

Making Change with Incremental Steps: Modifying Adverse Incentives to Serving People with Disabilities in the TANF Program

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1. Introduction

The federally funded Supplemental Security Program (SSI) is the main program aimed at low-income people with disabilities, providing cash assistance with no time limit. A major criticism of the program, however, is that it includes work disincentives that trap its recipients in poverty. To the extent that low-income people with disabilities can find alternative programs without such disincentives, they can escape this trap. One such possibility for parents with disabilities is the Temporary Assistance to Needy Families (TANF) program.

TANF is designed specifically to try to avoid work disincentives that create a barrier to exiting poverty. It provides temporary financial assistance, employment supports and related services to help low-income parents transition from welfare to work and self-sufficiency. Although the program is not specifically targeted to people with disabilities, estimates suggest that between 19 and 44 percent of TANF families include a parent with a disability.

Used appropriately, the TANF program could possibly provide an early intervention mechanism to provide a plethora of needed services to recipients with disabilities before they sever ties with the labor force and slow the transition to long-term income support via SSI. This paper explores the viability of TANF, as it is currently structured, to serve this role for parents, keeping in mind that for those whom TANF proves unsuccessful, SSI still remains available as a final safety net.

This paper reviews the structure of the TANF program, the rules that limit its effectiveness and recommendations to mediate these adverse incentives. This is a particularly opportune time to modify the federal TANF rules to encourage states to provide more effective support for people with disabilities and minimize their reliance on SSI for three reasons.

- The number of SSI recipients who have qualified on the basis of a disability has more than doubled since 1990, putting financial stress on the program, and evidence suggests that elements of TANF directly affect SSI participation among women and children (Schmidt 2013).
- HHS has indicated its willingness to provide waivers that will allow states to experiment with TANF work requirements.
- In order to comply with The Americans with Disabilities Act (ADA) and Section 504 of the Rehabilitation Act of 1973, state TANF programs must ensure that individuals with disabilities have access to assistance and appropriate employment-related services, and that individuals who need accommodations with respect to the work participation requirements must be given those accommodations.

Section 2 provides an overview of the TANF program and the particular federally defined features that create adverse incentives for the states to provide high quality services for people with disabilities. Section 3 discusses the implications of those adverse incentives. Unfortunately, as is explained in more detail below, state TANF programs face incentives that hinder their provision of needed services and encourage states to shift people that meet SSI eligibility requirements onto the federally funded SSI program as quickly as possible. Section 4 thus provides recommendations to revise the program so it works more effectively to help all low income parents, including those with disabilities, achieve self-sufficiency.

2. Overview of the TANF program

Congress established the TANF program in 1996 under the Personal Responsibility and Work Opportunity Act (PRWORA) to replace the federally-funded Aid to Families with Dependent Children (AFDC). While AFDC was an entitlement program that states administered under federal guidelines with federal matching funds, the TANF program is administered by the states and funded by federal block grants and state funds. The sizes of these grants are not adjusted for need or change in caseload.

States have a great deal of flexibility in designing their programs, within basic federal guidelines about work requirements and time limits. States determine eligibility criteria, benefit levels, required activities (e.g. work exemptions, school attendance policies), sanctions, time limits and other administrative issues. They also determine the type of services and supports they will offer and develop networks of providers to deliver those services.

In addition to cash assistance, states may use TANF dollars to provide non-cash services that aid recipients in the transition from welfare to work, such as child-care and transportation. States may also use the grants to provide child-welfare services and to supplement funding the state's social service block grant (US Department of Health and Human Services, Administration on Children and Families, 2012).

Four features of the TANF program create adverse incentives for states to shift parents with disabilities to the SSI program instead of providing them with high quality and appropriate services:

- **The block grant approach to financing:** The fixed level of the block grant, regardless of changing levels of enrollment or need, means that any additional expenditure in the program is funded entirely by the state rather than shared with the federal government. Thus, any increase in services necessarily means a decrease in recipients, or spending per recipient, unless the state adds additional funds from its own budget. States can therefore assure benefits for more people if they shift people with disabilities to SSI.

- **Low levels of cash assistance in many states:** The size of TANF cash benefit varies widely among states, from \$170-\$970 per month for a family of three. This means that often it is below the average monthly SSI benefit of \$544 per month and the maximum possible SSI monthly payment of \$721. This means that shifting people to SSI from TANF does not impose a financial cost on them, and could even increase their cash benefits in some cases.
- **The work requirement and the work participation rate:** The federal government sets out particular work requirements and work participation rates, including what activities count towards work requirements. These often do not cover services needed by people with disabilities, thus creating an incentive for states to offer only the allowable services and to shift people who find it difficult to participate in those services to SSI in order to meet the federal standards for TANF.
- **Time limits:** TANF eligibility is limited to 60 months over a lifetime. As people with disabilities are more likely to time-out, states can be inclined to move them to SSI instead.

Together these program features provide incentives for the state to

- Move recipients with disabilities out of the TANF program onto the federally funded SSI program as quickly as possible;
- Exempt people with disabilities from the work requirement, enroll them in state-only funded programs that are not included in the work participation rate and provide few work supports; and
- Provide only a prescribed set of services.

After providing background on the prevalence of disability in the TANF population, this section describes the features of the program and how they create adverse incentives.

a. Use of the TANF program among People with Disabilities

As of December 2012, TANF served 4.1 million recipients in 1.8 million families (Falk, 2013a). The number of adults with disabilities in this population is significant but difficult to quantify.

States do not have a formal definition of disability within the TANF program. Generally, applicants are asked if they have a disability during the intake and eligibility determination process. If the applicant believes that their disability should exempt them from some of the program requirements, the caseworker will ask for documentation from a physician. Few states have a formal health or vocational assessment process (Farrell and Walter, 2013) and, in the absence of these assessments, many disabilities are overlooked (Ovwigbo et al. 2008).

In the absence of administrative data to identify the prevalence of disability among TANF recipients, several researchers estimated the prevalence using population-based surveys. With no consistent definition of disability, estimates vary from 35 percent (Zedlewski, 2003) to 43 percent (Loprest and Maag, 2009). The type and severity of these disabilities vary significantly.

While a portion of this population have disabilities severe enough to qualify them for benefits under the SSA disability determination process, others have more mild impairments. Existing data does not allow us to estimate the number of TANF adults with significant disabilities. However, data show that one in eight (12.6 percent) TANF families include an adult SSI recipient (Wamhoff and Wiseman, 2005/6) and that 10 percent of TANF adult recipients were engaged in the SSI application process in a given year (Farrell and Walter, 2013). Thus, the relationship between TANF and SSI affects a small but not insignificant portion of the TANF population.

b. Financing

The federal government provides \$16.5 billion to states in TANF block grants and another \$90 billion in related grants. States are required to contribute \$10.4 billion of their own funds as maintenance of effort (MOE) based on their level of welfare spending level prior to the enactment of TANF (US Department of Health and Human Services Administration on Children and Family, 2013a).

Although TANF is best known for funding cash welfare benefits, only 30% (\$9.6 billion) is used for this purpose. The remainder is used for child-care (17%), other work supports (9%), work (8%) and other expenditures (31%) (Falk, 2013a). States use their TANF funds for a variety of services for low-income individuals who may or may not ever receive welfare payments, such as refundable state earned income credits for the working poor, prekindergarten, child welfare services, mental health, and substance abuse services and others (Brown, 2010),

Neither the grants nor the required MOE are adjusted for inflation. As a result, the initial funding level has lost 47% of its value since it was established in 1996 (authors calculation based on the Consumer Price Index, US Department of Labor, Bureau of Labor Statistics, 2013).

The block grant funding is in sharp contrast to the AFDC program that was financed with federal matching funds where each dollar of benefits paid was matched with at least one dollar of federal funds and up to \$4 in some states. As a result, the states had the responsibility of covering only a portion of any additional spending resulting from an increase in the rolls or benefit amounts. Similarly, states only accrued a portion of any savings from restricting the program. Under the TANF block grant, all spending above the block grant and MOE is borne entirely by the state and all savings accruing to the state for whatever reason can be used for a variety of related services.

Adverse Incentive: The block grant funding mechanism gives the states an incentive to move as many recipients as possible onto programs that receive federal funding. Specifically, the state has an incentive to move people with disabilities to the federally funded Supplemental Security Program (SSI). The states can use the savings to expand their caseload or fund related services.

c. Benefit Level

Average benefits vary by state and is generally based on family size. For a family of three, the cash benefit ranges from a high of \$923 per month in Alaska and \$715 in California to a low of \$170 in Mississippi and \$215 in Alabama (Falk, 2013a).

In contrast, the SSI federal benefit level is set at \$710 for one adult and \$1,066 for an eligible couple (US Social Security Administration, 2013). This amount is reduced if the recipient has earnings. In addition, some states provide supplemental payments.

An individual cannot receive SSI and TANF concurrently. However, if the parent becomes eligible for SSI, the family can remain on TANF as a “child-only case.” As shown in Table 1, Families can increase their cash assistance significantly by enrolling the adult in SSI and the children in TANF.

Table 1: Gain from Transferring Adult TANF Recipients to SSI in 2010, Family of Three: One Adult, Two Children

State	Maximum TANF Monthly Benefit, Not Receiving SSI (\$)	TANF/SSI/State Supplement Monthly Benefits, Adult on SSI, Children on TANF (\$)	Dollar Gain (\$)
California	694	1,472	778
Florida	303	915	612
Michigan	492	962	470
Minnesota	532	1,172	640

Source: Farrell and Walters, 2013

The disparity between TANF and SSI benefits is compounded because in most states the nominal size of the cash benefit has not changed over time while the federal SSI benefits are indexed to inflation.

Adverse Incentive: The disparity between the TANF and SSI benefit levels provides a powerful incentive for TANF recipients to pursue SSI eligibility

d. Work requirement

The TANF program requires that 50% of all families and 90% of two-parent families receiving cash assistance in the program be engaged in work or the state will be penalized through a reduction in size of their TANF block grant.

A state's participation rate is calculated as the share of adults who are participating at least 30 hours per week in federally countable activities (or an average of 20 hours per week if they have a child under age 6). More hours are required for adults in two-parent families.

This work requirement applies to states rather than to individual TANF recipients. It is up to the state to develop work requirements applicable to individuals and the financial sanctions for those who fail to comply with them. States can allow recipients to participate in activities that do not count toward the federal participation standards, require fewer hours than the federal standard, or exempt categories of recipients from work altogether, but these recipients are counted against the federal rate. This means that when people who receive services that do not count towards the federal participation standards – even if they are the most appropriate for promoting work – that they count against the state's work requirements and jeopardize the level of funding they receive from the federal government.

Two aspects of the work requirement are particularly problematic for people with disabilities—the work participation rate and the limited range of activities that can be counted as “work.”

Adverse Incentive: The work requirement rules penalize states for providing some appropriate services to people with disabilities. These rules relate to work participation rates and countable activities.

i. The Work Participation Rate

As the state's welfare rolls drop, the effective work requirement rate declines through a “caseload reduction credit.” The credit reduces the standard by one percentage point for every percent decline in cash assistance recipients since 2005.¹ For example, if the state's caseload had decreased 30 percent between 2005 and the current year, the required work participation rate would be reduced by to 30 percentage points. States may also receive “extra” credits for spending above the require MOE (Falk, 2013a). As a result, the current required participation rates adjusted for the credits range from 0% to 69% with 21 states having an adjusted rate of 0% (US Department of Health and Human Services, Administration on Children and Families, 2013b). Nationwide, roughly 30 percent of families meet their work requirements (US Department of Health and Human Services, Administration on Children and Families, 2013b).

While some types of families are not included in the calculation—primarily “child-only cases” where only the children are receiving TANF benefits, there is no federal exemption for people with disabilities. States may opt to provide their own exemptions and in 2009, 33 states officially exempted “ill or incapacitated”

¹ Prior to the Deficit Reduction Act of 2005 (DRA 2005), the caseload reduction credit was calculated based on the decline in enrollment since 1996.

recipients from work-related activities (Bloom et al., 2011). These states must however still meet the federal participation rate requirements.

Although some states keep the exempted recipients in the TANF program and have sufficient participation from other families to meet the federal requirement, most states with these exemptions have moved adults with disabilities and other families who are less likely to meet their individual work participation requirements to solely state-funded (SSF) programs². Because the SSFs are funded entirely with state dollars and not counted as part of TANF or the MOE, recipients are not included in the TANF work participation rate calculation. According to the Government Accountability Office (2010) as of 2010, 29 states have taken this approach.

ii. **Countable Activities**

The federal government names 12 categories of work activities that can be counted in the work participation rate calculation and defines the average weekly hours that each family must be participating in these work activities (Table 2).

The federal rules limit the extent to which states can count participation in pre-employment activities that may be particularly important for people with disabilities such as education, rehabilitative activities, and job search. For example (1) Vocational educational training may be counted only for 12 months in a recipient’s lifetime and (2) the combination of job search and rehabilitative activities (e.g., rehabilitation from a disability, substance abuse treatment) is limited to a maximum of 12 weeks in a fiscal year (Falk 2013b).

Thus, a state that assigned an individual to complete a four-month, full-time mental health program would get credit for only a portion of the participation (counted as job search and job readiness assistance). But, given the overall 6-week limit, the state would not be able to count any of job search efforts once the recipient completed the program (Schott and Pavetti 2013).

Table 2: Activities that Count Toward the TANF Work Participation Rate Calculation

Activity	Limitations or special rules
Core Activities	
Unsubsidized employment	
Subsidized private sector employment	
Subsidized public sector employment	
Work experience	

² Prior to 2005, states could use MOE funds for this purpose but DRA 2005 reduced some of the state flexibility and required that families served with MOE funds be counted in the work participation measure.

On-the-job training	
Job search and job readiness assistance	Limited to 4 consecutive weeks and 6 weeks total in a year (12 weeks in certain states)
Community service programs	
Vocational educational training	Can only count for up to 12 months.
Providing child care services to an individual who is participating in a community service program	
Non-Core Activities -generally countable only after the individual has completed 20 hours per week of core activities (more for two-parent families). Additional limits apply to certain activities	
Job skills training directly related to employment	
Education directly related to employment	Core Activity for recipients under age 20
Satisfactory attendance at secondary school or in a course of study leading to a GED	Core Activity for recipients under age 20

Source: Excerpted from Schott and Pavetti (2013)

iii. [Adverse Incentives and other Issues with the work participation rate measure](#)

Even though most states are not held to the full standard because of the caseload reduction credit and additional spending on MOE, the federal requirement that 50% of TANF families in each state (and 90% of two-parent families) participate in work activities creates adverse incentives for serving people with disabilities in several ways:

- If the state encourages adult TANF recipients with disabilities to qualify for SSI benefits, the children may still remain eligible for TANF, but the adult is removed from the TANF case. This saves the state money and helps meet the work participation rate because child-only cases are not counted. In the short run, the family doesn't suffer because they get SSI benefits, however, it may be counter-productive in the long run for the program participant because it severs their tie with work.
- The Work Participation Standard applies to states, not to individual recipients. States determine the work requirements for individuals and while states may allow recipients to participate in any activities for as long as needed, the limitation of what can be counted in the work participation rate creates a disincentive for states to provide some services that may be particularly important for people with disabilities.

In addition to creating adverse incentives for the state to provide services to people with disabilities, the work participation rate has several drawbacks.

- It is costly to track the number of hours of every recipient's participation in every activity (Schott and Pavetti, 2013).

- The metric does not measure the state’s success in getting TANF recipients into paid employment. A TANF recipient who becomes employed with a high enough wage will become ineligible for TANF and are thus no longer counted in the calculation. The caseload reduction credit was intended to account for this situation but a state gets as much credit for keeping hard to employ people off the rolls as they do for getting recipients into good jobs (Schott and Pavetti 2013). In fact, GAO estimates that the majority of the caseload decline can be attributed to a decline in the participation of eligible families rather than increased employment (GAO).

In 2013, HHS indicated it would waive the requirement for states undertaking demonstration projects that met certain criteria (TANF-ACF-IM-2012-03). However, opponents in the House of Representatives balked, arguing that HHS was trying to quietly gut the intent of the program (H.J. Res. 118, H.R. 890). The Senate did not act, so the waivers are currently available.

The new waivers would permit states to have welfare-to-work initiatives assessed using different measures than the TANF work participation rate. Thus, states could test alternative welfare-to work approaches by engaging recipients in activities currently not countable without risk of losing block grant funds (Falk, 2013a).

e. Penalties

TANF recipients may lose some or all of their cash benefit if they either fail to comply with state imposed requirements or if they exhaust the lifetime limit on assistance.

i. Sanctions

TANF recipients are subjected to a reduction or termination of their benefit if they fail to comply with the work requirement set by the state. Currently 33 states exempt people who are “ill or incapacitated” and 6 others have partial exemptions (Kassabian, 2012). Nevertheless, evidence suggests that recipients with disabilities are sanctioned more frequently than others (Goldberg, 2002).

ii. Time Limits

The federal TANF law limits assistance to 60 months over the recipient’s lifetime. States are allowed to create a more restrictive limit and 11 states have imposed limits of between 21 and 48 months (Kassabian et al., 2012 Table IV.C.1).

Child-only cases are not subjected to the time limit and federal law allows states to extend assistance to up to 20 percent of their caseloads beyond the federal 60-month time limit. Ten states provide an extension to recipients who are “ill or incapacitated” and another four states place recipients with disabilities into SSPs that do not have a 60-month time limit (Kassabian et al., 2012 Table IV.C.3)

Despite attempts by some states minimize the adverse effect of time limits on recipients with significant barriers to employment, people with disabilities are more likely than others to exhaust their time limit and lose benefits. (National Council on Disability, 2003)

3. Implications of TANF policies on people with disabilities

TANF recipients who identify as having a disability are often exempt from requirements to participate in work activities, do not receive the same level of attention as recipients who are required to work and generally have access to few targeted services designed to increase their self-sufficiency.

In most states, this determination is made during the application process before the TANF recipient has tried the TANF services. Generally, the TANF application includes a question about the presence of a disability that would prevent the applicant from working. Applicants who identify as having a disability are required to provide documentation from a physician.

TANF offices encouraged at least some TANF recipients with impairments to apply for SSI. In some states the office may advise recipients to apply, others may require it in exchange for an exemption from the work requirement and others may provide recipients access to SSI advocacy services that help them through the application process and any needed follow-up.

In a study of seven sites, MDRC found that eligibility offices exempt some or all of their adult recipients with impairments who were awaiting SSI eligibility determinations from the work participation requirement. They report that staff members are worried that participation in work activities can reduce an applicant's chance of qualifying for SSI benefits (Farrell and Walter 2013).

Regardless of whether this perception is accurate, TANF recipients often do not try to participate in a work-related activity while they are awaiting SSI determination because they fear it will affect the decision (Farrell and Walter 2013). However, only 38 percent of TANF recipients who apply for SSI are awarded benefits (Farrell and Walther, 2013). Those who are denied will have used months (or even years) of their time-limited TANF benefit without making any progress toward employment.

In many states, TANF recipients awaiting an SSI determination and other recipients with disabilities deemed unlikely to be able to participate in the work requirements are exempted from the work requirement and enrolled in an SSP so the family is not included in the work participation calculation. This is a self-perpetuating problem because currently few state TANF programs have employment services that target TANF recipients with disabilities (Farrell and Walter, 2013).

Mathematica Policy Research has identified several models that state TANF programs could use to more effectively serve people with disabilities (Kauff, 2008).

These are models that emphasize cross-agency coordination, comprehensive assessments and intensive services. However, these approaches are largely untested and costly and the fixed nature of the block grant makes it difficult for states to justify spending a disproportionate share of a fixed budget on people who still have a lower than average probability of working given the competing priorities (Pavetti, 2009).

It is difficult to quantify the number of people caught in this catch-22 but evidence suggests that is around 10 percent of the adult caseload. Three findings provide support for this assertion:

- 10.3 percent of adult TANF/SSP recipients in FY 2007 were engaged in the SSI application process during that year. (Farrell and Walter, 2013)
- 12.6 percent of TANF families have an adult on SSI. (Wamhoff and Wiseman, 2005/6)
- Among former welfare recipients, only 7% receive SSI, but another 21% reported unsuccessful applications for benefits. (Schmidt, 2012)
- An undetermined number of families apply for TANF as a stop-gap measure while they await an SSI determination and have no intention of trying to enter the workforce. Thus, changes in the TANF program are unlikely to affect their decision to apply for SSI.

The overlap between TANF and SSI affects children with disabilities as well as adults. More than one-third of SSI children had been on TANF before entering the SSI program (Wamhoff and Wiseman 2005/6). Although this is an important population, this paper focuses on work and self-sufficiency and thus limits its discussion to the adult SSI/TANF population.

A well-designed TANF program should provide services for working age recipients with disabilities that successfully get them on the road to self-sufficiency. This is not always possible and SSI serves as a very valuable safety net. It generally provides more cash assistance and vocational rehabilitation than TANF. However, it has significant work disincentives and tends to trap recipients in poverty (Stapleton et al., 2006),

Table 3: Comparison of TANF and SSI

TANF	SSI
Provides work incentives and case management to help people become self-sufficient.	Generally provides more cash assistance than TANF
Incentive to work	No work requirement. (includes some disincentives to work)
Provides support services such as subsidized child care and transportation	

Allows only a limited amount of time for rehabilitation	Qualify for vocational rehabilitation and Medicaid allowing for unlimited job and medical/psychiatric rehabilitation.
Limited to 60 months over a lifetime	No time limit

4. Recommendations

Currently, federal regulations provide incentives for state TANF programs to encourage recipients with disabilities to apply for SSI and limit the type and amount of services available.

These incentives should be modified so that the program can more effectively promote work and self-sufficiency among recipients with disabilities.

The existing waiver authority gives states the option of experimenting with alternate definitions of work participation, coordinating with other programs, testing the effectiveness of extending the period of time allowed in pre-employment activities, and strengthening strategies for serving recipients with disabilities (Falk 2013a). But currently, states have little incentive to undertake these actions, so it is not surprising that no states have applied for these waivers.

The federal government should provide funding for a limited number of state-level pilot programs to develop initiatives to effectively serve TANF recipients with disabilities.

HHS should fund a 5-year demonstration program on a competitive basis and allow the state TANF agencies flexibility in designing the intervention. The initiatives should include the following:

- Coordination with the state’s Vocational Rehabilitation Agency and other Workforce Investment programs that have experience working with working-age adults with disabilities.
- Mandate an experimental design that can assess the effect of the program on the number of TANF applicants with disabilities that (a) delayed their application for SSI in order to participate in work-related activities and (b) successfully entered and maintained employment.
- Allow a modification of the incentives that encourage TANF recipients to apply for SSI that impacts state interest in providing a mix of services that supports the target audience in becoming and staying employed.

5. Conclusion

The TANF program serves a population of parents who are at significant risk of dropping out of the labor force permanently. With its system of case management, work supports and pro-work incentives, the TANF has the potential to scoop up people with disabilities before they withdraw from the labor force. If the recipient cannot reenter the workforce in the 60 months of allowable TANF eligibility, it is likely that SSI is a more appropriate program for them.

However, the current policy encourages states to identify people who could potentially qualify for SSI as soon as possible after they enroll in TANF and rather than serving them in a regular TANF program where their work activity is measured and reported, they are often exempted from the work requirement and put into solely state funded programs that are not counted in the work requirement while they wait for SSI decisions.

SSI is not used as a last resort for TANF recipients who are not successful in the labor market. Instead it is used as the first option for people with disabilities. Generally people with disabilities are identified in the application or eligibility determination phase of their TANF enrollment and are often exempted from the case management and employment supports that could help them become self-sufficient. Instead, they are often enrolled in SSFs and turn to the SSI program. Families are generally better off financially in the short-term if adults transfer from TANF to SSI. However, they lose the case management, employment supports and other support services (such as subsidized child care and transportation benefits) that are available to TANF recipients. And few SSI beneficiaries leave disability for employment and are unlikely to work their way out of poverty in the long run.

Used appropriately, the TANF program could possibly provide an early intervention mechanism to provide a plethora of needed services to recipients with disabilities before they sever ties with the labor force and slow the transition to long-term income support via SSI

Several options exist to modify the system so that states face an incentive to provide enhanced supports in the TANF program and use SSI as a last resort rather than the first option. This approach would allow TANF to function as an early intervention mechanism before recipients with disabilities sever ties with the labor force and would thus slow the transition to long-term income support via SSI.

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