Child Care and Welfare Reform

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The Welfare Reform Act establishes mandatory work requirements. Because of this, the law also contains child care provisions. This review article describes the child care provisions of the act. It addresses some of the issues related to these provisions and highlights selected State initiatives in this area.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996, more commonly known as the Welfare Reform Act, was a far-reaching piece of legislation. The law eliminated Aid to Families with Dependent Children (AFDC), Job Opportunity and Basic Skills (JOBS), and Emergency Assistance programs. It replaced these programs with the Temporary Assistance for Needy Families (TANF) program, which provides time-limited Federal assistance to people through block grants to States.

The legislation sets a timetable that States must follow to reduce their welfare rolls and establishes mandatory work requirements. Because of these work requirements, the law also contains child care provisions. Under the previous system, people who left the welfare ranks to enter the workforce often were worse-off due to low pay and high child care costs. Because many welfare recipients have children, what the Welfare Reform Act stipulates regarding child care is very important, especially given the work requirements for parents contained in the act. This review article describes the child care provisions of the Welfare Reform Act, discusses some of the issues related to these provisions, and describes selected State initiatives in this area.

What the Welfare Reform Act Says About Child Care

The Welfare Reform Act establishes a single child care block grant—the Child Care and Development Fund (CCDF)—consolidating four major previous child care programs. Previous programs were (1) Child care for AFDC recipients who participate in the JOBS program (the Federal employment, training, and education program for AFDC recipients), (2) Transitional Child Care for families who are no longer eligible for cash welfare due to income, (3) At-Risk Child Care for low-income working families likely to become eligible for cash welfare assistance in the absence of child care benefits, and (4) the Child Care and Development Block Grant. The first three programs are sometimes referred to as Title IV-A child care programs.

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The legislation provides up to $2.97 billion in Federal funding for the CCDF in fiscal year 1997, an increase of about $600 million (27 percent) above what would have been allocated under the previous welfare system *(3)*. The CCDF contains three types of funding: Mandatory, matching, and discretionary. Mandatory funding serves as a State's base amount and totals $1.2 billion in fiscal year 1997. No State matching is needed to access these funds. Allocations of these funds to each State are based on the highest amount of Title IV-A child care funding a State received for fiscal year 1994, fiscal year 1995, or the average for fiscal year 1992-94.

Matching funds, which amount to $0.77 billion in fiscal year 1997, are available to States that maintain their historic level of Title IV-A child care spending. State child care expenditures above this level are matched by Federal dollars up to the State's allocated share of these funds. The maximum allocations to each State are based on the State's percentage of children under age 13.

As for discretionary funds, the law authorizes $1 billion annually for the next 6 years—starting with $1 billion in fiscal year 1997. Because these funds are subject to annual appropriations, they are not guaranteed. The funds are distributed to States according to the previous rules of the Child Care and Development Block Grant funds. These rules base State allocations on the State's percentage of children who are under age 5, the number of children receiving free or reduced-price school lunches, and a State's average per capita income.

A minimum of 70 percent of a State's mandatory and matching funds must be used to provide child care assistance to families on welfare, families attempting to transition off of welfare, and those at risk of becoming welfare dependent. This is not surprising given the work requirements for welfare recipients mandated by the welfare reform legislation (see box, p. 43). However, parents on or moving off of welfare are no longer guaranteed child care assistance, as funding is capped each year. A large proportion of the remaining child care funds must be used to assist low-income working families. Families earning up to 85 percent of a State's median income are eligible for child care assistance.

States are required to have a single governmental or nongovernmental agency administer the child care fund, and their administration costs are limited to 5 percent of the funds. Many services, however, are defined as nonadministrative, including resource and referral services. Between 1 and 2 percent of mandatory and discretionary child care funds are reserved for American Indian tribes and tribal organizations.

The legislation contains a number of other stipulations. It authorizes a minimum 4-percent set-aside of CCDF funds for "quality" provisions. These provisions include comprehensive consumer education for parents and the public and activities that improve the quality and availability of child care, such as resource and referral services. States are required to provide child care assistance on a sliding fee scales—the lower one's income the greater the level of assistance.

Work requirements under the Welfare Reform Act

Fiscal year	All families: Participation rate	All families: Required hours per week	Two-parent families: Participation rate	Two-parent families: Required hours per week
	Percent		*Percent*	
1997	25	20	75	35
1998	30	20	75	35
1999	35	25	90	35
2000	40	30	90	35
2001	45	30	90	35
2002	50	30	90	35

Source: National Conference of State Legislatures (5).

Under the Welfare Reform Act's TANF program, States were required to place at least 25 percent of adult participants in work activities for a minimum of 20 hours per week in fiscal year 1997. Part of the requirement may be fulfilled by educational enrollment. These work participation rate requirements rise annually, peaking at 50 percent in fiscal year 2002. Required hours of work per week for participants also rise over time to 30 hours in fiscal year 2002. Required work participation rates are much higher for two-parent families; at least one parent is expected to work.

States can exempt single parents with children under age 1 from work requirements and exclude them from rate calculations; they can also reduce required work hours for parents with children under age 6. If a State fails to meet the work participation requirements, it will incur a penalty of up to 5 percent of its TANF block grant. The penalty increases by up to 2 percentage points each year the State fails to meet the requirements, to a maximum of 21 percent.

States should have less difficulty meeting the work participation requirements of the Welfare Reform Act in the early years. Contributing factors are the economy and a State's ability to count recipients' educational activities as work. However, counting recipients' educational activities will be phased out, and more importantly, good economic conditions may not continue. If economic conditions decline, it will be more difficult for States to meet the work participation requirements. One group of experts said, “States could incur financial penalties at a time when they are most in need of resources to pay benefits, create jobs, and provide child care” *(5)*.

The legislation gives States greater flexibility in determining reimbursement rates. It eliminates the requirement under the previous system that States pay for child care costs up to the rates charged by the 75th percentile of child care providers, subject to statewide limits. Also, the requirement that payments take into account differences in the costs of providing child care in different settings and for children of different ages is abolished. As under the previous system, the new law addresses health and safety requirements in child care settings regarding the control of infectious diseases, safety of physical premises, and minimum health and safety training. In addition, changes are made to the Child and Adult Care Food Program (CACFP) (see box, p. 44).

Although the welfare reform legislation contains mandatory work requirements for welfare recipients, it allows States to limit the required hours of work to 20 hours per week for parents with a child younger than age 6. States are prohibited from reducing or terminating assistance to a single custodial parent—of a child younger than age 6—who does not work because child care is unavailable. Although the law allows States to define the unavailability of child care, this unavailability is usually related to distance, suitability and appropriateness, and affordability. States may also exempt mothers of infants younger than age 1 from work requirements.

The Welfare Reform Act contains two other provisions that affect child care funds—although in opposite directions. First, given the strong link between work and child care, the legislation allows States to transfer up to 30 percent of money from their State Family Assistance Grant, which funds the TANF program, to fund child care activities for TANF recipients. This provision could add up to $4.9 billion in funding for child care assistance to the approximately $3 billion provided by CCDF in fiscal year 1997 *(3)*. Second, the Welfare Reform Act reduces funding for the Title XX Social Services Block Grant by 15 percent per year over the 1996-2002 period. This affects child care assistance because part of this block grant may be used to fund such care. In fiscal year 1997, Title XX Social Services Block Grant funding was reduced from about $3 billion to $2.6 billion; the resulting reduction in State child care funding is unknown, although most States have used Title XX money to fund child care *(3)*.

The Welfare Reform Act and the Child and Adult Care Food Program

The Welfare Reform Act changed the Child and Adult Care Food Program (CACFP), which provides nutrition-related reimbursement to care providers, including child care providers serving low-income populations. The new law retains the entitlement status of the CACFP, but it restructures reimbursement rates such that lower rates are paid for children cared for in family homes outside of low-income areas and for non-low-income children cared for in family homes where the provider family income exceeds 185 percent of poverty. Other provisions reduce the inflation adjustment of rates for all family, child care homes and restrict centers' reimbursement to two meals and one supplement. Estimates show that these changes will reduce CACFP funding by $2.3 billion over 6 years *(5)*.

Review of the Welfare Reform Act's Child Care Provisions

The child care provisions of the Welfare Reform Act should result in some savings from consolidating Federal child care funding into one block grant. States are now allowed to streamline child care services under one administrative structure, whereas in the past, different programs had different rules, regulations, and objectives. There may also be better opportunity to coordinate welfare-related child care programs with State preschool and Head Start programs than was the case in the past *(4)*.

The work requirements of the Welfare Reform Act will cause a substantial increase in the demand for child care. Under the TANF program, States must place at least 25 percent of adult participants in work activities for a minimum of 20 hours per week during the 1997 fiscal year. By the year 2002, this participation rate rises to 50 percent. If States fail to meet work participation requirements, they are penalized up to 5 percent of their TANF block grant.

States may set work requirements that take effect even before these Federal mandates. As of 1996, 28 States required people to work immediately or within 6 months of receiving welfare benefits *(6)*. Several other States have passed shorter work requirements that take affect before the Federal mandates.

Although States initially receive greater funding for child care programs under the welfare reform block grant than they received under the previous system, a major concern is whether the Federal funds authorized will be sufficient to cover the child care needs of both low-income families on welfare and those who are not.

An Urban Institute study concluded that the share of children in need of potential child care assistance who could be served with the available funds authorized by the Welfare Reform Act is about the same in 1997 as under the previous system if States maintain their levels of spending. However, this still results in about only one-third of children in need of child care assistance being served. The gap between child care funding and the need for child care assistance by low-income families therefore remains *(3)*.

The Congressional Budget Office (CBO) concluded that child care funds are adequate for States to meet work-related child care requirements for TANF participants. Federal child care support over the long term, however, will not meet the work requirements for TANF participants nor maintain current State spending for child care for people in transition and at risk of going on welfare *(1)*.

Whether the Welfare Reform Act sufficiently funds the child care needs of low-income families primarily depends on two factors—eligibility and economic conditions. A State must first decide who is eligible to participate in the TANF program (at least 70 percent of a State's mandatory and matching child care funds must be used to provide child care assistance to TANF participants and those leaving the program or at risk of going on the program).

As with the previous welfare system, States have broad discretion in setting eligibility standards. If a State sets very strict eligibility standards, fewer people would be deemed needy and fewer would require child care assistance. Given the cap on Federal funds under the Welfare Reform Act, there is a fiscal incentive to set strict eligibility standards. Some critics of the act believe the cap will result in unreasonable eligibility standards compared with those of the previous welfare system. As a result, many poor families will be classified as not poor—and will not be eligible for child care assistance.

Rather than restrict eligibility, States could serve a larger number of families by providing a lower level of child care assistance to each family. This is permitted—the Welfare Reform Act gives States more authority in determining reimbursement rates. This, in turn, would increase the share of child care costs parents would be expected to cover. It could also result in parents purchasing lower quality child care.

Economic conditions will influence the adequacy of child care funding contained in the welfare reform legislation. When economic conditions are good, it is easier to move people off public assistance. Jobs that pay well are more plentiful, and people are better able to pay for child care without assistance. Under these conditions, Federal funding provided by the Welfare Reform Act may be more than adequate. If a recession occurs, States would have greater difficulty moving welfare recipients into the workforce. Well-paying jobs would be more difficult to find, and more families would likely need child care assistance.

The legislation, however, places a cap on the amount of Federal child care funds that a State may access. States do not automatically receive more Federal funding as a result of greater child care use by low-income families. Hence, in economic downturns, States may have to decide whether to serve low-income families on welfare or low-income families not on welfare. Under the previous system, child care assistance was an entitlement (all who qualified were served) for families on or transitioning off welfare. This is not the case under the present law. In economic downturns, Federal funding may not cover the needs of many low-income families. States may have to decide which families will receive child care assistance.

Even if the child care funding of the Welfare Reform Act proved to be adequate, the issues of supply and quality of child care would remain. As States implement welfare reform legislation and move welfare recipients into the labor force, demand for child care will grow. Evidence shows a gap between the demand for and supply of child care. A study by the U.S. General Accounting Office (GAO) found that in each of the four cities and counties reviewed, officials thought the supply of child care for children in certain age groups (especially infants and school-aged children) was inadequate to meet existing demands, particularly those of low-income families. GAO concluded that unless the supply of child care for certain age groups at these locales increases, the gap between supply and anticipated demand for child care is likely to become even greater as welfare reform is implemented *(7)*.

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The quality of child care that will be provided to children of welfare recipients who enter the workforce is also an issue. Recent studies have concluded that the quality of child care is less than optimal. One 1995 multistate study rated the quality of child care as poor to mediocre in 86 percent of the centers surveyed *(8).* A study by the Families and Work Institute of family child care and relative care (care in the home of a provider not related or related to a child) found that only 9 percent of the homes could be rated as good, whereas, 35 percent were inadequate *(2).* Although the study over-sampled in low-income and minority areas, this is where many welfare recipients reside.

State Initiatives in Child Care Under the Welfare Reform Act

The Welfare Reform Act's child care provisions will result in different policies among States. The National Conference of State Legislatures recently reviewed innovative State child care programs associated with the welfare system, many of which were part of earlier welfare reform efforts *(5).* Programs in Illinois, Iowa, and Utah were reviewed.

Illinois

A 1991 study of welfare recipients in Illinois found that one of the major impediments to their finding jobs was the cost of child care and the "income disregard" associated with this cost *(5).* The income disregard is an indirect reimbursement from the State for child care expenses. The State disregards up to $200 in monthly income when calculating cash benefit levels. The disregard amount, however, was thought to be inadequate to cover the cost of child care.

In 1993, the State made significant changes in providing child care to needy families as part of its welfare reform package. The changes include direct payments to child care providers, which replaced the income disregard. In addition, welfare recipients are allowed to keep two-thirds of all income earned until this income reaches approximately three times their cash benefit level. When this amount is reached, the person is no longer eligible for welfare but is still eligible for transitional child care benefits.

Based upon its survey, Illinois also concluded that jobs that welfare recipients found often had irregular hours, such as night or weekend work. Illinois appropriated $18 million for expanded child care coverage to accomodate people with these schedules. Less than a year after these changes, the number of families receiving welfare that had some earned income increased 58 percent. By December 1995, the State's welfare caseload had dropped by one-third *(5).* To expand its child care initiatives, in 1997, the Illinois Legislature appropriated $100 million to provide child care for families with incomes below 50 percent of the State median income.

Iowa

Iowa instituted the Family Investment Plan (FIP) welfare reform program in 1993. Mutually agreed upon and signed by participants, the plan is designed specifically for each family's circumstances, provides for job training, and sets a date for a family to leave the welfare system. To help families do this, the State provides transitional child care for up to 24 months and expanded child care coverage to include those who leave the welfare system voluntarily and those who receive child support. A study found that the number of participants with earnings increased from 18 to 33 percent between 1993 and 1995 *(5)*.

In 1995, Iowa established priorities to target those families most in need of child care assistance. The poorest families on cash assistance who work at least 30 hours per week are the highest priority; other priority groups include young parents in an employment/education/training program, low-income families with a special-needs child, and low-income families working part time. Iowa increased child care funds by $4.8 million (a 62-percent increase) in 1996 to pay for its child care initiatives and will continue the Family Investment Plan. In addition, a program for welfare recipients at risk of long-term dependency is available through the Family Development and Self-Sufficiency Grant Program (FaDSS). These grant programs, which may include support with child care assistance, provide family development and advocacy for participant families.

Utah

At the beginning of the decade, Utah revamped its welfare program. The new emphasis was to find jobs for people receiving welfare instead of just providing cash assistance. To support parents in the transition from welfare to work, the Single Parent Employment Program was introduced as a demonstration project in a few jurisdictions. Under the previous State welfare system, child care reimbursement rates were relatively low. Utah created a new payment method whereby parents were paid up front rather than reimbursed after child care was provided, and higher payments were permitted.

A 1996 evaluation of the demonstration projects found that only 14 percent of families were still receiving cash assistance and not working 2 years later, over half were receiving no public assistance, a quarter were receiving only Medicaid and food stamps, and 10 percent were working while receiving cash assistance *(5)*. Since 1993, the welfare caseload for the State has declined by 44 percent *(5)*. The demonstration projects in Utah became statewide in 1997.

Other State Efforts

The U.S. Department of Health and Human Services encourages partnerships with the business community in its guidelines for State planning for child care. Government money can be used to create a "Working Parent Assistance Trust Fund" in a community or State. In 1996, Florida passed a law establishing a State child care, executive partnership to encourage employer and foundation support for child care. The law creates a $2-million State pool to match funding from the private sector, with the money being used to provide child care subsidies for low-income working parents. After successfully leveraging the $2 million from private businesses, this State pool was doubled in 1997. Also in 1996, a community development corporation was formed in Colorado to provide loans and other financial assistance to child care providers.

In an effort to raise the quality of child care, several States pay a higher child care reimbursement rate to providers who meet certain standards. For example, Wisconsin reimburses untrained child care providers at 50 percent of the market rate and providers who undergo training at 75 percent of the market rate. Ohio and Maine also have higher authorized child care reimbursement rates for providers who meet national child care standards.

Conclusion

Although stated many times, this bears repeating—the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 changed welfare as we know it. Work requirements for welfare recipients are mandated. These requirements make child care even more crucial for the new system to be successful because child care is recognized as a primary obstacle to moving recipients into the workforce. Hence the law contains a child care block grant to States. It is unclear, however, whether the block grant will be sufficient to cover the child care needs of those required to work and low-income families not on welfare. A recent study of five State welfare demonstration projects found that child care demand increased more rapidly than administrators had forecasted *(5)*.

Several State child care initiatives have been associated with increased workforce participation by welfare recipients. Some of this increased participation reflects general economic conditions, that is, a low unemployment rate. Whether the child care initiatives have a greater impact on workforce participation than economic conditions (or vice versa) is unknown. Unfortunately, this issue may only be made clearer if economic conditions decline and the unemployment rate rises. If conditions worsen, it is important that States not establish such strict welfare eligibility standards that many needy people do not qualify. Overly strict standards would only mask poverty problems.

The quality of child care provided to children of welfare recipients when these recipients enter the workforce is also an important issue. Recent research has indicated that child care is in short supply and much of the country's current child care is of less-than-optimal quality *(2,7,8)*. Because poor child care may affect child development adversely, States need to ensure quality child care when moving welfare recipients to work. Failure to do so may have harmful long-term consequences for children and society.

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