



February 9, 2005

Honorable Jim McDermott  
Ranking Member  
Subcommittee on Human Resources  
Committee on Ways and Means  
U.S. House of Representatives  
Washington, DC 20515

Dear Congressman:

At the request of your staff, CBO has estimated the potential additional costs that states could incur to implement the work participation requirements specified in H.R. 240 for those receiving Temporary Assistance for Needy Families (TANF).

H.R. 240, the Personal Responsibility, Work, and Family Promotion Act of 2005, would require states to engage an increasing proportion of families receiving TANF in work activities. CBO estimates that the potential additional cost to states (including child-care expenses) of a work program that meets the proposed requirements would reach \$2.9 billion in 2010 and total \$8.3 billion over the 2006-2010 period (see Table 1). This estimate illustrates the costs if states chose to meet the new requirements by funding more activities for recipients, such as work experience programs. Actually, CBO expects states would instead partially or fully avoid these costs by moving families to separate state programs or averting the requirements by some other means.

TABLE 1. ESTIMATE OF THE POTENTIAL ADDITIONAL COSTS TO STATES FOR MEETING THE WORK PARTICIPATION REQUIREMENTS IN H.R. 240

	By Fiscal Year, in Billions of Dollars					5-Year Total
	2006	2007	2008	2009	2010	
Work Costs	0.2	0.4	0.9	1.2	1.5	4.2
Child-Care Costs	<u>0.2</u>	<u>0.4</u>	<u>0.9</u>	<u>1.2</u>	<u>1.5</u>	<u>4.1</u>
Total	0.4	0.8	1.7	2.4	2.9	8.3

NOTE: Components may not sum to totals because of rounding.

### **Basis of Estimate**

H.R. 240 would require states to engage an increasing proportion of families receiving TANF in activities for 40 hours a week: 24 hours in work activities and 16 hours in state-defined activities. (The calculation is based on 160 monthly hours. Since there are generally more than four weeks in a month, the required number of hours per week is actually less than 40.) States could also define what counts as an activity for all 40 hours of participation for three out of every 24 months of benefit receipt. The required participation rate rises by 5 percentage points a year from 50 percent in 2006 to 70 percent in 2010. The required rates are reduced by credits based on states' recent and historic caseload declines. Certain families are not included in the calculation: families without an adult or teen head of household, under sanction for three months or less, with a child under one (at state option), or in the first month of assistance (at state option).

The \$8.3 billion in potential costs over 5 years includes \$4.2 billion to operate work programs and an additional \$4.1 billion to provide child-care subsidies to participating families.

If states chose to meet the requirements of H.R. 240 by establishing work programs, CBO estimates that those programs would have to engage nearly 600,000 recipients in specified activities in 2010 when the requirements are fully phased in. Based on recent participation in work programs, CBO expects that 325,000 recipients would be engaged under current law. Thus, the bill would require states to fund activities for an additional 275,000 participants. Because a certain percentage of participants would fail to work the required number of hours in any given month, CBO estimates that states would need to establish programs to serve 25 percent more recipients than required. Thus, we assume states would need to establish work programs to serve 350,000 participants in 2010.

Based on studies about the costs of operating work programs, CBO estimates that engaging an individual in work activities would cost an average of \$4,200 in 2010. (Costs can vary significantly across activities and across locations.) The costs of operating work programs include the costs of providing job-readiness activities, case management, job development and placement, subsidy payments to employers, transportation subsidies, and general administration.

CBO assumed that 85 percent of the participants would have children under the age of 13 and that 50 percent of those would use a child-care subsidy. Those estimates are based on data for the TANF program, as well as research and state experience with child-care usage. CBO estimates that about 150,000 new participants would require child-care subsidies for a total of 250,000 children. Based on average costs in the Child Care and Development Fund program, we estimate that providing a child-care subsidy would cost \$5,600 per child in 2010.

The estimates are based on three other key assumptions. First, we assume that states could credit some participants with 40 hours of participation each month without incurring additional costs. H.R. 240 would allow states to define what activities count toward participation for 16 hours each week and for all 40 hours of participation for three months out of every 24 months of benefit receipt. Because most states would otherwise find these requirements difficult to meet, CBO assumes that states would allow a broad range of activities, including unsupervised and self-reported activities, to count toward the final 16 hours and during the three-month period. For this reason, we assume that anyone who currently meets a 24-hour work requirement could meet a 40-hour requirement at no additional cost. Further, we assume that half of the people who participate in an eligible activity for at least one hour per week during the three-month period could meet a 40-hour requirement with no additional cost to the state work program. However, we assume that those participants could receive child-care subsidies.

Second, the estimate assumes that caseloads would remain at the levels experienced in the first half of 2004. If caseloads fall, states would need to serve fewer families, so costs would be lower. In addition, the bill would lower the work requirements for states with caseload reductions. Therefore, if caseloads were to fall steadily, the result would be significantly lower costs. However, states would have to achieve consistently falling caseloads to benefit from the caseload-reduction credit each year because the base year for the calculations moves forward each year. Conversely, if caseloads rise, states would need to serve more families, so costs would be higher.

Third, CBO estimates that states would incur a higher cost in 2006 than the requirements for that year would generate. We expect that states would not be able to meet the additional requirements in 2007 unless they started to ramp up their programs in 2006.

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### **Changes from 2003 Estimate**

In May 2003, CBO estimated the five-year costs of nearly identical work requirements contained in H.R. 4 (in the 108<sup>th</sup> Congress) to be \$6.1 billion. The current estimate is based on more recent data and methodologies, each accounting for about half of the increase in costs from the previous estimate. CBO estimates higher costs per person to administer work programs and provide child-care subsidies, mostly stemming from inflation over the past two years. Also, the proportion of TANF recipients who are working has fallen, so states would have to engage more new recipients in activities to achieve the same required level of participation.

CBO refined its analysis of costs in several ways, but two changes account for the greatest difference in estimated costs. First, CBO now assumes that only half of the recipients participating at least one hour per week during the three-month period could meet a 40-hour requirement. The previous estimate assumed that all such recipients could count 40 hours of participation. However, even if states allow recipients to self-report their participation, it is unlikely that all would report 40 hours of participation. Second, CBO assumes a higher rate of inflation for work programs, reflecting the large proportion of costs that are due to wages. (Wages are projected to grow more quickly than prices.)

If you wish any further details on this estimate, we will be pleased to provide them. The CBO staff contact is Sheila Dacey.

Sincerely,

Douglas Holtz-Eakin  
Director

cc: Honorable Wally Herger  
Chairman  
Subcommittee on Human Resources