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Effects of Welfare Time Limits

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

Upjohn Author(s) ORCID Identifier:
https://orcid.org/0000-0002-3156-0268

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POLICY BRIEF

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Gabrielle Pepin

BRIEF HIGHLIGHTS

- *Several states imposed time limits for welfare receipt in the wake of the Great Recession.*
- *Stricter time limits decreased welfare participation by 22 percent and transfer income by 6 percent.*
- *The time limits tend to decrease earnings in states without generous benefits at baseline.*
- *Separation from work and welfare diminishes families' access to financial resources.*

For additional details, see the working paper at https://research.upjohn.org/up_workingpapers/329/.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) established the Temporary Assistance for Needy Families (TANF) program within the United States, replacing the previous welfare program of Aid to Families with Dependent Children. Perhaps the most controversial aspect of TANF was that it mandated a lifetime limit of 60 months for federal cash assistance. States, however, reserve the right to set stricter time limits or to continue to fund TANF caseloads beyond 60 months using their own funds. During the 2010s, several states imposed TANF time limits for the first time or made existing time limits more stringent. The reforms counted families' existing months on welfare, so families beyond the time limit could lose eligibility and access immediately. As TANF requires most beneficiaries to work (or prepare for work), families losing eligibility may also lose incentives to find employment.

Comparing states that changed time limits to those that did not, I find that stricter time limits decreased annual TANF participation by 22 percent and annual transfer income by 6 percent among single mothers without college degrees, who make up most of the TANF population. Moreover, stricter TANF time limits did not increase employment or earnings among single mothers in states without generous programs at baseline. My findings suggest that TANF work requirements can effectively increase work participation and that removing TANF eligibility may reduce this participation. Consequently, decreased TANF generosity diminishes these families' access to financial resources.

TANF Background

TANF is a means-tested cash transfer program for families with children. Income, assets, and household size determine households' eligibility for monthly cash assistance. States set all policy parameters and administer TANF payments. However, they receive about half of their funding from the federal government if they meet spending requirements and have specified portions of their TANF caseloads engaged in work-related activities, such as employment and job training. States may not allocate federal funding to children or adults in households that have received TANF for 60 months or more. However, as mentioned above, states may continue to fund TANF cases beyond 60 months using their own funds, or they may implement shorter TANF time limits. While a few states allow all beneficiaries to remain on TANF indefinitely, states more often grant certain groups of individuals exemptions from or extensions to their time-limit policies. For instance, many states extend time limits for victims of domestic violence and individuals who are ill or incapacitated.

Arizona, Kansas, Maine, and Michigan—henceforth, "the analysis states"—changed their lifetime TANF time limits between 2010 and 2016. Arizona shortened its time limit from 60 to 12 months gradually between July 2010 and July 2016. Similarly, Kansas, which originally had a 60-month time limit, phased in a 24-month time limit between November 2011 and July 2016. Maine, which previously had no time limit, implemented a 60-month time limit in January 2012. Michigan implemented a 60-month time limit for the first time in 2011. In all these cases, the new time-limit policies were announced within a year of their implementation. Individuals who had already reached the states'

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new time limits were then notified. All individuals in households that had reached their time limits, including children, were removed from TANF shortly after the time limits were implemented.

Anecdotal evidence suggests that the analysis states implemented stricter TANF time-limit policies in response to economic difficulties, which became particularly acute in the absence of federal supports after the Great Recession. Specifically, during Fiscal Years 2009 and 2010, states could receive additional federal TANF funds through the American Recovery and Reinvestment Act of 2009 (ARRA), which allocated $5 billion toward emergency TANF spending. But when ARRA appropriations ended in 2011, some state governments found themselves struggling to fund TANF caseloads. In particular, the analysis states were experiencing budget shortfalls as they changed their time-limit policies (Oliff, Mai, and Palacios 2012). For example, the Arizona Department of Economic Security's budget was cut by over 31 percent between the beginning of Fiscal Year 2009 and the end of Fiscal Year 2010 (Brewer and Young 2013), and Michigan forecast nearly $75 million in cost savings because of time-limit case closures during Fiscal Year 2012 (Carley 2011). In light of these budget problems and the high unemployment rates in the wake of the Great Recession, state financial issues, rather than lack of need for safety-net benefits, seem to have driven states to change their TANF time limits.

Time limits are not the only margin along which states can influence TANF program design. Each state sets its own income eligibility requirements, benefit levels, and work requirements for recipients. For example, many states require recipients without very young children to engage in work-related activities, such as employment and job training, for at least 30 hours a week. TANF generosity varies considerably across the analysis states. As of 2009, three-person families with up to $1,023 in monthly income could be eligible for TANF benefits in Maine, but only those with less than $600 in monthly income could be eligible for benefits in Arizona and Kansas. Maximum monthly benefits for three-person families were $278 in Arizona, $429 in Kansas, $485 in Maine, and $492 in Michigan. In addition, Maine, Kansas, and Michigan exempted parents of children 12, 6, and 3 months or younger, respectively, from work requirements, while Arizona did not exempt any parents from work requirements on the basis of the age of their children.

Effects on TANF Participation

I use state-level administrative data from the U.S. Department of Health and Human Services (HHS) and household-level survey data from the American Community Survey to analyze trends in TANF participation from 2007 through 2016. The administrative data document the number of adult TANF recipients for each state by month, and the survey data document individuals' demographics and economic outcomes, including TANF benefits within the past year. I compare how TANF participation varies over time between the analysis states and the rest of the country through two approaches: 1) synthetic control and 2) difference-in-differences. Both approaches attempt to make the comparison states similar to the analysis states during the period before the policy change—tighter time limits—takes effect, in order to control for other factors that could affect the outcomes.

Figure 1 shows the estimated effect of stricter time-limit policies on monthly adult TANF receipt, using the HHS data for Arizona, Kansas, and Michigan. (I do not display results from Maine because of issues with its HHS data. See the working paper for more details.) In the top left panel of Figure 1, the solid line shows, by month, the number of adult TANF recipients per 100 adult residents of Arizona, which hovered around 0.4 before Arizona shortened its time limit beginning in 2010. After the policy change, the ratio decreases to less than 0.3, and it continues to decrease to less than 0.1 by 2016. The dashed line, constructed using data from the comparison states, approximates TANF participation in Arizona had the state *not* shortened its time limit. Although the solid

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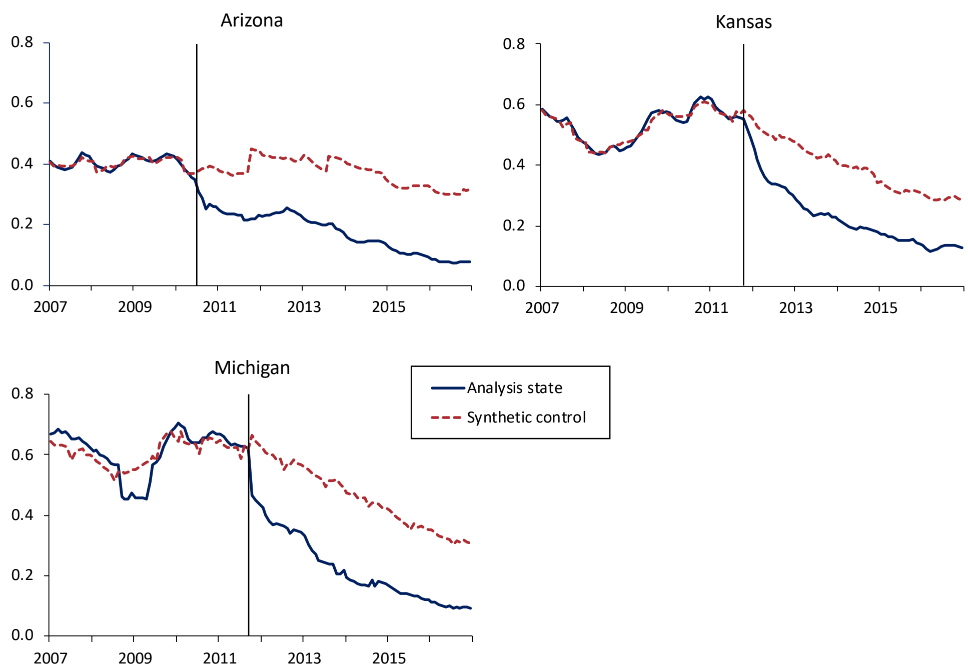
Figure 1 Tighter Time Limits on TANF Eligibility Reduce Caseloads in Arizona, Kansas, and Michigan



NOTE: Graphs show the number of TANF recipients per 100 adults by month in analysis states and their synthetic control groups.
SOURCE: Author's estimates using data from the U.S. Department of Health and Human Services, Office of Family Assistance.

and dashed lines agree quite closely before 2010, they diverge immediately after Arizona changes its time limit, and by 2016 the gap implies a 48 percent decrease in Arizona's TANF participation from what it would have been with no change in time limits.

The top right and bottom left panels of Figure 1 show the estimated effects of stricter time-limit policies in Kansas and Michigan, respectively. Similar to the 48 percent decrease in Arizona, monthly TANF participation decreases by 30 percent in Kansas and 39 percent in Michigan.

To isolate the population affected by TANF policies, I use the survey data to limit the sample to single mothers without college degrees, who make up most of the TANF population. I find that stricter time limits decrease annual TANF participation within this group by 22 percent.

Effects on Access to Financial Resources

Given the dramatic decreases in TANF participation brought on by stricter time limits, I also investigate the impact on financial resources through the effects on work, income, and participation in other safety-net programs among single mothers without college degrees. I find that stricter time-limit policies decrease annual TANF benefits by 30 percent. Consistent with the eligibility link between TANF and SNAP (food stamps), participation in the latter program also decreases—in this case by 6 percent. The effects on work vary across the analysis states: employment increases by 2.7 percentage points in Maine, but stricter time limits have virtually no effect on employment in Arizona and Kansas, and they decrease employment by 3.1 percentage points in Michigan.

These different employment effects could result from a few factors. First, macroeconomic conditions may affect the ability of TANF recipients to work more as

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TANF generosity decreases. For example, Michigan experienced particularly widespread unemployment during the Great Recession. It is plausible that TANF-vulnerable women in Michigan *tried* to work more after the TANF time limit took effect, but that they were unable to secure jobs. Second, preexisting differences in TANF policies may interact with caseload demographics in determining employment effects. For instance, as of 2009, Maine's TANF program had no time limit, a high maximum income threshold for eligibility, a relatively generous maximum benefit, and the most generous work exemptions of the four analysis states for parents of very young children. This suggests that TANF-vulnerable mothers in Maine likely had stronger underlying labor market potential than their counterparts in the other analysis states. When we jointly consider the impacts on work, taxes, and SNAP benefits, however, it appears that stricter time limits tend to decrease overall income for affected households.

Policy Implications

To the extent that work, income, and program participation proxy for access to financial resources, my results imply that policymakers should consider macroeconomic conditions and caseload demographics before altering TANF policies such as time limits. While stricter time limits may lead to substantial government cost savings through decreased TANF (and SNAP) participation, such changes may also substantially reduce the living standards of low-income families. In states without generous TANF programs, welfare recipients often have poor work prospects to begin with, especially during times of widespread unemployment. Removing such individuals from TANF likely inhibits their access to financial resources and decreases their overall well-being.

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Gabrielle Pepin is a postdoctoral researcher at the Upjohn Institute.