POVERTY AND SOCIAL POLICY BRIEF Vol. 7 No. 2 May 16, 2023

The Costs of Cutting Cash Assistance to Children and Families:

Changing TANF work requirements could cost society up to $30 billion per year

Elizabeth Ananat, Megan Curran, Irwin Garfinkel, Robert Paul Hartley, Anastasia Koutavas, & Buyi Wang*

Center on Poverty and Social Policy, Columbia University
*Barnard College, Columbia University

Adequate income during childhood is a key determinant of how children fare when they are young as well as how they fare later in adulthood. A large body of evidence shows that providing cash support to families with children not only reduces child poverty and improves child well-being, but delivers widespread benefits to society through improved children's health, education, and eventual employment outcomes as well as savings through reduced health, child protection, and justice-related expenditures. Our own award-winning benefit-cost work[1] has shown flexible cash for families, similar to the 2021 expanded Child Tax Credit, has the potential to deliver an extraordinary return on investment with economic and societal benefits at an annual rate many times greater than the annual cost.

Taking cash support away from families produces the opposite effect: it has the potential to increase poverty and decrease well-being while children are young, while also resulting in substantial economic and societal costs over the longer term. This analysis examines the potential effects of proposed changes, as part of the Limit, Save, Grow Act (H.R. 2811 in the 118th Congress) passed by the US House of Representatives in late April 2023, to the Temporary Assistance for Needy Families (TANF) program that would change state TANF work participation requirements in ways that could result in states restricting or eliminating access to TANF cash assistance for families with children who currently receive it.

Key Findings

- Proposed TANF work requirement changes risk states taking cash away from low-income families with children, with significant potential short- and long-term societal costs.
- Every $1 in TANF cash assistance payments lost to families per year would cost society $8 per year.
- These costs would come from increased spending to address children's and parents' worsened health, increased need for child protective services, and more; this decreased cash in childhood would also result in reductions in children's future education, employment, and earnings, leading to lower future tax receipts. Children would grow up to need *more* cash and near-cash benefits later in life.
- If 25 percent of families affected by a work requirement lose monthly TANF cash benefits, the economic and societal costs could total $7.4 billion per year; if half of families do, the costs could reach almost $15 billion per year.
- If states opt to stop providing cash assistance to families affected by a work requirement, the economic and societal costs could be as high as $29.6 billion per year.

CENTER ON POVERTY & SOCIAL POLICY at Columbia University

Background

Created in 1996, TANF replaced Aid to Families with Dependent Children (AFDC) as the primary cash assistance program for families with very low incomes. It is financed through a capped federal block grant (though inflation has eroded almost 40 percent of it since 1996) and state contributions known as maintenance of effort (MOE).[2] TANF is often associated with time-limited cash assistance conditioned upon parental, particularly single mothers', employment, but states also use their TANF funds in a variety of other ways: work, education, and training activities; child care and early education; child welfare; refundable tax credits; family and social service programs; program administration; and more. In 2021, more than half of states (31) spent less than 20 percent of their TANF and MOE funds on basic assistance but TANF cash assistance[3] remains a critical source of support for those who receive it.

TANF rules require that states meet certain work participation rate targets—here, 50 percent of all families and 90 percent of two-parent families—with respect to the number of 'work-eligible' adults engaged in work or other activities (as defined by the state) for 20 to 30 hours per week, depending on the age of the children in their home. States have flexibility in determining how to meet their particular targets, including determining the specific work requirements that apply to individuals (e.g. exempting individuals based on their health, age, care responsibilities, and more). Because exempt individuals in receipt of assistance still affect the calculation of the total state work participation rate, though, states must often ensure that a comparable proportion of 'work-eligible' adults engage in approved work or activities—or face individual or family benefit sanctions—in order to maintain access to the full federal stream of TANF funding.[4] The work participation rate that a state must meet can be adjusted downward by caseload reduction credits, which can be achieved through declines in TANF enrollment or by additional state MOE spending.

The proposed Limit, Save, Grow Act of 2023 would make three central changes to TANF state operations, all of which could impact families' access to TANF cash assistance moving forward. It would recalibrate the caseload reduction credit to only count TANF caseload reductions since fiscal year 2022 (rather than since fiscal year 2005), changing the baseline from which states can measure caseload changes. The number of families receiving TANF has declined significantly over time—in 1997, TANF reached 1 in 2 poor children, compared to 1 in 5 by 2019[5] —and many states operate with work participation rates lower than 50 percent/90 percent due to their caseload reduction credits and additional MOE spending. Increasing these requirements, or removing states' flexibility to meet them through these offsets, could see states requiring families with very low incomes who face significant challenges and/or meaningful barriers to employment to lose access to cash support if they cannot meet stricter work requirements. Furthermore, the bill would eliminate the ability of states to count additional state MOE spending on areas central to TANF's core program areas in order to adjust the work participation rate. It would also end the ability of states to count small cash payments to working families towards the work participation rate, without instituting burdensome administrative and participatory requirements as a condition of receipt.[6]

Taken all together, these changes would limit states' ability to meet their required work participation rates and families could lose access to TANF cash benefits as a result. An analysis by the Center on Budget and Policy Priorities points out that the proposed bill could see states either restrict access to TANF cash assistance only to families where the 'work-eligible' parent demonstrates they can meet work requirement demands prior to application approval or take TANF cash assistance away more quickly from families who receive it when parents are unable to meet the work requirement.[7] The Congressional Research Service also notes that "a state can meet its mandatory work participation standard either partially or wholly through reducing the number of families receiving cash assistance, and thus receiving a caseload reduction credit".[8] More stringent work participation requirements and less state flexibility means that a reduction in the number of families receiving TANF cash assistance may become one of the more viable ways for states to meet program standards; as a result, states may end up choosing instead to shift their TANF funds formerly spent on cash assistance into other areas.

As of 2021, 540,993 families in receipt of TANF nationwide were potentially subject to a work requirement.[9] These represent the total number of families who are at risk of losing their TANF cash benefits if states reduce access to basic assistance. State variation in TANF spending and program administration is, however, quite large. Even TANF basic assistance amounts vary significantly nationwide: the 2018 monthly TANF cash benefit for a one-parent, two-child family ranged from $170 in Mississippi to $1,039 in New Hampshire.[10] Given these differing state attitudes toward cash assistance for families, it is more likely that states would make different decisions at different times in response to a work reporting policy change as is currently proposed.

In this analysis, we build upon our prior benefit-cost work demonstrating how the provision of cash assistance to families with children today produce significant long-term societal benefits to examine the impact of the reverse: how the removal of cash assistance to families with children has the potential to result in significant long-term societal costs. The exact number of families who would ultimately see their TANF cash benefits lost if this proposal is enacted is not known. The scenario in which 540,993 families are at risk represents an upper-bound estimate. It is more likely that the number of families who might lose their TANF cash benefits would be less than this upper limit in practice.[1] As such, we provide a range of estimates of the potential annual economic and societal costs depending on a range of scenarios in terms of the proportion of families affected if states make cash assistance policy changes in response to changes in work reporting requirements.

[1] It is also possible that other means-tested programs would fill in some of the lost cash assistance; for example, in some circumstances, family Supplemental Nutrition Assistance Program (SNAP) benefits would increase by up to 30 percent of the fall in family income (although typically they would rise by less than that). In such a case, the net decrease in income transfer would be up to 30 percent smaller than the decrease calculated here, and the long-run costs would fall proportionally.

Results

Table 1 provides the total potential annual societal costs associated with four potential scenarios: if 25 percent, 50 percent, 75 percent, or 100 percent of families affected by work requirements lost access to their TANF cash benefits. All results are reported in 2022 dollars.

Table 1. Annual costs to society associated with loss of TANF cash benefit for families affected by a work requirement, by proportion of families affected

Proportion of families affected by work requirements who could lose TANF cash assistance	Annual cost of TANF cash benefit loss	Annual cost to society from TANF cash benefit loss
IF: 100% of families affected by work requirements lose benefits	- $3.628 billion	- $29.6 billion
IF: 75% of families affected by work requirements lose benefits	-$2.721 billion	-$22.2 billion
IF: 50% of families affected by work requirements lose benefits	- $1.814 billion	- $14.8 billion
IF: 25% of families affected by work requirements lose benefits	- $907 million	- $7.4 billion

Source: Produced by the Center on Poverty and Social Policy (povertycenter.columbia.edu); results are in 2022 dollars. The 100 percent estimate represents up to 540,993 families losing their TANF cash assistance; the other scenarios are calculated from this baseline.

The annual costs to society associated with the loss of TANF cash assistance represent the total impact value considering changes to both program beneficiaries and taxpayers. The estimate of annual costs from a change in TANF cash assistance reflect evidence from rigorous quasi-experimental literature that finds cash and near-cash transfer programs directed toward low-income families increase children's health and education, as well as their adult earnings and longevity, and reduce low birth weight, infant mortality, child protective services, and crime (see Methods section for more).

In all scenarios, however, the annual cost to society associated with this potential policy change is eight times the size of the annual cost of the TANF cash benefit loss. As a result, every $1 in TANF cash assistance payments lost to families per year would cost society $8 per year—with a total annual cost to society of just under $30 billion in the worst-case scenario.

Table 2 takes the first scenario—the upper-bound estimate if all families currently subject to work requirements were to lose TANF cash assistance as a result of a change to TANF work reporting requirements—to illustrate how changes across other program areas and child and parent outcomes in TANF-eligible families affect the total annual cost to society. For example, the loss of TANF cash benefits decrease children's future educational attainment, employment, and earnings, which raises the likelihood that affected children will need cash or near-cash assistance in adulthood and decreases their future tax payments. Removing TANF cash benefits also requires increased future spending on children's or parents' worsened health, on child protective services, and on criminal justice.

Table 2. Detailed list of annual costs to society if all families affected by work requirements lost their TANF cash benefits

This is the upper-bound estimate of the present discounted value using mean impact estimates

	Beneficiaries	Taxpayers	Societal Impact
Decreased TANF benefits	-$3,628	$3,628	$0
Decreased future earnings of children	-$7,983	$0	-$7,983
Decreased future tax payments by children	$2,235	-$2,235	$0
Increased neonatal mortality	-$149	$0	-$149
Decreased children's health and longevity	-$14,691	$0	-$14,691
Decreased parents' health and longevity	-$1,487	$0	$1,487
Increased expenditures on other cash or near-cash	$145	-$145	$0
Increased expenditures on child protective services	$0	-$137	-$137
Increased expenditures on crime	$0	-$2,061	-$2,061
Increased victim costs of crime	$0	-$5,865	-$5,865
Decreased costs of children's education	$1,970	$471	$2,441
Increased expenditures on children's health care costs	-$62	-$498	-$560
Increased expenditures on parents' health care costs	-$1	-$9	-$10
Decreased Medicare and Social Security payments due to decreased children's longevity	-$1,498	$1,498	$0
Decreased Medicare and Social Security payments due to decreased parents' longevity	-$305	$305	$0
Changes in tax payments from parents	$0	$0	$0
Avoided administrative costs	$0	$363	$363
Avoided tax distortion costs for taxpayers	$0	$539	$539
Total	**-$25,453**	**-$4,147**	**-$29,600**

Source: Produced by the Center on Poverty and Social Policy (povertycenter.columbia.edu); results are in 2022 dollars.

Methods

We derive our estimates of the range of societal costs associated with the proposed change in TANF work participation rates policy through a model explained in detail in our 2022 *Journal of Benefit-Cost Analysis* paper, The Benefits and Costs of a Child Allowance.[11] The model is based on ample experimental and quasi-experimental cash transfer literature that we use to estimate the monetary value of benefits that cash transfers bring to children and parents, such as increased health and longevity, reductions in crime, and increased future earnings in adulthood. The evidence base from this literature provides us with an understanding of the average effect of a change in family transfer income on individual outcomes over the long term. Combining the total loss of TANF benefits with the evidence from the literature, we estimate the total monetary value of all societal losses brought by removing children and parents from TANF cash assistance.

Future changes in expenditures can more easily be compared to current changes in expenditures through discounting. Because a dollar today is worth more than a dollar next year (a dollar today can be invested at the current interest rate and will be worth more than a dollar by next year), expenditures today are worth more than the same level of expenditures 10, 20, or 30 years from now. Conversely, a benefit of a certain level received in the future has a smaller monetary value in the present. The process of estimating future gains or losses in today's terms is called discounting, and the resulting estimation is referred to as the present discounted value. Using a real interest rate of 3 percent (which is in addition to any inflation), the authors discount the expected increases and decreases in the range of affected areas listed in Table 2 in future expenditures to their present day value to represent how much these expenditures would be worth in today (here: 2022 dollars).

100 percent of families affected by work requirements—up to 540,993 families and 973,787 children[12]—losing TANF cash assistance represents the worst-case scenario but offers a starting point for our baseline upper-bound estimate. In fiscal year 2021, among all TANF families (not just those subjected to work requirements), the average monthly cash assistance received was $517 per family. Therefore, a rough estimate of total TANF benefits that could be potentially lost if all families at risk lose their cash assistance is $3.36 billion per year ($517*12months*540,993 families), or $3.63 billion in 2022 dollars, as seen in the first row of Table 1 and Table 2.

In this analysis, we further adjust the potential $3.63 billion annual loss of TANF benefits by the number of adults and children potentially affected. According to the Administration for Children and Families, in fiscal year 2021, 52.1 percent of TANF families have no adult recipients (such families are not subject to a work requirement), 43.9 percent have 1 adult recipient, and 4 percent have 2 or more adult recipients.[13] In the worst-case scenario, if 540,993 families are at risk of losing TANF benefits, we estimate that at least 586,170 adults would be at risk of losing TANF cash assistance (540,993 families*(0.439/0.479)*1 +540,993 families*(0.04/0.479)*2). The number of children potentially at risk is 973,787, according to estimates from the Center on Budget and Policy Priorities.[14] The evidence base underpinning our model shows how changes in family income (increases or decreases) affect the individual outcomes of all family members. Therefore a potential loss of $517 in monthly TANF cash benefits not only reduces monthly family income by this amount but represents exposure to a family income loss (with corresponding negative effects) of this amount to each individual member in each affected family—here, as many as 586,170 adults and 973,787 children in the worst case scenario, if all families affected by work requirements stand to lose their TANF cash assistance.

For the range of alternative scenarios, as reported in Table 1, in the calculation of the annual cost to society from the loss of TANF cash benefits if 25 percent, 50 percent, or 75 percent of families affected by work requirements lost TANF cash assistance, we assume that the number of children and adults affected would be proportional to the number of families affected (for example: 25 percent of families losing benefits corresponds to 25 percent of adults and 25 percent of children losing benefits).

Conclusion

Our prior benefit-cost work demonstrates that regularly delivered cash for flexible use by families has the potential to deliver significant returns on investment for society. This analysis illustrates how taking cash away from families implies the opposite effect: proposed changes to TANF work requirements that could take cash assistance away from low-income families with children away could result in significant economic and societal costs.

We find that every $1 in TANF cash assistance payments lost to families per year would cost society $8 per year through increased spending on children's and parents' worsened health, increased future need for other cash and near-cash benefits, increased need for child protective services, as well as reductions in children's future education, employment, and earnings, which would lead to lower future tax receipts. In the worst-case scenario, changes to TANF work requirements that reduce TANF cash assistance could cost society close to $30 billion per year.

Suggested Citation

Ananat, Elizabeth, Megan Curran, Irwin Garfinkel, Robert Paul Hartley, Anastasia Koutavas, and Buyi Wang. 2023. "The Costs of Cutting Cash Assistance to Children and Families: Changing TANF work requirements could cost society up to $30 billion per year." Poverty and Social Policy Brief, vol. 7, no. 2. Center on Poverty and Social Policy, Columbia University.

Access at: povertycenter.columbia.edu/publication/costs-of-cutting-tanf

Acknowledgements

This policy brief is made possible with the support of The JPB Foundation, Robin Hood, The Annie E. Casey Foundation, and the Charles and Lynn Schusterman Family Philanthropies.

Endnotes

1. Garfinkel, I., Sariscsany, L., Ananat, E., Collyer, S., Hartley, R., Wang, B., and C. Wimer (2022) The Benefits and Costs of a Child Allowance. *Journal of Benefit-Cost Analysis, 13*(3), 335-362. doi:10.1017/bca.2022.15

2. Orloff, A.S. (2002) Explaining US welfare reform: power, gender, race and the US policy legacy. *Critical Social Policy*. 22(1):96-118.

3. Office of Family Assistance (2023) TANF and MOE Spending and Transfers by Activity, FY 2021. www.acf.hhs.gov/ofa/data/tanf-and-moe-spending-and-transfers-activity-fy-2021 Accessed May 2023.

4. Falk, G. (2023) Temporary Assistance for Needy Families (TANF) and Work Requirements. CRS Report IN12150. Washington DC: Congressional Research Service; Pavetti, L., Shrivastava, A., Azevedo-McCaffrey, D., and U. Patel (2023) TANF Provisions in McCarthy Bill Give States Incentives to Take Cash Benefits Away From Families With the Most Significant Needs. Washington DC: Center on Budget and Policy Priorities.

5. Falk, G. and P.A. Landers (2021) The Temporary Assistance for Needy Families (TANF) block grant: responses to frequently asked questions. CRS Report RL32760. Washington DC: Congressional Research Service.

6. Falk (2023).

7. Pavetti et al (2023).

8. Falk (2023), pg. 1.

9. Office of Family Assistance (2023) Table 3A: Status of TANF and SSP-MOE Families as Relates to All Families Work Participation Rates. (Families with work-eligible individual calculated by taking the difference of 'Number of TANF and SSP-MOE Families' and 'Number of Families with No Work-Eligible Individual') www.acf.hhs.gov/sites/default/files/documents/ofa/wpr2021table03a.pdf Accessed May 2023.

10. Falk and Landers (2021).

11. Garfinkel et al (2022).

12. Pavetti et al (2023).

13. Office of Family Assistance (2023) Table 3: TANF Families by Number of Adult Recipients: FY2021.www.acf.hhs.gov/ofa/data/characteristics-and-financial-circumstances-tanf-recipients-fiscal-year-2021 Accessed May 2023.

14. Pavetti et al (2023).