

## **SENATE AMENDMENT TO WELFARE LAW ALLOWS STATES TO TRAIN HARDEST-TO-EMPLOY ADULTS, HELP OTHERS FIND BETTER JOBS**

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A Congressional conference committee on higher education legislation is currently debating an issue critical to the long-term success of welfare reform: To what extent should education and training be part of state efforts to help welfare recipients attain self-sufficiency? Caught up in this debate are two different groups of recipients: those whose low basic skills put many jobs out of their reach, and those with somewhat better skills who are stuck in low wage jobs. Research shows that--

- job training combined with basic education can help the first group to become employable; and,
- postsecondary education and training can help the second group to find better jobs, outcomes that job search alone cannot achieve.

The 1996 welfare law, however, discourages substantial use of education and training. Under the law, vocational training of less than one year is the only education and training activity for adults that states may count toward meeting federal work participation rates. Further, the federal law places an overall cap on this activity so that only about one in ten of welfare recipients in FY 1998 and FY 1999 can actually be in vocational training and count toward the work rates. Beginning in FY 2000, teen parents in school will also count against this cap, potentially cutting in half the room states have to serve adults just before the hardest-to-employ recipients will begin reaching federal five-year time limits on aid.

As part of last year's budget bill, Congress has already lifted the vocational training cap for teens in fiscal years 1998 and 1999. The Senate provisions would go the rest of the way, permanently excluding teen parents in school from any limits on education and training. States would also be given the option of giving adults two years rather than one to gain the skills they need to achieve long-term self-sufficiency. Postsecondary education would be explicitly allowed, subject to the same 24-month limit and overall cap (set at 9% in FY 98) on participants in education and training.

During consideration of the Senate higher education bill, a bipartisan majority voted 56-42 to support these changes. And, last summer bipartisan majorities of both the Senate Finance committee and the House Ways and Means committee also voted to lift the vocational training cap for teen parents in school. States also support removing teen parents from the limits on education and training, with the National Governors' Association, the National Conference of State Legislatures, and the American Public Human Services Association (formerly American Public Welfare Association) all having adopted policies advocating this change.

### **Background**

The federal welfare law limits significantly the number of recipients who can be in education and training activities and count toward meeting federal work participation rates.<sup>(1)</sup> The key aspects of these limits are:

- States face financial penalties if they do not meet federal work participation rates. For adult recipients, education and training activities count toward the first 20 hours of required participation only if they can fit into a category called "vocational educational training," which states define. Vocational educational training may be counted as participation for a maximum of one year for any individual.
- The law places an overall cap on the total number of recipients in vocational educational training that can count toward the rate. This cap is set at 30% of each year's work participation rate for states, e.g. 9% in FY 98 (30% of a 30% work rate), 10.5% in FY 1999 (30% of a 35% work rate), and 12% (30% of 40%) in FY 2000.
- Teen parents in school can count toward a state's participation rate but also begin to count against the 30% vocational educational training cap in FY 2000. In last year's budget bill Congress decided not to apply the 30% cap to teen parents in earlier years because many Members were concerned that states would not have room under the cap to allow teen parents to finish school.
- Including teen parents in the cap on vocational educational training in FY 2000 reduces substantially the room under the cap for adults in education and training. Teen parents represent approximately 6% of the caseload, so if all of them were in education and training activities in FY 2000, the cap for adults would fall from 12% to 6%.

## Impact of Current Law's Limits on Education and Training

- **States have sharply curtailed access to education and training for recipients since enactment of the federal welfare law.** The law's current strict limits on when education and training counts toward meeting federal work rates discourages states from investing in these services, even though the law's overall flexibility may give them room to do so. A new report from the General Accounting Office on welfare reform in seven states shows substantial drops in the percentage of welfare-to-work participants involved in education and training as compared to other activities:

### **Percentage of Active Welfare-to-Work Participants in Education and Training Activities Before and After Federal Reform<sup>(2)</sup>**

Year Calif	Calif	Conn	LA	MD	Oreg	Tex	Wis
1994	76.7	85.0	87.8	65.1	44.4	75.3	60.4
1997	53.3	31.7	48.6	10.5	27.5	36.1	12.5

- **Beginning in FY 2000, a state's ability to count adults in vocational training as participants depends on the number of teen parents in their caseload, with widely varying effective caps for adults for each state. This underscores the lack of policy rationale for counting teen parents toward the vocational training cap.** In FY 2000, the cap on participation credit for adults in vocational educational training would vary from less than 2% of the caseload in some states to 9% in others. In six states, teen parents would still take up most of the room under the cap because teen parents represent 9% or more of total cases. (Alabama, Louisiana, Mississippi, Nebraska, North Dakota, and Texas). This variation in the cap does not correspond in any way to the actual training needs of adults in those states--in fact, the states that will have the least room in FY 2000 to count adults in education and training tend to be those with the highest percentages of recipients who lack even a high school education. In Texas, for example, 10% of case heads are teen parents; in Alabama and Nebraska, 11% of cases are teen parents. (See attached chart.)
- **Current law cuts the cap on education and training for adults by as much as half just before recipients will begin exhausting their federal five-year time limits--when those services are needed most to help the hardest-to-employ enter the workforce.** In FY 2000, when teen parents begin to count against the vocational training cap, the room for adults to be served could fall by half--from 12% of the caseload (30% of 40%), to about 6% (teen parents are about 6% of the caseload). Yet state experience and caseload characteristics suggest that caseloads will become increasingly disadvantaged and more in need of intensive services as the most employable recipients leave. Program participation data show, for example, that while half of all recipients lack a high school diploma or GED, two-thirds of long-term welfare recipients have not finished high school. In addition, a recent study of barriers to employment among recipients found that low basic skills is by far the strongest predictor of a recipient having no work experience or not having worked steadily.
- **While recent caseload declines may give states the room to place recipients in education and training, the federal restrictions on it send a strong signal discouraging use of these services.** The federal welfare law allows states to use welfare block grant funds for education or training for recipients but strongly discourages it as states do not get credit in most cases under the participation rates for doing so. The recent large caseload declines may in fact allow states to place recipients in education and training and still meet the work rates because the law reduces each state's federal work participation rate by the extent to which the state's caseload has fallen since 1995, not counting any caseload decline due to changes in eligibility. This provision is known as the "caseload reduction credit." There is much uncertainty, however, about how each state's work rate will be calculated because draft federal regulations call for each state to submit a proposed methodology for estimating the size of the caseload reduction credit, with HHS then deciding whether the methodology is valid and determining the state's work participation rate. This uncertainty, combined with the strong signals sent by the federal restrictions, is leading states to act cautiously.

## Research on the Effectiveness of Education and Training in Welfare Reform

- **Rigorous, experimental research on welfare-to-work programs shows that only programs with a job training or postsecondary education component have succeeded in helping the most disadvantaged recipients and helping recipients find better jobs--jobs that pay more and provide benefits.**

The recent, very impressive results from the Portland, Oregon site of the National Evaluation of Welfare-to-Work Strategies (NEWWS) confirm earlier research findings--the most effective welfare-to-work programs are those that have a central focus on employment, but also make substantial use of education and training as a tool for helping recipients become employable and find better jobs.<sup>(3)</sup> While employment and earnings impacts in the more job-search focused NEWWS sites were already fading at the end of two years, in Portland the impacts are among the biggest ever seen and growing at the end of two years.<sup>(4)</sup> This pattern is consistent with earlier research on programs like Baltimore Options, that stressed better jobs and made substantial use of postsecondary education and training--though smaller than Portland's, the Options program's earnings impacts were substantial and still growing five years after participants entered the program.<sup>(5)</sup>

Specifically the Portland welfare-to-work program helped recipients to

- work more (43% increase in employment)
- earn higher wages (13% increase among those who were employed)
- find jobs with employer-provided health insurance (19% increase among those who were employed).

In addition, the Portland program helped the most disadvantaged recipients to become more employable. Portland more than tripled the percentage of recipients who obtained an education or training credential, among those without a high school diploma or GED when they enrolled. The program especially helped these high school dropouts to earn a trade license or certificate, increasing by more than five times the percentage who obtained such occupational credentials.

- **Other, nonexperimental research shows that postsecondary education and training for low income individuals has a high return. One study found that women with associate degrees, for example, earn between 19-23% more than other women, even after controlling for differences in who enrolls in college.**<sup>(6)</sup>

The same study, which analyzed nearly twenty years of longitudinal data while attempting to adjust for differences in ability and family background, found that women who obtained a bachelor's degree earned 28-33% more than their peers. Other studies have found that each year of postsecondary education increases earnings by 6-12%.<sup>(7)</sup> In addition, studies that have tracked welfare recipients who completed two or four-year degrees have found that about 90% of these graduates leave welfare and earn far more than other recipients.<sup>(8)</sup>

Census data also show a strong relationship between educational attainment, earnings, and the likelihood of being unemployed or out of the labor market. March 1996 Current Population Survey Data show, for example, that women with an associate degree earn \$3.34 more an hour than women with only a high school diploma, and earn nearly twice as much as women who have not finished high school (\$12.46 an hour compared to \$6.69).<sup>(9)</sup> Women with some college also spend far more time employed (76% of weeks over a four-year period) than women without a high school diploma (employed only 49% of the same period).<sup>(10)</sup>

- **Opponents of recipient access to education and training set a much higher burden of proof for its effectiveness than for other activities countable as work in TANF.**

"Community service," for example, is a countable activity for which there is no research on effectiveness. "Community work experience" is a countable TANF activity which was shown in multiple studies in the 1980's *not* to increase employment or earnings.<sup>(11)</sup> "Job search" has been shown to increase employment in the short-term but, by itself, to have no long-term impact on employment or earnings.<sup>(12)</sup>

## **STATE-BY-STATE IMPACT OF CURRENT LIMITS ON VOCATIONAL EDUCATIONAL TRAINING**

<b>State</b>	<b>Teen Parent Case Heads as % of All Cases</b>	<b>FY 1999 Cap for Adults 10.5% of Cases (30% of work rate of 35%, teens excluded from cap)</b>	<b>FY 2000 Cap for Adults 12% of Cases Minus Teens (30% of work rate of 40%, teens count against cap)</b>
Alabama	10.7%	10.5%	1.3%
Alaska	N/A	10.5%	N/A
Arizona	7.6%	10.5%	4.4%
Arkansas	6.8%	10.5%	5.2%
California	6.2%	10.5%	5.8%
Colorado	6.6%	10.5%	5.4%
Connecticut	6.2%	10.5%	5.8%
Delaware	N/A	10.5%	N/A
Florida	3.9%	10.5%	8.1%
Georgia	5.2%	10.5%	6.8%
Hawaii	6.3%	10.5%	5.7%
Idaho	N/A	10.5%	N/A
Illinois	7.8%	10.5%	4.2%
Indiana	5.2%	10.5%	6.8%
Iowa	6.5%	10.5%	5.5%
Kansas	8.4%	10.5%	3.6%
Kentucky	6.8%	10.5%	5.2%
Louisiana	9.2%	10.5%	2.8%
Maine	N/A	10.5%	N/A
Maryland	5.0%	10.5%	7.0%
Massachusetts	6.0%	10.5%	6.0%
Michigan	3.6%	10.5%	8.4%
Minnesota	4.1%	10.5%	7.9%
Mississippi	9.5%	10.5%	2.5%
Missouri	7.3%	10.5%	4.7%
Montana	8.3%	10.5%	3.7%
Nebraska	10.6%	10.5%	1.4%
Nevada	N/A	10.5%	N/A
New Hampshire	N/A	10.5%	N/A
New Jersey	6.4%	10.5%	5.6%
New Mexico	6.3%	10.5%	5.7%
New York	2.9%	10.5%	9.1%
North Carolina	4.3%	10.5%	7.7%
North Dakota	10.1%	10.5%	1.9%
Ohio	8.3%	10.5%	3.7%
Oklahoma	4.8%	10.5%	7.2%
Oregon	6.7%	10.5%	5.3%
Pennsylvania	6.7%	10.5%	5.3%
Rhode Island	7.0%	10.5%	5.0%

<b>South Carolina</b>	5.6%	10.5%	6.4%
<b>South Dakota</b>	N/A	10.5%	N/A
<b>Tennessee</b>	7.4%	10.5%	4.6%
<b>Texas</b>	10.0%	10.5%	2.0%
<b>Utah</b>	6.4%	10.5%	5.6%
<b>Vermont</b>	N/A	10.5%	N/A
<b>Virginia</b>	8.1%	10.5%	3.9%
<b>Washington</b>	6.1%	10.5%	5.9%
<b>West Virginia</b>	4.5%	10.5%	7.5%
<b>Wisconsin</b>	5.8%	10.5%	6.2%
<b>Wyoming</b>	N/A	10.5%	N/A

\*Teen parent percentages are from HHS FY 95 AFDC characteristics data. Prepared by CLASP, 7/98.

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## ENDNOTES

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1. The law requires states to enroll an increasing percentage of welfare recipients in certain work activities. These federal work rates are 30% of recipients in FY 1998, increasing by 5% each year to 50% in FY 2002. To be counted toward the work rates, recipients must work at least 20 hours per week in FY 1998, 25 hours in FY 1999, and 30 hours in FY 2000 and FY 2001. Required hours stay at 20 per week in all years, however, for recipients with preschool age children (under age 6). "Vocational educational training" is the only education and training activity that counts under the law toward the first 20 hours of participation.

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2. *Welfare Reform: States Are Restructuring Programs to Reduce Welfare Dependence*, GAO, June 1998. Note that these are percentages of active welfare-to-work participants, not percentage of all families receiving assistance.

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3. *Evaluating Two Welfare-to-Work Program Approaches: Two-Year Findings on the Labor Force Attachment and Human Capital Development Programs in Three Sites*, U.S. Department of Health and Human Services and the U.S. Department of Education, September 1997; *Beyond Job Search or Basic Education: Rethinking the Role of Skills in Welfare Reform*, Center for Law and Social Policy, April 1998; *After AFDC: Welfare-to-Work Choices and Challenges for States*, Manpower Demonstration Research Corporation, 1997.

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4. *National Evaluation of Welfare to Work Strategies: Implementation, Participation Patterns, Costs and Two-Year Impacts of the Portland (Oregon) Welfare-to-Work Program*, U.S. Department of Health and Human Services and the U.S. Department of Education, May 1998.

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5. *Five Years After: The Long Term Effects of Welfare -to-Work Programs*, Russell Sage Foundation, 1995.

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6. "Labor-Market Returns to Two- and Four-Year College," *American Economic Review*, June 1995.

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7. *What's Working (and What's Not)*, U.S. Department of Labor, 1995.

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8. "Welfare Graduates: College and Financial Independence," Jerome Levy Economics Institute Policy Notes, 1998; *From Welfare to Independence: The College Option*, Ford Foundation, March 1990.

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9. "Real Hourly Wages by Education, Using CPS Education Definitions Beginning in 1992," Economic Policy Institute's internet site, "DataZone."

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10. "Number of Jobs, Labor Market Experience, and Earnings Growth: Results From a Longitudinal Survey," Bureau of Labor Statistics, June 24, 1998.

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11. *Unpaid Work Experience for Welfare Recipients*, Manpower Demonstration Research Corporation, September 1993.

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12. *Beyond Job Search or Basic Education: Rethinking the Role of Skills in Welfare Reform*, Center for Law and Social Policy, April 1998.

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