.

Even if states respond to FRA by implementing policies that promote work, the federal work

[16] We also estimate that Oregon and Washington, D.C., will be out of compliance with the federal work requirement under FRA. Oregon also fell short of the federal work requirement during FY 2022.

requirement and caseload reduction credit encourage them to focus solely on engaging recipients in work-related activities while they are on assistance. Federal TANF dollars are not tied to earnings levels or to labor market outcomes after TANF exit, and evidence suggests that TANF does little to improve long-term economic independence (Acs & Loprest, 2004; Cancian & Meyer, 2004). As states lack incentives to address the structural barriers to steady, remunerative employment that many of their recipients face, the program falls short in its goal of encouraging self-sufficiency through work.

Some policy changes within the scope of current TANF program design could yield powerful effects on states' decision-making and families' outcomes. First, in addition to changing the caseload reduction credit calculation, FRA authorized a five-state demonstration to examine possible changes to the federal work requirement. States that participate in the demonstration will pilot new TANF performance measures based on recipients' employment and earnings outcomes after program exit. Findings from this demonstration will speak to whether tying federal TANF dollars to post-TANF outcomes could improve recipients' long-term economic well-being. Additionally, as suggested by Danziger et al. (2016) and Haskins (2016), more federal funding earmarked for high-quality subsidized employment programs would allow states to provide work supports that could generate lasting impacts.

Moreover, policymakers could close loopholes available to states in meeting the federal work requirement. A Biden administration proposed rule that, if enacted, would limit what constitutes MOE spending, is one step in this direction.[17] In addition, a TANF benefit floor much higher than the current minimum benefit of $35 would discourage states from adding working families to the

[17] *Federal Register* 88, no. 189 (October 2, 2023): 67697-67720, https://www.govinfo.gov/content/pkg/FR-2023-10-02/pdf/2023-21169.pdf.

rolls in an effort to boost work participation rates.

Finally, the stringency of the federal work requirement encourages states to engage in the some of the more egregious compliance strategies that we document. Policymakers should recognize that, in the absence of such strategies, it is quite difficult for states to meet federal work requirement benchmarks. Lessening states' requirements to reflect the fact that many TANF recipients face substantial barriers to employment would reduce the incentive to engage in these practices and allow states to focus on providing assistance and supportive services to low-income families.

REFERENCES

Acs, G., & Loprest, P. (2004). *Leaving welfare: Employment and well-being of families that left welfare in the post-entitlement era*. W.E. Upjohn Institute for Employment Research.

Anderson, C., Farrell, M., Glosser, A., & Barden, B. (2019). *Final impacts and costs of the Los Angeles County Transitional Subsidized Employment Program* (tech. rep.). Office of Planning, Research, and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services.

Butler, D., Alson, J., Bloom, D., Deitch, V., Hill, A., Hsueh, J., Jacobs, E., Kim, S., McRoberts, R., & Redcross, C. (2012). *What strategies work for the hard-to-employ? Final results of the Hard-to-Employ Demonstration and Evaluation Project and selected sites from the Employment Retention and Advancement Project* (tech. rep.). Office of Planning, Research, and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services.

Cancian, M., & Meyer, D. R. (2004). Alternative measures of economic success among TANF participants: Avoiding poverty, hardship, and dependence on public assistance. *Journal of Policy Analysis and Management*, *23*(3), 531–548.

Danziger, S. K., Corcoran, M., Danziger, S., Heflin, C., Kalil, A., Levine, J., Rosen, D., Seefeldt, K., Siefert, K., & Tolman, R. (2000). Barriers to the employment of welfare recipients. In *Prosperity for all?* Russell Sage Foundation.

Danziger, S. K., Danziger, S., Seefeldt, K. S., & Shaefer, H. L. (2016). From welfare to a work-based safety net: An incomplete transition. *Journal of Policy Analysis and Management*, *35*(1), 231–238.

Hahn, H., Kassabian, D., & Zedlewski, S. (2012). *TANF work requirements and state strategies to fulfill them* (tech. rep.). Office of Planning, Research, and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services.

Haskins, R. (2016). Supplementing TANF's work requirement: A compromise. *Journal of Policy Analysis and Management*, *35*(1), 238–240.

Pavetti, L., Rosenberg, L., & Derr, M. K. (2009). *Understanding Temporary Assistance for Needy Families caseloads after passage of the Deficit Reduction Act of 2005* (tech. rep.). Office of Planning, Research, and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services.

Pavetti, L., Safawi, A., & Trisi, D. (2021). TANF at 25: A weaker cash safety net reaching fewer families and doing less to lift families out of deep poverty. *National Tax Journal*, *74*(3), 763–789.

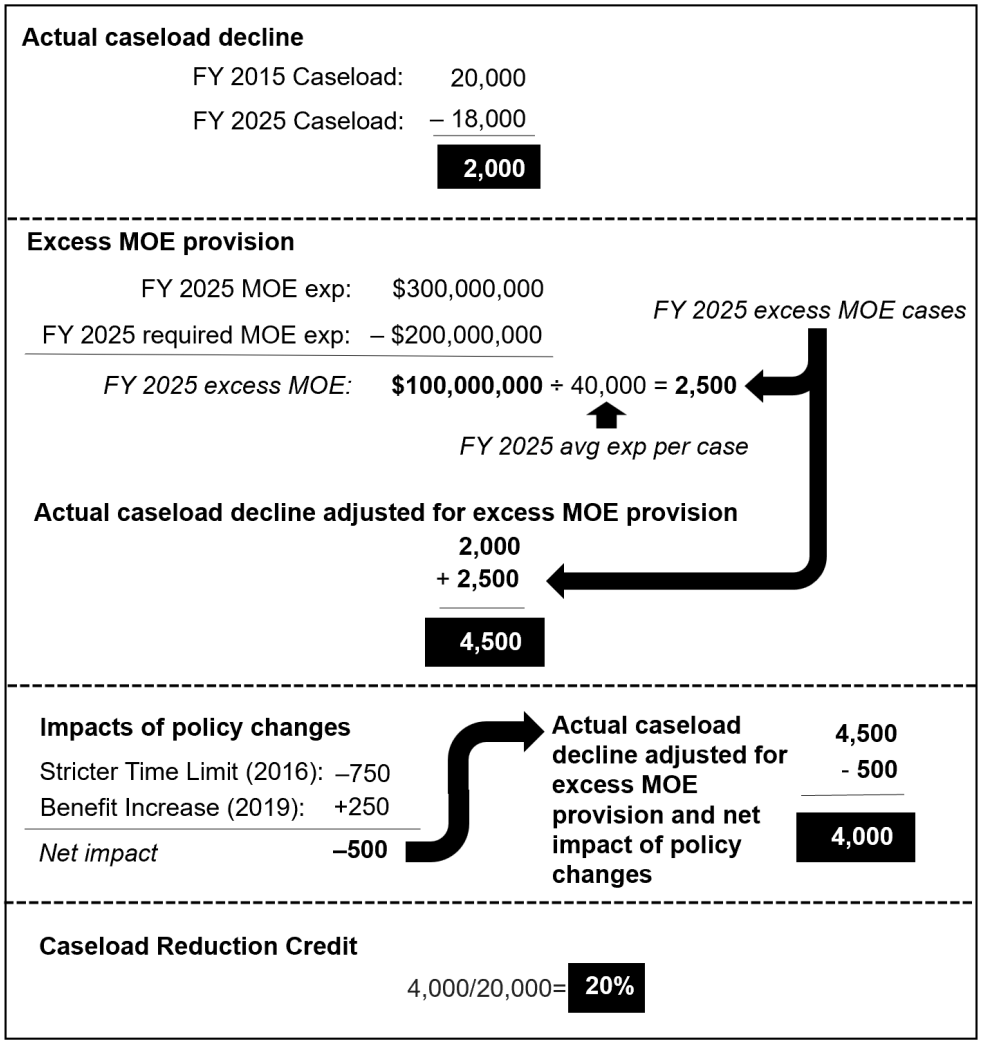
Pepin, G. (2022). The effects of welfare time limits on access to financial resources: Evidence from the 2010s. *Southern Economic Journal*, *88*(4), 1343–1372.

Shrivastava, A., & Thompson, G. A. (2021). *Policy brief: Cash assistance should reach millions more families to lessen hardship* (tech. rep.). Center on Budget and Policy Priorities.

U.S. Government Accountability Office. (2010). *Temporary Assistance for Needy Families: Implications of recent legislative and economic changes for state programs and work participation rates* (tech. rep.). Report to Congressional Requesters.

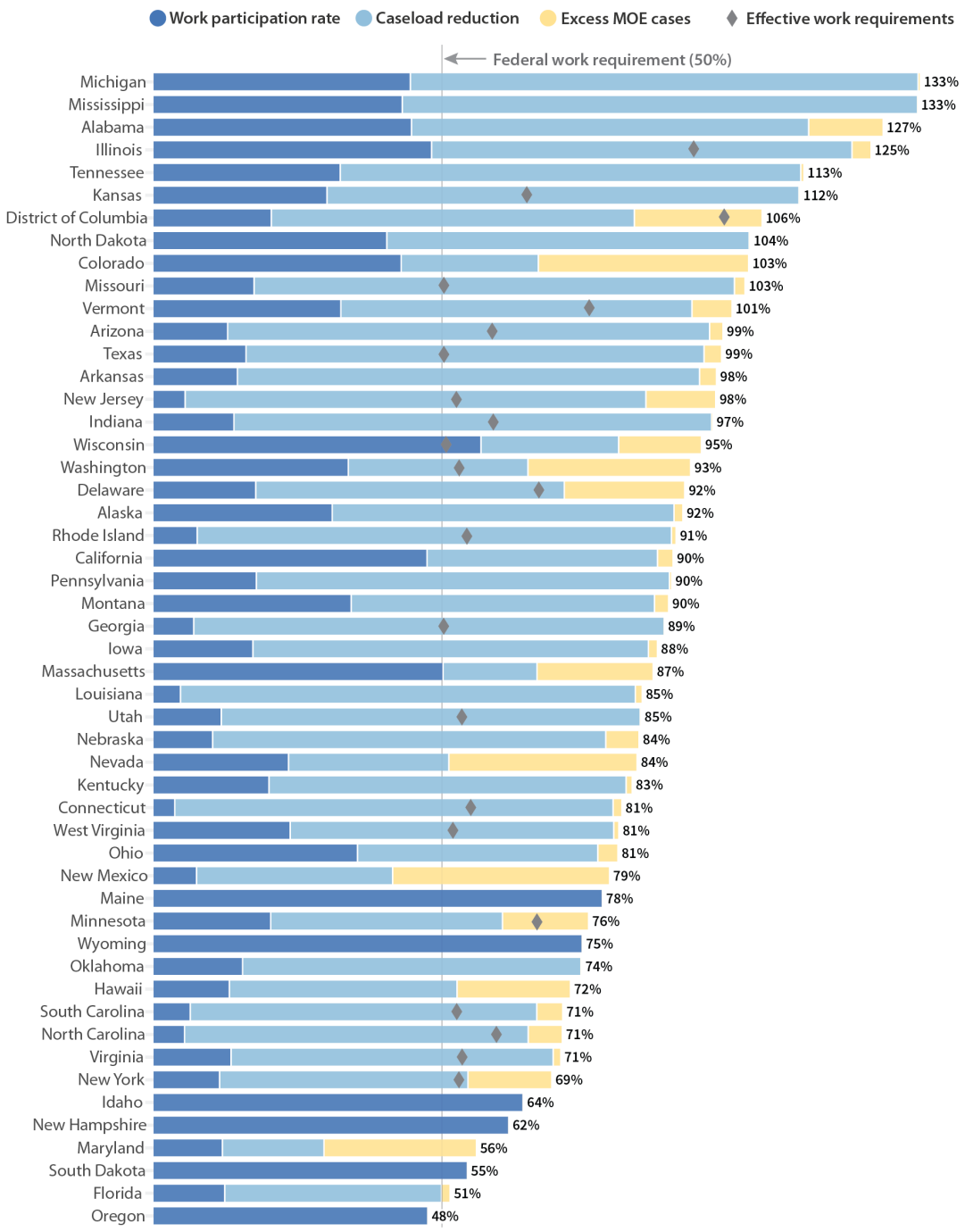
Webster, R. (2019). *The Subsidized and Transitional Employment Demonstration: Cost analysis of the STEP Forward Program* (tech. rep.). Office of Planning, Research, and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services.

FIGURES



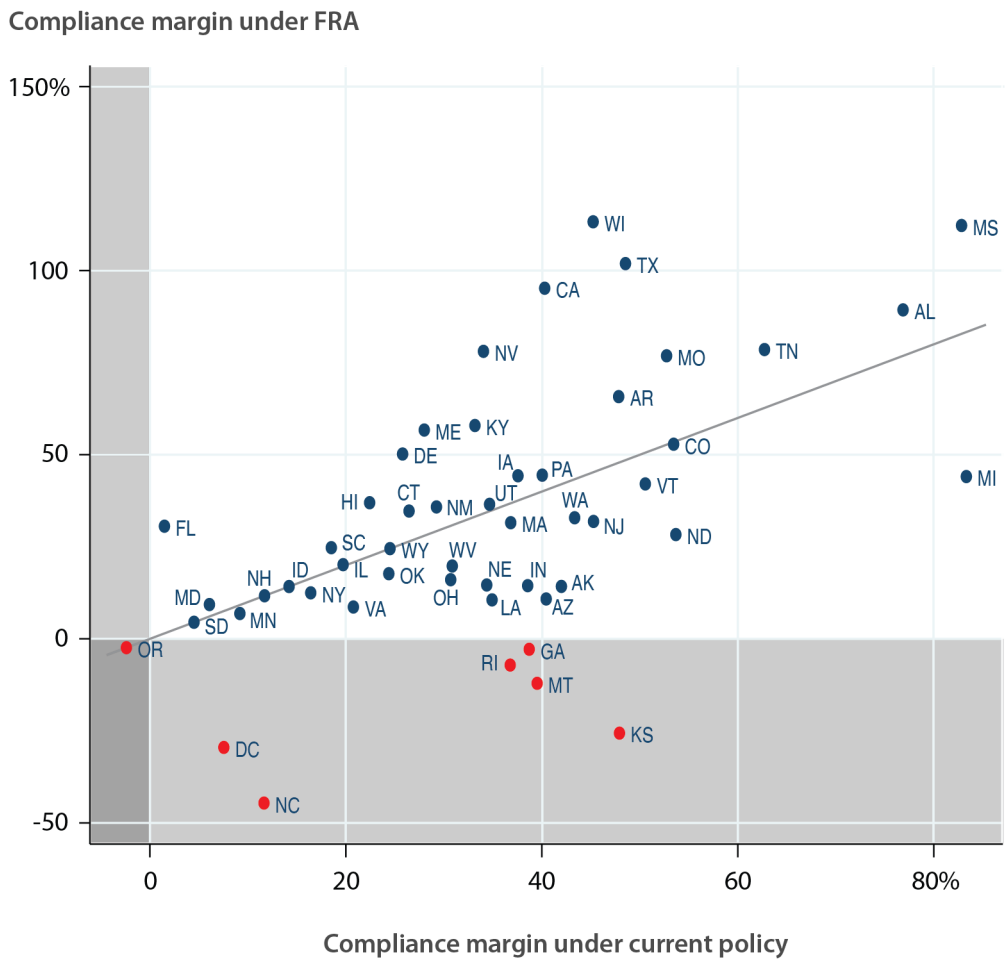
Sources: Authors' calculations based on TANF Regulations, Code of Federal Regulations Title 45 Chapter II, Part 261, Subpart D and the Fiscal Responsibility Act of 2023.
Notes: Caseload reduction credit calculation for a hypothetical state with caseload sizes of 20,000 and 18,000 during FY 2015 and FY 2025, respectively, excess MOE expenditures of $100 million during fiscal year 2025, average expenditures per case of $40,000 during fiscal year 2025, and TANF policy changes impacting caseload size between 2015 and 2025.

Figure 1. Caseload reduction credit calculation for hypothetical state.



Sources: Authors' calculations based on HHS data from FY 2022 and FY 2023 ACF-202 reports.
Notes: Contributions of work participation rates (dark blue bars), reductions in caseloads (light blue bars), and excess MOE cases (yellow bars) toward the federal work requirement (gray line), by state. Gray diamonds represent states' effective federal work requirements after removing cases affected by state policy changes from the caseload reduction calculation.

Figure 2. Work participation rates and underlying components of caseload reduction credits.



Notes: Estimated percentage-point differences between states' work participation rates and adjusted work requirements. The x-axis documents estimated differences under current law, and the y-axis documents estimated differences under FRA as of FY 2026. Blue points represent states that are expected to meet federal work requirements under FRA, and red points represent states that are not expected to meet federal work requirements under FRA.

Figure 3. Differences between work participation rates and adjusted work requirements.

APPENDIX

FORECASTING PROCEDURE

Similarly to Chatterji et al. (2022) and Gurmu & Smith (2017), we predict each state's TANF caseload for FY 2025 to estimate changes in caseloads between FY 2015 and FY 2025. After testing for the stationarity of the time series, we make predictions using models that follow an autoregressive moving-average specification with a flexible functional form:

$$y_{st} = c + \tau \cdot f(time) + \sum_{i=1}^{p} \varphi_i y_{t-i} + \varepsilon_t + \sum_{i=1}^{q} \kappa_i \varepsilon_{t-i}, \tag{1}$$

where y_{st} is the caseload size in state s during year t. The autoregressive parameters, represented by φ, and moving-average disturbances, represented by κ, can have up to three lags, while the time trend $f(time)$ can take on linear, quadratic, cubic, quartic, or logarithmic forms. c is a constant, and ϵ_t is the error term. We estimate model parameters using unconditional maximum likelihood and incorporate binary indicators as potential parameters to model the time trend, allowing for changes in the trend after four and eight periods. In our preferred specification, we use data from the period spanning FY 2005 to FY 2018 to estimate model parameters and treat FY 2019 to FY 2022 as the out-of-sample period. Separately for each state, we estimate predicted values for different combinations of autoregressive parameters, moving-average disturbances, and time

trends and select the preferred specification as the combination with the lowest root-mean-square errors for the out-of-sample data points. Once we determine the preferred specification, we extend the forecasting projection to FY 2025 to estimate future impacts of FRA on caseloads.

Figures that display forecast estimates for each state can be found in Figure A1. Nearly all states exhibit high measures of goodness-of-fit during the out-of-sample period. The consistent fit of estimates across states demonstrates how the forecasting exercise adapts to various time trends in TANF caseloads, reinforcing the reliability of our estimates.

ROBUSTNESS

We test the robustness of results to different out-of-sample periods and the outermost estimates of the forecast intervals and display results in Figure A2. When we use out-of-sample periods that begin up to two years before and after 2019, we find that 5 to 9 states (considering Washington, D.C., a state) would fail to meet work requirements under FRA. For each of those specifications, estimates based on the first and third quartiles of the residuals from the training period indicate that 4 to 11 states would fail to comply. Results from these robustness tests are in line with those from our preferred specification, where we find that 6 states and Washington, D.C., would fail to meet work requirements under FRA.

While we assume that excess MOE spending and states' estimated policy change impacts and work participation rates remain constant between FY 2022 and FY 2025 in our preferred specification, we test the robustness of results to plausibly sized changes over time, as well as the different out-of-sample periods shown in Figure A2, in Figures A3, A4, and A5. Specifically, Figure A3 displays the estimated number of states out of compliance with work requirements under FRA

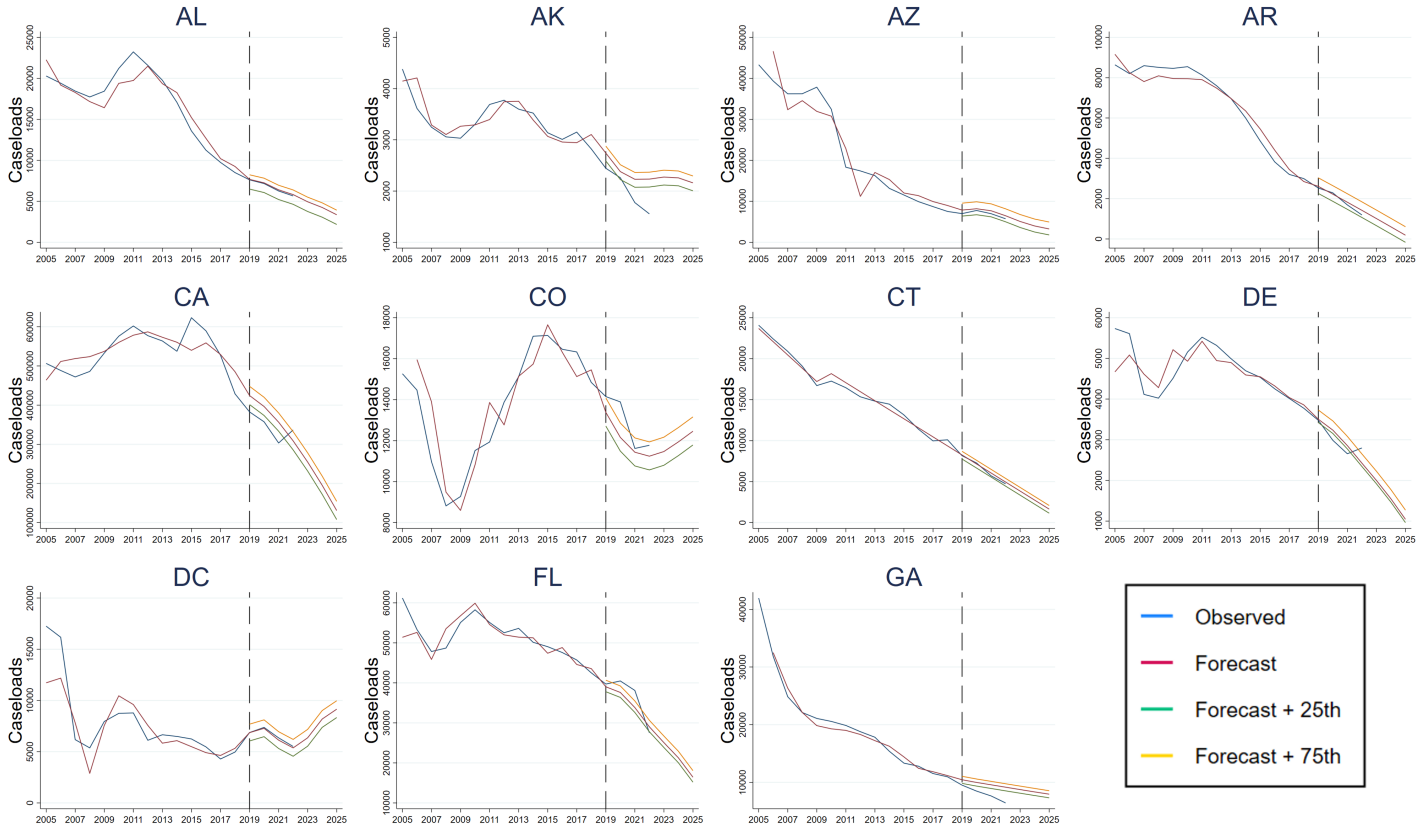
when using each state's lowest and highest MOE spending levels, respectively, from FY 2017 to FY 2022. Figure A4 displays the estimated number of states out of compliance if policy impacts are not taken into account, which may be thought of as a lower bound. Figure A5 displays the estimated number of states out of compliance when using each state's lowest and highest work participation rate, respectively, from FY 2017 to FY 2022. Taken together, these figures imply a range of estimates from 2 to 11 states out of compliance with federal work requirements under FRA.

REFERENCES

Chatterji, P., Han, Y., Lahiri, K., Pang, J., Yang, C., & Yin, Y. (2022). Inter-state variation in disability applications during the COVID-19 pandemic. *National Bureau of Economic Research, Center Paper NB22-02*.

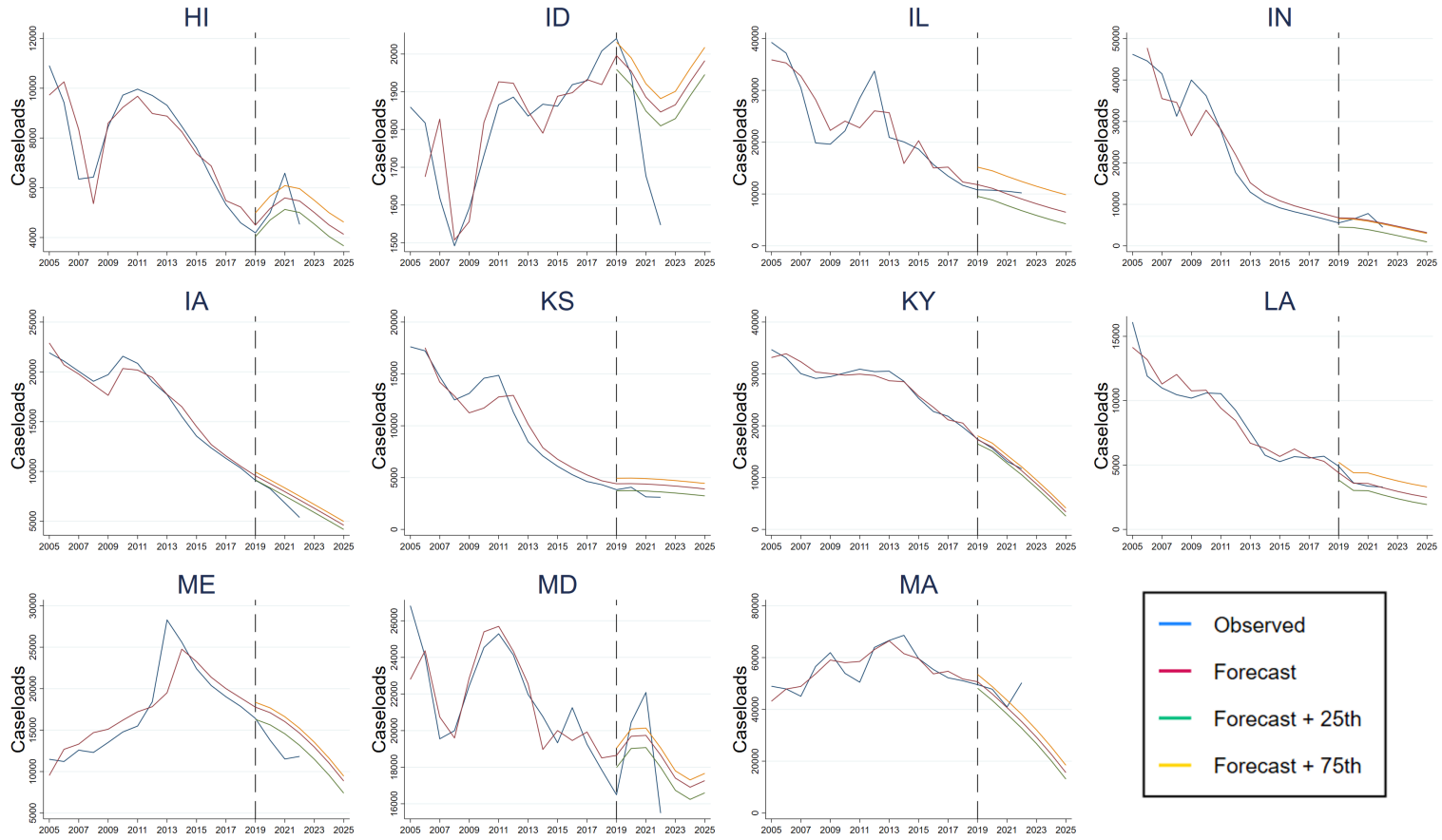
Gurmu, S., & Smith, W. J. (2017). Estimating and forecasting welfare caseloads. In *Government budget forecasting* (pp. 207–242). Routledge.

FIGURES



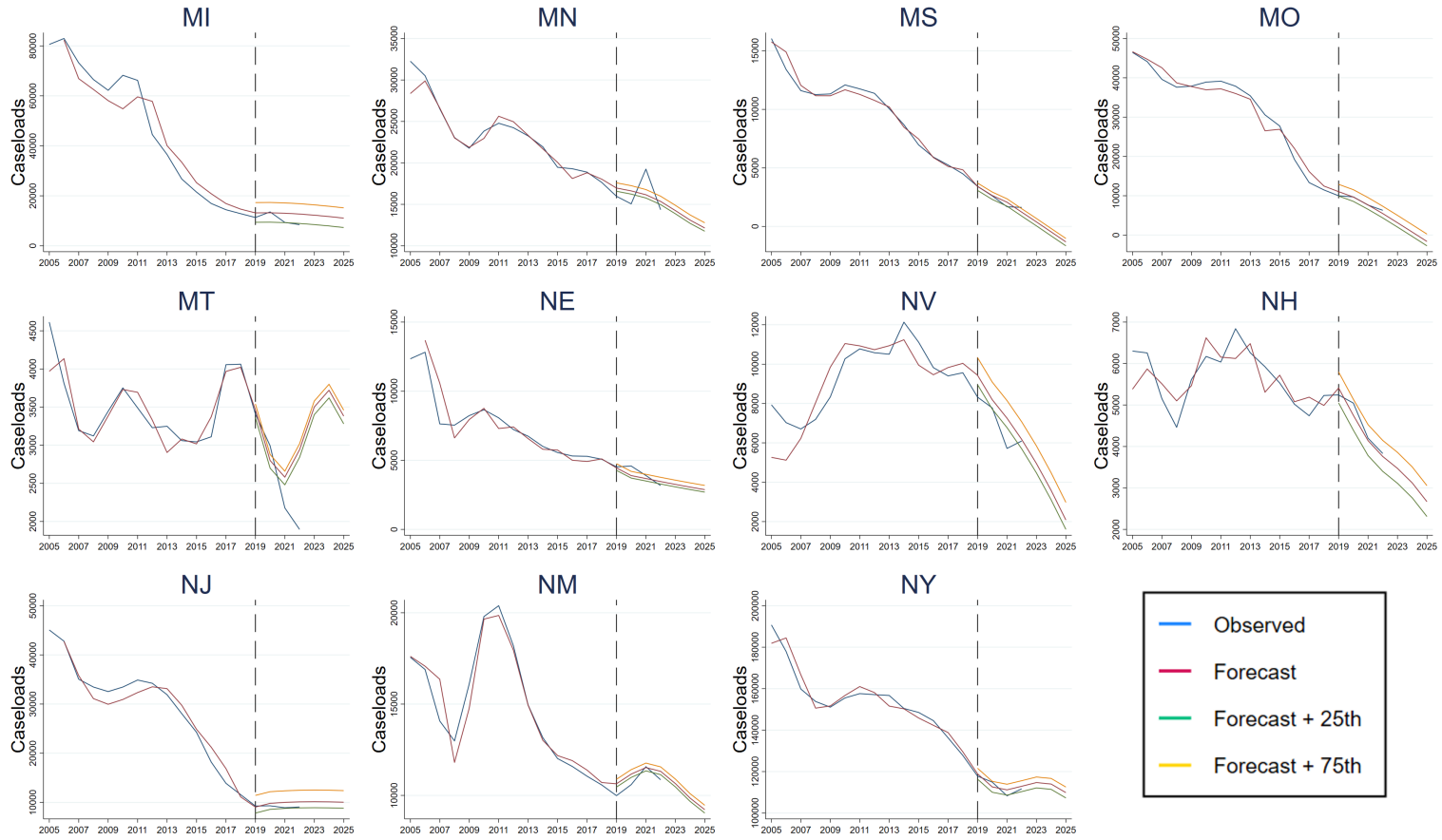
Sources: Authors' calculations based on HHS data from FY 2005 to FY 2022 and FY 2023 ACF-202 reports.
Notes: Estimated number of caseloads for FY 2023 to FY 2025, by state. Blue lines represent the observed number of caseloads from FY 2005 to FY 2022. Red lines represent the estimated number of caseloads from FY 2023 to FY 2025. Green and yellow lines represent estimates based on the first and third quartiles of the residuals from the training period, respectively.

Figure A1. Estimated caseloads from FY 2023 to FY 2025, by state.



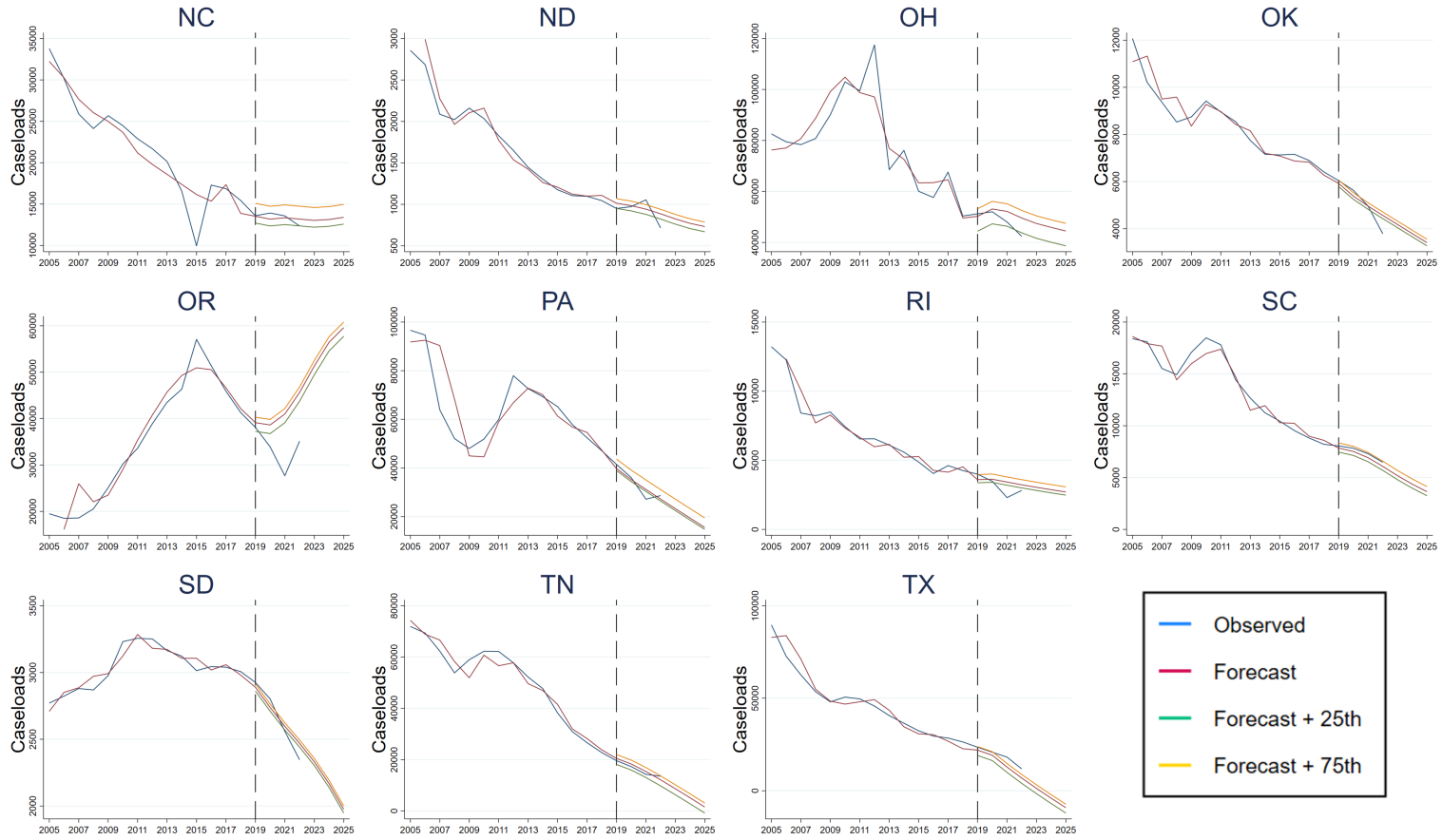
Sources: Authors' calculations based on HHS data from FY 2005 to FY 2022 and FY 2023 ACF-202 reports.
Notes: Estimated number of caseloads for FY 2023 to FY 2025, by state. Blue lines represent the observed number of caseloads from FY 2005 to FY 2022. Red lines represent the estimated number of caseloads from FY 2023 to FY 2025. Green and yellow lines represent estimates based on the first and third quartiles of the residuals from the training period, respectively.

Figure A1 (continued). Estimated caseloads from FY 2023 to FY 2025, by state.



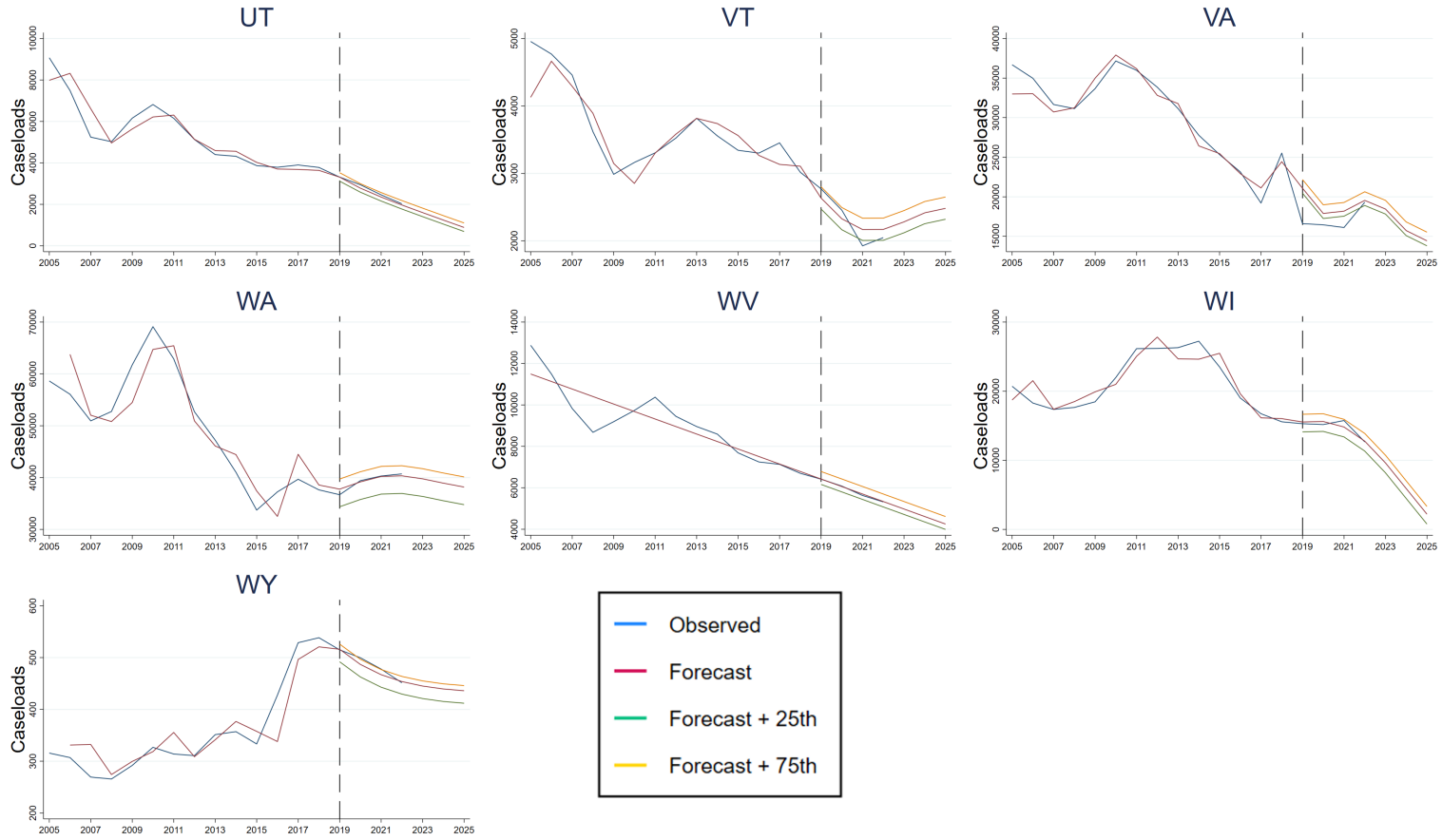
Sources: Authors' calculations based on HHS data from FY 2005 to FY 2022 and FY 2023 ACF-202 reports.
Notes: Estimated number of caseloads for FY 2023 to FY 2025, by state. Blue lines represent the observed number of caseloads from FY 2005 to FY 2022. Red lines represent the estimated number of caseloads from FY 2023 to FY 2025. Green and yellow lines represent estimates based on the first and third quartiles of the residuals from the training period, respectively.

Figure A1 (continued). Estimated caseloads from FY 2023 to FY2025, by state.



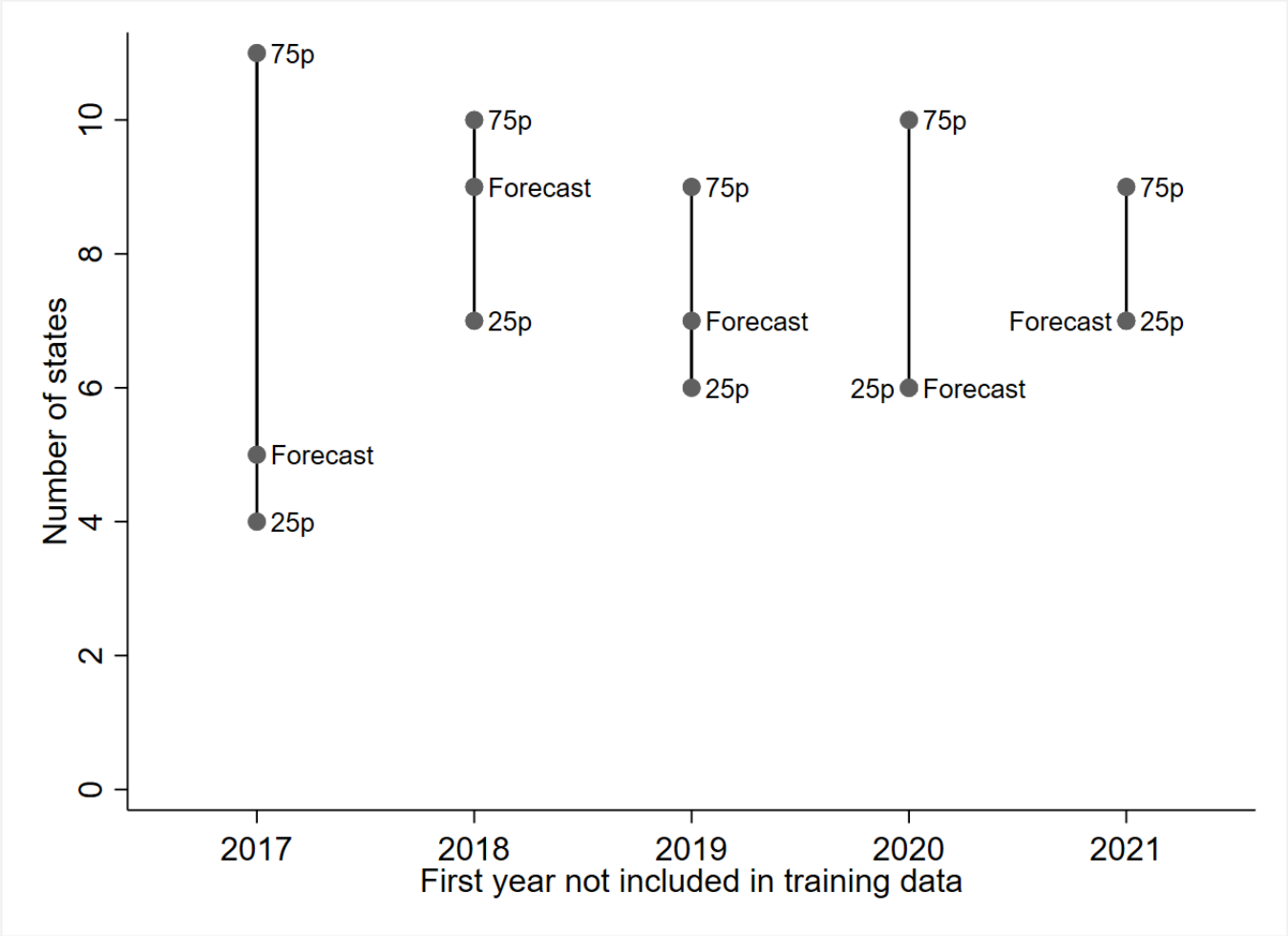
Sources: Authors' calculations based on HHS data from FY 2005 to FY 2022 and FY 2023 ACF-202 reports.
Notes: Estimated number of caseloads for FY 2023 to FY 2025, by state. Blue lines represent the observed number of caseloads from FY 2005 to FY 2022. Red lines represent the estimated number of caseloads from FY 2023 to FY 2025. Green and yellow lines represent estimates based on the first and third quartiles of the residuals from the training period, respectively.

Figure A1 (continued). Estimated caseloads from FY 2023 to FY 2025, by state.



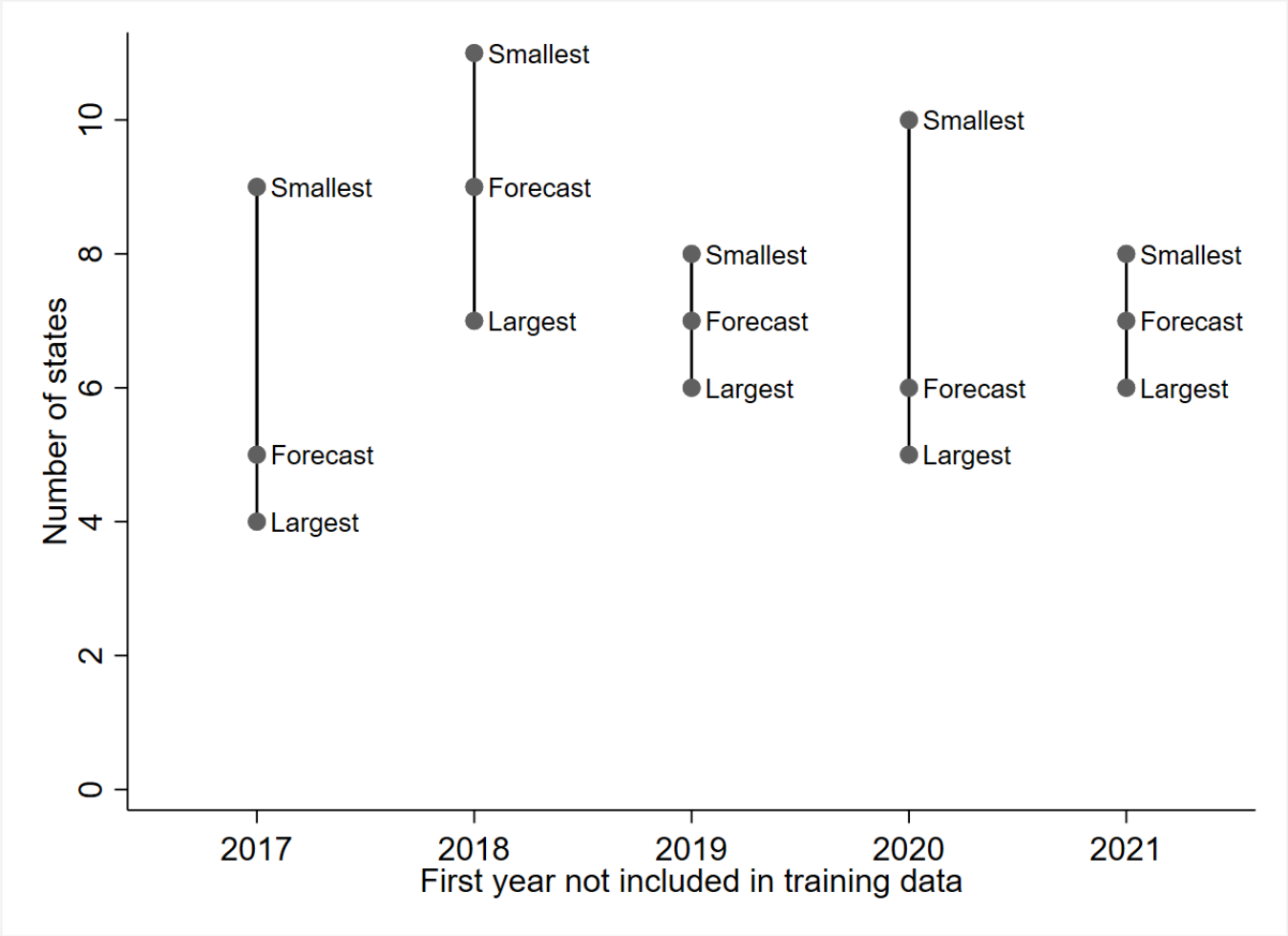
Sources: Authors' calculations based on HHS data from FY 2005 to FY 2022 and FY 2023 ACF-202 reports.
Notes: Estimated number of caseloads for FY 2023 to FY 2025, by state. Blue lines represent the observed number of caseloads from FY 2005 to FY 2022. Red lines represent the estimated number of caseloads from FY 2023 to FY 2025. Green and yellow lines represent estimates based on the first and third quartiles of the residuals from the training period, respectively.

Figure A1 (continued). Estimated caseloads from FY 2023 to FY 2025, by state.



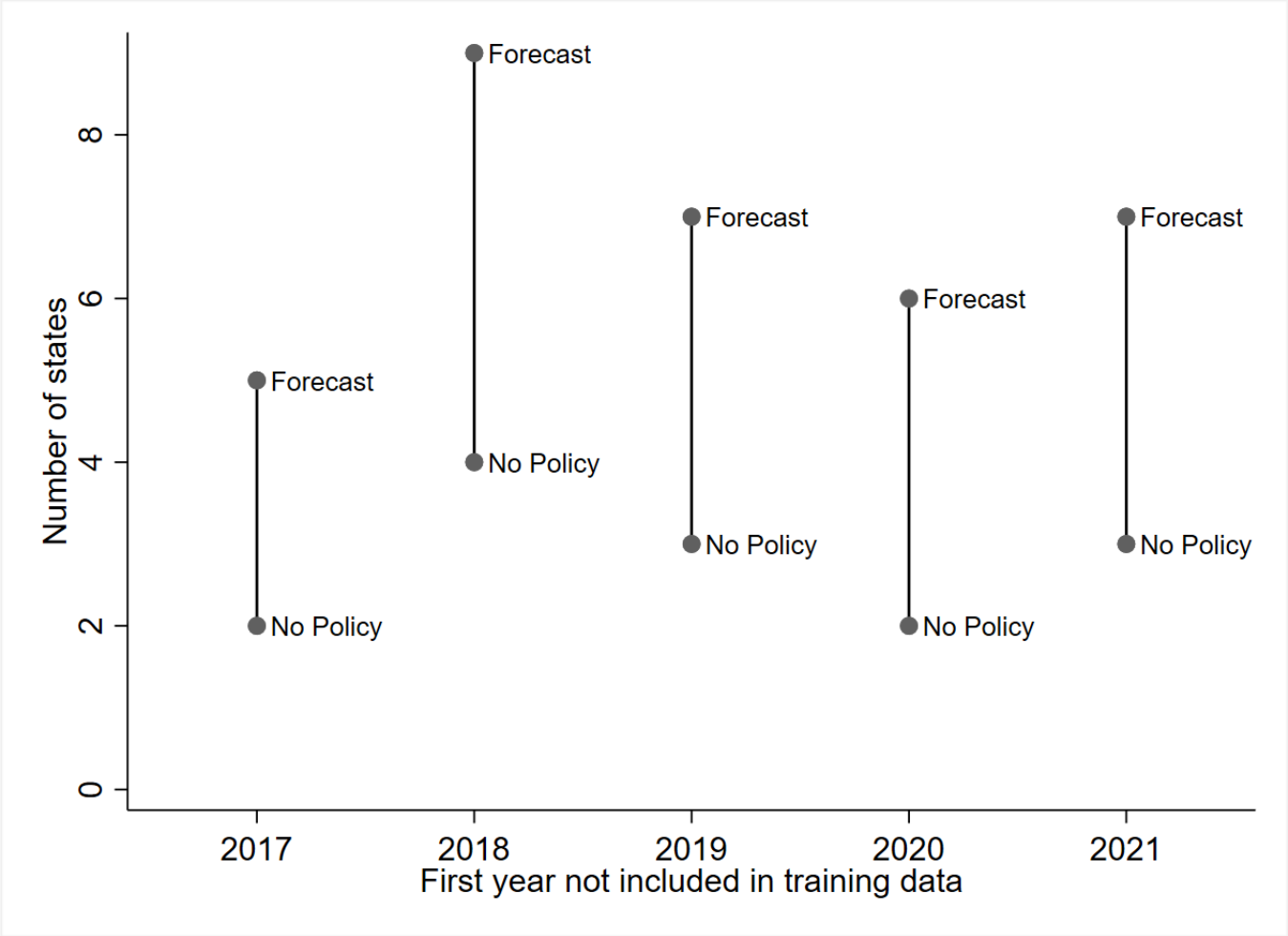
Notes: Estimates of the number of states out of compliance with federal work requirements under FRA as of FY 2026, by out-of-sample period. "Forecast" denotes the main estimate, and "25p" and "75p" denote the first and third quartiles of the residuals from the training period, respectively.

Figure A2. Number of states estimated to be out of compliance, by out-of-sample period.



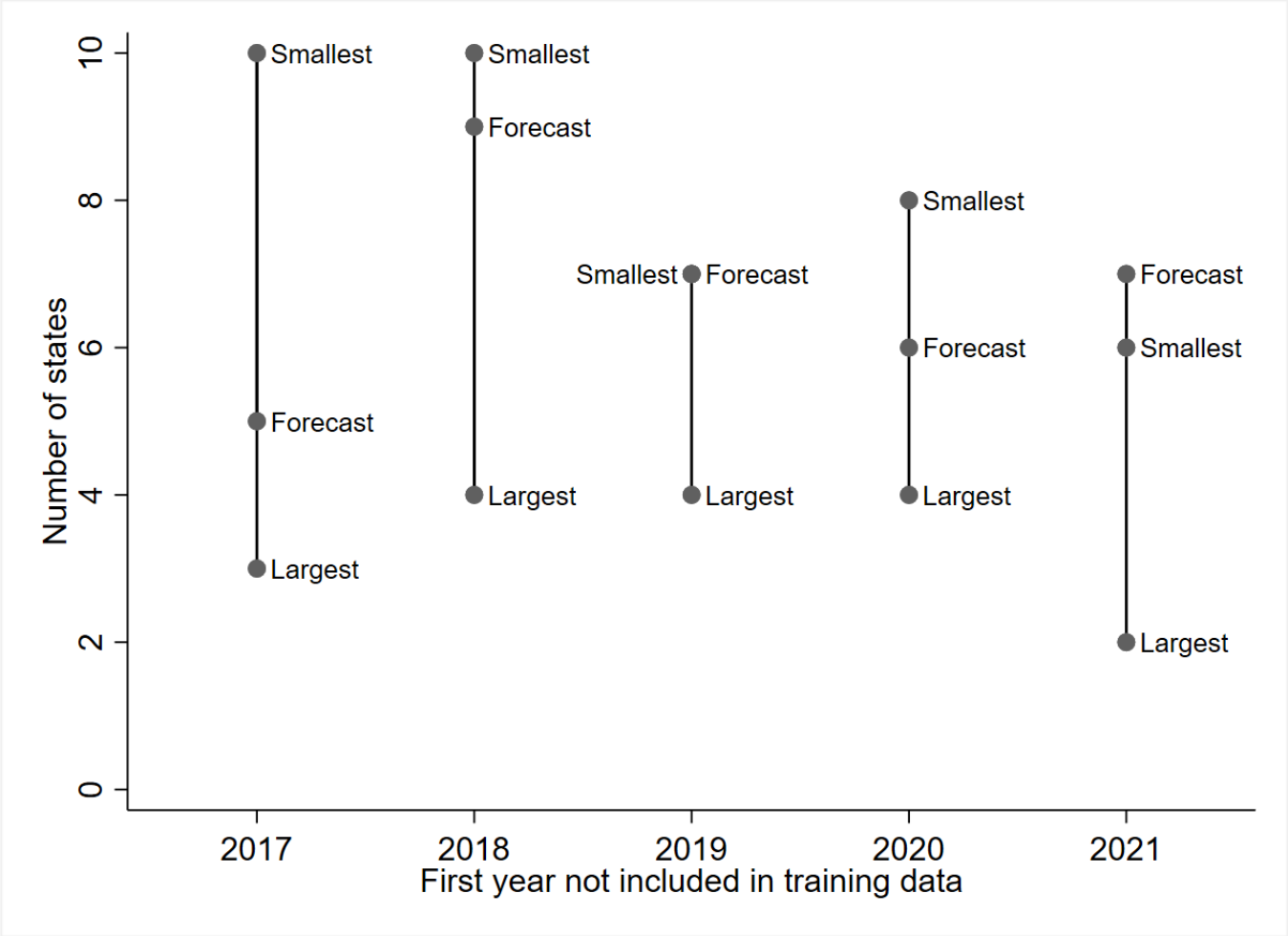
Notes: Estimates of the number of states out of compliance with federal work requirements under FRA as of FY 2026 based on alternative MOE spending levels, by out-of-sample period. "Smallest" denotes the estimate using each state's lowest level of MOE spending from FY 2017 to FY 2022, and "Largest" denotes the estimate using each state's highest level of MOE spending from FY 2017 to FY 2022. "Forecast" is the main estimate from Figure A2.

Figure A3. Number of states estimated to be out of compliance based on alternative MOE spending levels, by out-of-sample period.



Notes: Estimates of the number of states out of compliance with federal work requirements under FRA as of FY 2026 in the absence of policy impacts, by out-of-sample period. "No Policy" denotes the estimate in the absence of policy impacts. "Forecast" is the main estimate from Figure A2.

Figure A4. Number of states estimated to be out of compliance in the absence of policy impacts, by out-of-sample period.



Notes: Estimates of the number of states out of compliance with federal work requirements under FRA as of FY 2026 based on alternative work participation rates, by out-of-sample period. "Smallest" denotes the estimate using each state's lowest work participation rate from FY 2017 to FY 2022, and "Largest" denotes the estimate using each state's highest work participation rate from FY 2017 to FY 2022. "Forecast" is the main estimate from Figure A2.

Figure A5. Number of states estimated to be out of compliance based on alternative work participation rates, by out-of-sample period.