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Understanding the Temporary Assistance for Needy Families' Reach Across the U.S

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INTRODUCTION

As of 2019, approximately 15 million children in the United States reside in households that have incomes below the federal poverty level (NCCP, 2019). This means that 1 in every 6 children in the United States is experiencing poverty (Children's Defense Fund, 2019).

Psychological research demonstrates poverty has a wide range of negative effects on a child's well-being and life (APA, 2020). Experiencing poverty can lead to "toxic stress," which will have lifelong impacts on physical health and linguistic, cognitive, and socio-emotional skills, as stated by the American Academy of Pediatrics (American Academy of Pediatrics, 2016). Consequently, children in poverty will face challenges in all aspects of their lives, including at home, in school, and their communities (APA, 2020).

Economists estimate child poverty costs roughly \$1.0298 trillion a year, representing 5.4% of the gross domestic product. This is because child poverty reduces economic productivity, increase health and crime costs, and requires additional costs related to child homelessness and maltreatment (McLaughlin, and Rank, 2018).

One way the federal government attempts to alleviate child poverty and the associated trauma and expenses is through welfare. Cash assistance helps families make ends meet and maintain stability, reducing poverty and its effects. The Temporary Assistance for Needy Families program (TANF) is one source of welfare in the United States. In 2018, TANF assisted roughly 1.7 million children a month, on average (ACF, 2019). According to the Center on Budget and Policy Priorities, the state in which a child lives matters, as TANF's reach varies considerably across the U.S. As an illustration of the extent of such disparities, one state reached

4 families for every 100 families with children in poverty, while another state assisted 66 families for every 100 families with children in poverty (Floyd, 2020).

Child poverty is a problem found throughout America, and its effects are severe regardless of where a child lives. It is crucial that all families with children in need have access to assistance. Furthermore, what state a child lives in should not affect their chances of getting the help they need. The purpose of this thesis is to understand why some states reach more needy families than other states and to suggest policy recommendations to help TANF's reach be more consistent across states.

LITERATURE REVIEW

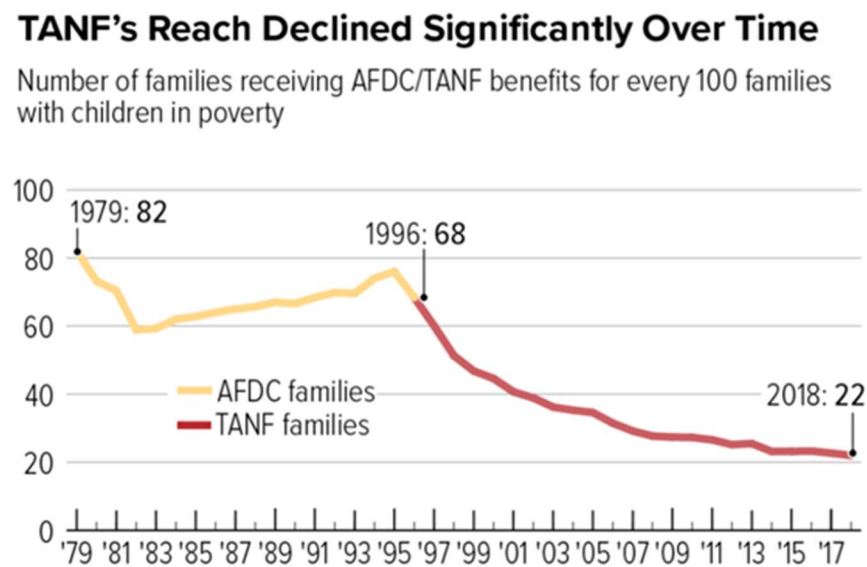
Overview of TANF

TANF, primarily known as welfare, is a United States federal assistance program. The program helps families with children living in poverty make ends meet (OFA, 2019). TANF was enacted in 1996 by the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA). PRWORA became law to “end welfare as we know it.” The act replaced the Aid to Families with Dependent Children program (AFDC) with TANF in an attempt to reduce the number of welfare recipients by redirecting them into the workforce (ASPE, 2016).

TANF imposed new work requirements on recipients and time limitations on receiving benefits that AFDC did not have. In addition, the successor program changed into a block grant structure, allowing states to run the program with the help of federal grants. With this new financing structure came the option of allocating a portion of the funds on noncash assistance, such as support services (ASPE, 2016).

As a result of the welfare reform, the programs reach declined significantly over the last few decades. AFDC once reached 68 families for every 100 families with children in poverty, whereas, TANF now only reaches 22 families for every 100 families with children in poverty. The graph below demonstrates the decline in TANFs cash assistance reach (Floyd, 2020).

FIGURE 1



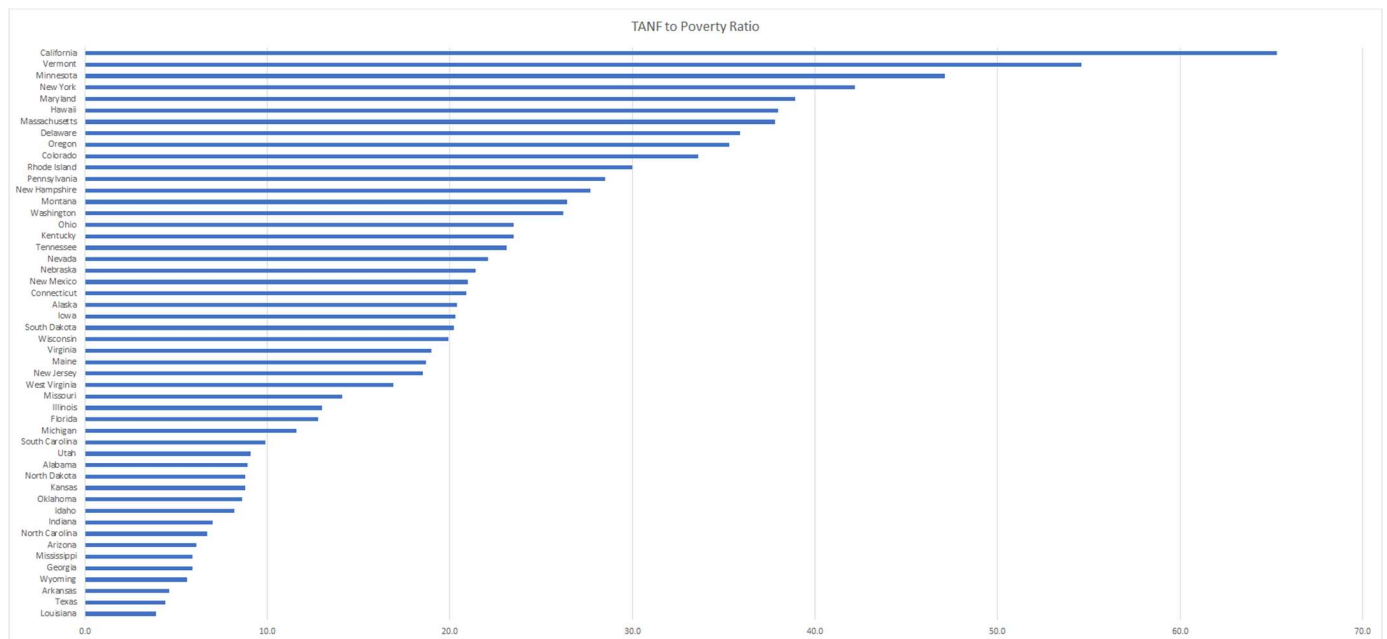
Source: CBPP analysis of poverty data from the Census' Current Population Survey and AFDC/TANF caseload data from the Department of Health and Human Services caseload data collected by CBPP from state agencies. <https://www.cbpp.org/tanfs-reach-declined-significantly-over-time-1>

Despite the overall decline, some states still reach a good portion of those who need assistance, such as California who reaches 66 families for every 100 families with children in poverty. On the other hand, some states reach a significantly low portion of those who need help, such as Texas who only reaches 4 families for every 100 families with children in poverty (Floyd, 2020).

To examine the number of needy families that have access to TANF benefits in each state, the Center on Budget and Policy Priorities uses the TANF-to-poverty ratio (TPR). The

CBPP calculates the ratio by dividing the amount of TANF cash assistance recipients by the number of families with children in poverty. The graph below reveals the TPRs for every state for 2018 (Floyd, 2020).

FIGURE 2



Source: <https://www.cbpp.org/tanfs-reach-declined-significantly-over-time-1>

State TANF Policies

The federal government provides grants to states so they can administer the TANF program (Benefits, 2019). This allows states to determine the policies, such as who will receive benefits, how much they will get, and under what conditions (Weaver, and Gais, 2016). As a result, some residents may find it easier to apply, qualify, and maintain eligibility for TANF benefits.

The Welfare Rules Databook (WRD) discusses TANF policies at length and demonstrates how they vary considerably across the U.S (Goehring, Benjamin, Minton,

Giannarelli, 2018). According to the WRD, there are over 32 categories of tests for initial eligibility amongst the states (Goehring et al, 2018). The WRD summarizes these tests into five sections.

The first section discusses the policy of whether a state tries to divert applicants. Some states choose to offer formal diversion programs that attempt to redirect individuals from receiving monthly benefits by offering a lump-sum cash payment option. Furthermore, some of those states require individuals to enroll in diversion programs before applying for TANF benefits (Goehring, et al, 2018).

The second section discusses policies relating to family composition. For example, the federal government requires families to have a dependent but allows the state to determine who qualifies as a child (Falk, 2017). Some states allow pregnant women with no children to qualify, whereas, other states require the child to be born before applying for TANF benefits. In addition, some states allow TANF for children living with caretakers that are not relatives, whereas others do not. Furthermore, states vary in whether they allow TANF to families with two non-disabled parents (Goehring, et al, 2018).

Another initial eligibility policy WRD mentions is the asset limit test. This policy allows states to determine the maximum amount of assets a family can have and still qualify. In addition, states can choose whether families can exclude some or all the value of a vehicle they own when calculating total asset value. State's asset limits vary considerably, ranging from \$1,000 to \$10,000 (Goehring, et al, 2018).

The next area WRD discusses is how income is calculated for eligibility purposes. States have discretion in determining what income counts, and whose income counts from the family.

In general, most states count both earned and unearned income for those considered part of the family unit. States also have the option of including income from members not of the household, such as nonparent caretakers and immigrant parents (Goehring, et al, 2018).

WRD also highlights the income eligibility tests used by most states. There are different methods used to calculate income including a gross income test, a gross earnings test, an unearned income test, and a net income test. Each state can choose either one of the previous tests or a combination of them to determine eligibility based on income. The maximum monthly earning a family can earn varies considerably across states. For example, families of three can earn up to \$286 in Alabama, whereas, Minnesota allows a family to earn up to \$2,227 and still be eligible (Goehring, et al, 2018).

Once a family qualifies for TANF, states have the freedom to determine the level of benefits they will receive. Each state predetermines a maximum monthly benefit a family can earn, depending on the size of the family. The average maximum monthly benefit a family of three can receive a month is \$462. The state with the highest maximum is New Hampshire, allowing a family of three to receive \$1,039 a month. On the other hand, Mississippi only allows a family of three to receive up to \$170 a month (Goehring, et al, 2018).

Finally, once a family begins to receive TANF benefits, there are additional requirements to remain eligible for assistance. Similar to initial eligibility policies, each state determines the combination of tests used to determine if the family remains eligible. To provide an example some states set school requirements for the qualifying children. The majority of states require qualifying children to be enrolled in school full time unless of course, they are not old enough to be enrolled. Furthermore, some states require parents to keep up with children's immunization records, otherwise, they may jeopardize their benefits (Goehring, et al, 2018).

States & Welfare

Welfare reform gave states more flexibility on how they can spend federal grants (Kruglaya, 2018). Prior to the reform, they were required to provide needy families with cash assistance. Now, however, they are not required to give just cash assistance, as they can also spend some of the money on support programs, such as child-care (OFA, 2019). Understanding how a state views welfare may provide insight on how they allocate TANF funds.

One way to discern a state's view on welfare is its overall political affiliation. One of the major differences between a Democrat and Republican is their views on social programs. Democrats typically believe it is the government's job to assist the vulnerable members in society, whereas Republicans believe the government should focus on things like security and defense (Guidoni, 2019). According to an article on economic demographics of democrats, "There is a 35-point difference between Democrats and Republicans, with Democrats far more likely to support government assistance programs" (Fay, 2020, p.5). Therefore, democratic states are more likely to favor welfare than republican states.

States' views on welfare may also be reflected in whether they offer other forms of cash assistance. Another way the federal government provides cash assistance is through refundable tax credits. Tax credits reduce the total amount of federal income taxes an individual owes. Unlike deductions, tax credits are dollar-for-dollar reductions of an individual's tax liability and are not dependent on one's effective tax rate (Backman, 2018). A refundable tax credit means that if you do not owe any tax, you can receive the credit amount in the form of a refund.

States may also offer their own version of refundable credits in addition to the federal government's portion (State Tax Credits, 2016). The Earned Income Tax Credit (EITC) and the

Child Dependent Care Tax Credit (CDCTC) are both refundable credits states have the option of offering. States that offer their own versions of one or both refundable credits may be more likely to favor welfare.

On the other hand, some may argue states offer their own version of the EITC and CDCTC to reduce the number of families who need assistance. This is because the credits are work incentivizing, meaning the more a person works, the more they will receive up to a predetermined amount. While tax credits may incentivize work and therefore reduce the need for welfare, it should be pointed out that families may receive both. Tax credits are excluded from countable income for TANF eligibility purposes (Department of Public Health and Human Services, 2018). Therefore, providing a refundable portion of the EITC and CDCTC does not necessarily reduce the number of welfare recipients.

Overall, states' attitudes toward welfare and some barriers that are put up cannot be directly measured. States that demonstrate a willingness to help low income families in other ways may be those that reduce these difficult to measure barriers. Examining different factors such as a state's party affiliation and views on tax credits may shed light into states' views on welfare.

METHODOLOGY

Description of Data

There are nine variables in this model, one dependent variable and eight independent variables. This model consists of fifty observations taken from 2018 state-level data. The dependent variable is the TANF-to-poverty ratio (TPR) by state. This ratio reveals what percentage of poor children that are receiving TANF benefits per state. It is calculated by

dividing the amount of TANF cash assistance families by the number of families with children in poverty. This dependent variable was used, as the goal of this project is to identify factors that impact TANF's reach to needy families by state.

Most of the independent variables are qualitative factors, therefore, several dummy variables are used. Dummy variables are set equal to 0 or 1, representing the absence or presence of a qualitative variable.

One of the dummy variables used is an Earned Income Tax Credit (EITC) variable. If a state offered a refundable tax credit to complement the federal EITC credit, the state would receive a 1. On the other hand, if the state only offered the federal EITC credit and no state version of the credit, the state would receive a 0. I predict the EITC dummy to have a positive effect on the TPR because it suggests the state favors progressive policies. Therefore, I expect the TPR to increase if a state has an EITC refundable credit, causing a positive effect.

The Child Dependent Care Tax Credit (CDCTC) variable is similar to the EITC dummy. The state received a 1 if it offered a refundable tax credit to complement the federal CDCTC credit. On the other hand, if the state only offered the federal CDCTC credit and no state version of the credit, the state would receive a 0. I predict the CDCTC dummy to have a positive effect on the TPR because states that attempt to help working families through this manner may be more liberal with other policies as well. Therefore, I expect the TPR to increase if a state has a CDCTC refundable credit, causing a positive effect.

A value of 1 for the diversion program variable indicates the state offers a program(s) to redirect applicants applying for TANF. A 0 means the state does not have an alternative program to divert the applicant to. I predict a negative coefficient on the diversion program variable

because it makes it harder for people to qualify for benefits. Therefore, I expect TPR to decrease, as states implement diversion programs, causing a negative effect.

The political affiliation variable identifies whether a state's majority party enrollment is Democrat. States that had the majority party enrollment as democratic were given a 1, whereas, all other states were given a 0. I predict a positive coefficient on the political affiliation variables because it suggests the state favors welfare. Therefore, I expect TPR to increase, if a state votes majority democratic, causing a positive effect.

The school requirement variable means a state requires a qualifying child to be enrolled in school full-time. States that do not have this requirement were given a 1, whereas, states that required children to be enrolled full-time received a 0. I predict a positive coefficient on this school requirement because not having it makes it easier to maintain eligibility. Therefore, I expect TPR to increase if a state does not require a qualifying child to be enrolled in school full-time, causing a positive effect.

The immunization requirement variable means that a parent must keep up with the qualifying child's immunization records to maintain eligibility. States that do not have this requirement were given a 1, whereas, states that required children to keep up with immunization records received a 0. I predict a positive coefficient on this school requirement because not having it makes it easier to maintain eligibility. Therefore, I expect TPR to increase if a state does not require a qualifying child to keep up with immunization records, causing a positive effect. Not only do variables such as school and immunization requirements directly measure obstacles, they indirectly measure attitudes as well.

In addition to the multiple dummy variables, there were two quantitative independent variables in this model. One is the maximum eligibility limits variable. This variable reveals the most amount of money a family of 3 can earn in each state before being ineligible for TANF benefits. I predict a positive effect because more people will qualify with higher limits. Therefore, I expect as the maximum eligibility limits increase, so will the TPR, causing a positive effect.

The last variable used in this model is the maximum monthly benefit. This variable displays the highest potential benefit a family of three can earn, based on where they live. I predict a positive coefficient because more people will choose welfare if it pays more. Furthermore, higher benefits may suggest less strict policies, meaning that this variable could also be picking up on states' attitudes on welfare. Therefore, I expect as the maximum monthly benefit increases, so will the TPR, causing a positive effect.

Table 1: Summary Statistics

<i>Number of Observations= 50</i>					
	Mean	Median	St. Dev.	Minimum	Maximum
TANF to Poverty Ratio	20.8	20.1	13.74	3.9	65.3
Max Eligibility Limits (dollars)*	880.8	839.5	435.61	0.0	2227.0
Max Monthly Benefit (dollars)*	469.1	452.0	191.12	170.0	1039.0
Dummy Variables %= 1					
Dummy=1 if the state offers a refundable Earned Income Tax Credit					40%
Dummy=1 if the state offers a refundable Child and Dependent Care Tax Credit					50%
Dummy=1 if the state offers a Diversion Program					40%
Dummy=1 if the state is considered a Democratic state					60%
Dummy=1 if the state does not require children to be enrolled in school full-time					30%
Dummy=1 if the state has no immunization requirements for children					50%

*For a family of three

Table 1 exhibits the summary statics for this model's variables. This data shows that California's TPR, 65.3, is 16.5 times greater than Louisiana's TPR, which is only 4. On average,

states have a TPR of 20.1. This data also reveals that Wisconsin's income limits are extremely low, \$0, compared to Minnesota who allows families of three to have \$2,227. On average, states allow families of three to earn \$880.80.

In addition, half of the states offer a refundable CDCTC, while only 40% of states offer their own portion of EITC. A majority of states require qualifying children to be enrolled in school full-time, while only half require them to keep up with their immunization records.

There was one high outlier in the data, California's TPR which was more than three standard deviations from the mean. To fix this problem an outlier dummy variable was created and reran the regression. This data did not have any missing variables.

To test for Multicollinearity, I ran a correlation test on STATA with all the independent variables. As Figure 1 exhibits, none of the independent variables were highly correlated with each other.

Figure 1: Testing for Multicollinearity

```
2 . corr outlierdummy1 eitcdummy cdctcdummy maxeligiblylimitsfamof3 maxmonthlybenefitfam3 diversionp3
   (obs=50)
```

	outlier-1	eitcdum-y	cdctcd-y	maxeli-3	maxmon-3	divers-m	bluest-s	school-s	immuni-s
outlierdum-1	1.0000								
eitcdummy	0.1750	1.0000							
cdctcdummy	0.1548	0.3113	1.0000						
maxeligibl-3	0.1978	-0.1057	0.1525	1.0000					
maxmonthly-3	0.1830	0.2621	0.0972	0.3766	1.0000				
diversionp-m	-0.1118	0.0336	0.1042	0.1066	0.0510	1.0000			
bluestates	0.1216	0.3639	0.1350	0.2065	0.5161	-0.0852	1.0000		
schoolrequ-s	-0.0891	0.1273	0.1394	0.2579	0.1510	0.2459	0.2599	1.0000	
immunizati-s	-0.1429	0.2449	0.0401	0.2039	0.4063	0.1236	0.1216	0.5345	1.0000

I ran a modified White's test and Breusch-Pagan test to determine if the model had any heteroskedasticity. The results displayed in Figures 2 and 3 show p-values greater than 10 percent, allowing the conclusion heteroskedasticity is not present in the model.

Figure 2: Testing for Heteroskedasticity

```
Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
Variables: eitcdummy cdctcdummy maxeligiblylimitsfamof3 maxmonthlybenefitfam3 diversionpr

F(7 , 42)      =      1.05
Prob > F       =      0.4144

. estat imtest, white

White's test for Ho: homoskedasticity
against Ha: unrestricted heteroskedasticity

chi2(39)       =      45.94
Prob > chi2    =      0.2065

Cameron & Trivedi's decomposition of IM-test
```

Source	chi2	df	p
Heteroskedasticity	45.94	39	0.2065
Skewness	9.02	9	0.4350
Kurtosis	0.52	1	0.4694
Total	55.49	49	0.2433

Results

The model had an adjusted R^2 of 65.5 percent, meaning 65.5 percent of the variation in TANF-to-poverty ratio is explained by the variation of the independent variables. The overall significance of the model is significant because the significance F was equal to 0.0000000146, which means at least one variable is significantly affecting the TANF-to-poverty ratio.

Table 2: Ordinary Least Squared Estimates

Dependent Variable: TANF-to-poverty Ratio		
<i>Independent Variable</i>	Coefficient	P-value
Intercept	-1.330	0.711
Max Eligibility Limit	0.004	0.198
Max Monthly Benefit	0.024 ^a	0.008
EITC	0.507	0.863
CDCTC	6.569 ^b	0.013
Diversion Program	-5.558 ^b	0.035
Majority Democrat	6.184 ^c	0.056
No School Requirement	6.143 ^c	0.082
No Immunization requirement	0.296	0.929

a. Significant at 1%

b. Significant at 5%

c. Significant at 10%

Table 2 reveals one variable is statistically significant at a confidence level of 1%, and two variables are statically significant 5% and two at 10%. There are three statistically insignificant variables in this model.

The variable on maximum monthly benefits is statistically significant at 1 percent. There was a positive coefficient for maximum monthly benefit concurrent to my prediction. Therefore, as the maximum monthly benefit increases by \$1, the predicted TANF-to-poverty ratio increases by 0.024 families per 100, holding all other independent variables constant. For example, New Hampshire with a maximum monthly benefit of \$1,039 would be predicted to help 28 more families, per 100, than Mississippi with a maximum monthly benefit of \$170.

The CDCTC variable is statistically significant at 5%. A positive coefficient on the CDCTC variable was predicted and this turned out to be the case. Despite the positive association, CDCTC is still a work incentivizing credit. As the dependent variable is the percentage of the poor receiving TANF, this variable may also be measuring the attitudes of the states. Therefore, if a state offers a refundable portion of the CDCTC, the predicted TANF-to-poverty ratio increases by 6.569 families per 100, holding all other independent variables constant.

The diversion program is statistically significant at 5 percent. This variable had a negative coefficient as predicted. This means if the state offers a diversion program, the predicted TANF-to-poverty ratio decreases by 5.558 families per 100, holding all other independent variables constant.

The party affiliation variable is statistically significant at 10%. This variable has a positive effect as predicted. If a state identifies as a democratic state, the predicted TANF-to-

poverty ratio increases by 6.184 families per 100, holding all other independent variables constant.

Another variable statistically significant at 10 percent is the school requirement variable. This variable has a positive coefficient as predicted. If the state does not require children to be enrolled in school full-time, the predicted TANF-to-poverty ratio increases by 6.143 families per 100, holding all other independent variables constant.

There were three variables that were not statistically significant. The first variable that was not statistically significant was the maximum eligibility limit variable. The next variable that was not statistically significant was the EITC dummy variable. Finally, the immunization requirement variable was not statistically significant.

POLICY RECOMMENDATIONS

Increasing Monthly Benefit

Numerous studies indicate that income matters for a child. Financial stability will help a child grow up healthy and provide opportunities to thrive (Center on Budget and Policy Priorities, 2019). Yet, 1 in 5 children live in households below the poverty line. Furthermore, even those receiving TANF benefits are struggling. TANF benefits in every state leave families at or below the 60 percent poverty level (Center on Budget and Policy Priorities, 2019).

According to the results of this study, as the maximum monthly benefit increase, so does the TANF-to-poverty ratio. Therefore, states should increase their maximum monthly benefit levels in order to help more needy families. This is because more people would be willing to go through the welfare process if they believed it was worth it. As of right now, the benefits are not enough to help families make ends meet. A paper states “TANF families often find themselves in

poor housing conditions with few resources to pay for even a modest apartment” (Center on Budget and Policy Priorities, 2019, p.11).

Diversion Programs

According to the results in this paper, formal diversion programs are negatively associated with state’s TANF-to-poverty ratios. This begs the question are diversion programs a good alternative to TANF that helps achieve the overall goal of assisting needy families? If so, should more states implement formal diversion programs as an attempt to reach more needy families? Examining relevant literature will help evaluate whether implementing diversion programs will be a useful policy recommendation.

Diversion programs were created during PRWORA as a strategy to reduce an ongoing need for welfare. PRWORA did not set any guidelines regarding diversion programs, resulting in TANF applicants getting diverted at various times of the process and in different ways (ASPE, 2016). Some applicants are diverted to support services, others get resource referrals, and some get help finding a job (Congressional Research Service, 2001). The numerous forms of diversion programs and the lack of guidelines surrounding them makes it difficult to measure how many applicants are diverted. Moreover, there are no requirement to report and/or measure how many applicants are diverted, resulting in very few studies regarding diversion programs.

This paper focused solely on formal diversion programs, which provide families with lump sum cash payments (Goehring, et al, 2018). All the studies discussed will be based off formal diversion programs only.

One study reveals that a small number of diverted applicants apply for TANF shortly after receiving diversion assistance. According to the report, “only about 20% of diversion program participants enrolled in the TANF program within 12 to 18 months of receiving

diversion assistance” (Congressional Research Service, 2001, p.13). This may suggest that diversion programs successfully help those in need, as they are not going right back for more help.

On the other hand, another study found that around 500,000 to 1,000,000 people were diverted from TANF, missing out on cash assistance and important services they were eligible for (Zedlewski, 2002). Furthermore, another article stated that “diverting from TANF, relative to enrolling in and leaving the program, is associated with lower rates of employment and higher rates of Food Stamp program participation” (London, 2003, p.5). This may suggest that perhaps this short-term assistance is not enough for families.

Another article discusses that diversion programs may lead to families accepting lumpsum payments rather than TANF due to not fully weighting the consequences of the decision. Afterall, enrolling in diversion programs are optionally to families and they do not have to accept if they choose not to. Being persuaded into accepting a diversion payment, rather than thinking it through, may cause the family to need even more assistance in the long-term (London, 2003).

All-in-all, there is limited work regarding the effect diversion programs have on needy families. One study suggests that few return for help shortly after receiving diversion assistance, while other studies suggest it may only cause need for long-term help. Overall, due to the lack of studies and data on TANF diversion programs, it would best that it becomes mandatory to report everyone being diverted. In addition, there be stricter guidelines regarded diversion programs. This would allow more studies which can help determine if diversion programs are a good alternative and more states should implement them, or if they are a bad alternative and states should reconsider implementing them.

Reducing Poverty

The last recommendation is to continue funding programs that reduce poverty. This would be beneficial as the number of needy families would decrease. One way to do this is by increasing the funding for the federal EITC. According to Marr (2017), the EITC lifted 9.4 million people out of poverty in 2013, including 5 million children. Additionally, the EITC credit helped 22 million other people become less poor (Marr, Huang, Sherman, & Debot, 2017). This would help increase state's TPR because the number of poor families would decrease.

CONCLUSION

Overall, all families in need should be able to get access to assistance, regardless of where they live. According to this study, states that offer their own refundable CDCTC, have higher maximum monthly benefits, majority enrolls as Democratic, and do not have immunization requirements, have higher TANF-to-poverty ratios. Furthermore, states that offer diversion programs have lower TANF-to-poverty ratios. To make TANF's reach more consistent, states should increase their maximum monthly benefit. There should also be regulations regarding diversion programs to help determine if they are good or bad for needy families. Lastly, the federal government should continue to support programs like the EITC to help reduce poverty.

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