MEMORANDUM

HOUSE FISCAL AGENCY

**DATE:** November 30, 2005

**TO:** Members of the House Committee on Family and Children Services

**FROM:** Bob Schneider, Senior Fiscal Analyst

**RE:** Fiscal Implications of the Welfare Reform Package

This memorandum reviews the content and fiscal implications of House Bills 5438 through 5446, which revise current policies for the Department of Human Services' Family Independence Program (FIP). The FIP program is the state's cash assistance program for low-income families with children. Currently, the program serves around 78,000 recipient groups, or about 212,000 individual recipients. These groups receive an average benefit of $415 per month to assist them in meeting basic needs. Except for those groups deferred from work requirements – for example, groups where the adult is disabled or caring for a disabled child or spouse - FIP recipients are expected to participate in up to 40 hours per week of work-related activities (e.g. actual employment, job search, GED preparation).

The memorandum reviews each bill of the package separately. Before moving to the individual analyses, a few general items should be noted:

- The FIP program is funded using a combination of federal Temporary Assistance for Needy Families (TANF) block grant funding and state general fund/general purpose revenue. However, the GF/GP revenue is currently used to meet federal maintenance of effort (MOE) requirements. In short, this makes it more difficult to achieve GF/GP savings in this program. To avoid future federal penalties for failing to meet MOE, any savings achieved through the bills would lead to savings in either:
  - Federal TANF funding, in which case TANF funds could be redirected to other eligible program areas serving low-income families with children; or
  - State GF/GP revenue, but only if other current MOE-eligible spending can be identified to replace the GF/GP taken from the FIP program. HFA has estimated that around $30 million in new MOE spending could be identified if needed.
- The analyses of individual bills in this memorandum look at the content of each individual bill on its own. In reality, many of the bills have impacts on one or more of the other bills in the package. For instance, the savings from the time limits created in House Bill 5438 overlap with the savings from including SSI income in determining FIP benefit levels as prescribed in HB 5439. Thus, if both bills are enacted, the actual savings from implementing both bills would be less than the sum of the estimated savings for each individual bill.

## BILL ANALYSES

### HB 5438 (H-1)

The bill phases in a cumulative 48-month limit lifetime limit on the receipt of cash assistance within the Family Independence Program (FIP) and requires a 10% reduction in the payment standard for groups participating in Work First and containing at least one employed group member.

The time limit would apply only to those groups that are referred to the Work First program. Groups deferred from Work First (usually because the adult in home is incapacitated or is caring for an incapacitated child or spouse) would not be subject to the requirement. Months during which the group's county unemployment rate exceeded 10% would also not be counted toward the limit. In addition, previous months where the group was deferred from Work First are also not included in the count. It is estimated that this would currently impact around 8,100 FIP cases, which equates to roughly 20,000 recipients. The Department of Human Services would be required to determine within 90 days of the bill's effective date the number of applicable months for each FIP case. Cases already at or above 48 months would be allowed to receive FIP benefits for an additional one calendar year. Following this calendar year, these cases would be closed along with any new cases that reach 49 months of cumulative assistance. The provision would reduce FIP costs by roughly $40.3 million for the first full year of implementation. Since the number of cases with over 48 cumulative months of assistance has been increasing, cost reductions would likely increase over time.

Currently, Michigan has no time limit for cash assistance. While federal law sets a 60-month lifetime limit on cash assistance paid using federal funding, states are allowed to exempt up to 20% of their caseloads from the limit. States are also allowed to use state-funded maintenance of effort payments to make cash assistance payments to groups that move beyond the federal limit. Effectively, this has given states discretion to set their own time limit policies.

The bill also requires a 10% reduction in the payment standard for groups participating in Work First and with an employed group member. A group's payment standard is the maximum benefit they can receive if they have no other income. The group's countable income is subtracted from the payment standard to determine its actual monthly benefit. It is estimated that around 13,300 current Work First cases are engaged in some level of employment. The payment standard reduction would reduce FIP payments to these groups by around $8.6 million. However, for those groups with employment exceeding 20 hours per week, this reduction would be offset by the increased earned income disregard proposed in HB 5442.

Finally, the bill also contains revisions to Work First exemption policies. Identical provisions appear in HB 5446 and these provisions are discussed in the analysis of that bill.

**HB 5439 (H-1)**

The bill requires the DHS to include the amount of Supplemental Security Income received by a member of a FIP program group in determining income used for eligibility purposes. Currently, the recipient of SSI is excluded from the program group and the SSI benefit amount is excluded from incomes when examining eligibility for FIP. Federal SSI payments for FY 2006 are $603 per month for eligible individuals. Typically, this is supplemented by a state payment of $14 for individuals living independently.

It is estimated that around 15,500 FIP cases have at least one SSI recipient in the program group. Most of these cases involve an SSI adult. Including the disabled family member and the SSI payment in the program's group's income would lead to the closure of most of these cases. Remaining cases would see current FIP payments decrease significantly. The table on the following page looks at a few hypothetical cases to illustrate this impact. The first column shows the calculation of the FIP payment for a non-SSI case with two adults and two children. This family would receive a FIP grant of $366 per month to supplement monthly earned income of $446. If one of the adults in this family received SSI due to a disability, that adult member and the SSI income would not be considered in determining the FIP benefit under current policy.  This family would receive a smaller FIP benefit (due to lower group size) of $280 to supplement the earned income and SSI benefit.  Under the policy proposed in the bill, the adult SSI member and income would be counted.  In this hypothetical case, the FIP benefit would be discontinued.

It is estimated that FIP costs under the bill would decrease by around $77.0 million as a result of this policy change.

**Case Comparison: Including SSI Income in Determining FIP Eligibility**

| | Non-SSI case | SSI-Related Cases | |
|---|---|---|---|
| | two adults<br>two children | one non-SSI adult; one SSI adult<br>two children | |
| **Income Scenarios** | | | |
| Weekly hours worked | 20 | 20 | |
| Hourly wage | $5.15 | $5.15 | |
| **Monthly Earned Income** | **$446** | **$446** | |
| **SSI Income** | | **$617** | |
| Equivalent Annual Income | $5,356 | $12,760 | |
| **Policy Changes** | **Current** | **Current** | **New** |
| **Monthly Earned Income** | **$446** | **$446** | **$446** |
| Less: $200 disregard | ($200) | ($200) | ($200) |
| ***Less: Percentage disregard*** | ($49) | ($49) | ($49) |
| ***Plus: SSI Income*** | | | $617 |
| Equals: Countable Income | $197 | $197 | $814 |
| ***Payment Standard*** | $563 | $477 | $587 |
| ***based on group size of…*** | 4 | 3 | 4 |
| **Actual FIP Benefit**<br>(Payment Standard minus Countable Income) | **$366** | **$280** | **$0** |
| **Total Monthly Income (w/ benefit)** | **$812** | **$1,343** | **$1,063** |

**HB 5440 (H-1)**
For FIP applicants who have resided in Michigan for less than one year and assert that they have not received cash or other welfare assistance from other states, the bill requires the DHS to determine the state or states of residence for these applicants during the year preceding application and to confirm whether the applicant received cash or medical assistance in the state or states in which he or she resided.  This new requirement would increase administrative costs to the Department.  Information is not yet available to determine the amount of the cost increase.

**HB 5441 (H-1)**
The bill implements a "three strikes" sanction policy as well as partial reductions to benefits for recipients failing to comply with Work First requirements. The policy proposal would increase the current one month, full family sanction for instances of noncompliance to three months for the second instance of noncompliance and to lifetime FIP ineligibility for the group for the third instance of

noncompliance. The bill would impose partial benefit reductions for failing to meet specified work participation hours. The partial reduction would be computed based on multiplying the relevant minimum wage (currently $5.15 per hour) by the number of work participation hours missed.

Stricter sanctions would likely decrease FIP costs. In general, it is estimated that around 13,500 FIP cases required to participate in Work First fail to meet federal work participation requirements to some degree. Based on information from DHS on overall work participation rates, it is estimated that these groups average 15 - 20 hours per month of missed work participation hours. If these groups were fully sanctioned for all of these estimated hours, annual savings could be up to $16.0 million. However, actual sanction levels would depend upon how the policy was implemented (e.g. 'good cause' determinations). Also, if the policy effectively increased compliance, these potential savings would be reduced. Thus, actual savings would likely be below this upper bound.

Information is not currently available to evaluate the number of participants that might accrue second and third sanctions for noncompliance under the proposed policy which would trigger the increased sanction levels. Currently, on average, around 1,400 cases are in sanctioned status at any point in time, which reduces benefit payments by about $7.0 million per year. Additional cost reductions are likely as the increased sanctions are put in place.

It should also be noted that implementing the new policies would likely increase administrative costs to DHS. In particular, the bill could require information technology-related changes in order to tie individual benefit levels to number of hours of actual work participation as required under the hourly sanction proposal.

**HB 5442 (H-1)**

The bill would implement an increase in the earned income disregard for FIP cases for recipient groups that are participating in Work First and are employed for at least 20 hours per week. A group's countable income is subtracted from the payment standard to determine its actual monthly benefit. Under current policy, a group is allowed an earned income disregard of $200 plus 20% of its remaining earned income. This disregarded income is NOT subtracted from the payment standard, allowing the group to retain a higher benefit level.

Those Work First recipient groups with a member working 20 hours per week or more would see an increase in the earned income disregard from the current 20% to a new level of 50%. It is estimated that the increased disregard provisions within the bill would affect around 9,900 FIP cases where at least one group member is employed for 20 hours or more. The disregard provision would cost roughly $24.5 million annually once implemented. Disregard-related costs would likely increase in the short run as the FIP caseload would increase somewhat as the disregard will allow groups to maintain cases at higher levels of earned income.

In general, the combination of an increased disregard and reduced payment standard outlined in HB 5438 would lead to increased benefit levels for recipient groups employed for more than 20 hours per week. The table on the following page illustrates these potential impacts using two hypothetical family groups – one working 20 hours per week at minimum wage and the other working 30 hours per week at minimum wage. The group with 30 employment hours would see their FIP benefit increased by more than the group with 20 hours per week as the impact of the disregard increases with earned income. In contrast, groups working less than 20 hours would not be eligible for the increased disregard. These groups would see benefit reductions that would average around $45 to $50 per month.

**Impact of Disregard and Benefit Changes on Typical Family of Four**

| **Income Scenarios** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Weekly hours worked | 20 | | 20 | | 30 | | 30 | |
| Hourly wage | $5.15 | | $5.15 | | $6.00 | | $6.00 | |
| **Monthly Earned Income** | **$446** | | **$446** | | **$780** | | **$780** | |
| Equivalent Annual Income | $5,356 | | $5,356 | | $9,360 | | $9,360 | |
| **Policy Changes** | **Current** | | **New** | | **Current** | | **New** | |
| **Monthly Earned Income** | **$223** | | **$223** | | **$780** | | **$780** | |
| Less: $200 disregard | ($200) | | ($200) | | ($200) | | ($200) | |
| ***Less: Percentage disregard*** | ($49) | 20% | ($123) | 50% | ($116) | 20% | ($290) | 50% |
| Equals: Countable Income | $197 | | $123 | | $464 | | $290 | |
| ***Payment Standard*** | $563 | | $507 | | $563 | | $507 | |
| **Actual FIP Benefit** (Standard minus Countable Income) | **$366** | | **$384** | | **$99** | | **$217** | |

Note: Payment standard reflects standard for recipient group in Shelter Area IV.

**HB 5443 (H-1)**

The bill amends Work First requirements as outlined below:

- Allows Work First participants to meet work participation requirements by participating in a comprehensive basic education/job skills program for a minimum of 30 hours per week. The program could last up to 6 months.
- Requires participants who have not earned a high school diploma or GED to enroll in GED preparation courses, and allows up to 10 hours per week to count towards participation requirements for up to 6 months.
- Requires participants with reading proficiency at or below $8^{th}$ grade levels to participate in a fast track literacy program for up to 6 months.
- Extends limit on post-secondary education from 12 to 24 months; requires participants involved in post-secondary education to work an additional 20 hours per week to meet participation requirements.
- Requires expanded reporting on Work First to the Legislature.
- Provides that funding to Work First programs or contractors be based on success rates in achieving the goals of personal development plans, job placement and retention, and case closure due to self-sufficiency.

The new requirements would add to the costs of Work First. Information is not yet available to estimate these costs.

**HB 5444 (H-1)**

The bill requires that a personal development plan be constructed for each FIP recipient group and requires the participation of both DHS and DLEG/Work First caseworkers in the development of the plan. The bill would likely have workload and perhaps IT related cost implications for both DHS and DLEG.

**HB 5445 (H-1)**
Includes the time limit provisions already discussed in HB 5438.

**HB 5446 (H-1)**
The bill amends provisions which cover exemptions from the Work First program. The bill makes the following changes to current law:

- Mandates that the DHS require a custodial parent of an infant under the age of 3 months who is deferred from work requirements to participate in family services, including instruction in parenting, nutrition, child development and abstinence-based family planning. Current law allowed, but did not mandate, that the Department require such instruction. This provision would increase program costs by an indeterminate amount.
- States that an individual applying for Supplemental Security Income not be automatically exempt from Work First participation; requires written documentation from a physician, psychiatrist, or psychologist and an assessment of need by the department if an individual is to be deferred based on the medical or mental condition of the individual or a family member; and requires that individuals exempt on this basis be evaluated for SSI eligibility not later than 90 days after receipt of the appropriate written documentation from a medical professional. The provision for a DHS assessment of each individual considered for deferral could have significant cost impacts. However, exact cost information is not yet available.
- Requires that deferred individuals be evaluated for eligibility to participate in other work-related activities and be referred to such activities if determined eligible. This provision would also increase state costs by an indeterminate amount.
- Requires the re-evaluation of deferred individuals every 120 days to determine whether the exemption from Work First should continue. This would increase workload on DHS staff and result in increased costs. Information is not yet available to make a cost estimate.

**HB 4121 (H-1)**
The bill would extend the current December 31, 2005 sunset date for portions of section 57f and 57g of the Social Welfare Act until December 31, 2006. These sections cover sanction policy and exemptions from Work First. The bill would have no fiscal impact.