

To: Interested parties
From: Arloc Sherman, Center on Budget and Policy Priorities
Date: March 22, 2010
Re: **The economic impact of ending TANF on California children**

The Center on Budget and Policy Priorities has examined the likely near-term effects on deep poverty for California families and children if the state were to adopt a proposal to eliminate CalWORKS, the state's Temporary Assistance for Needy Families (TANF) program. TANF is the nation's chief cash-assistance safety-net and welfare-to-work program for most families with children. In California, the program provides minimal cash assistance (up to \$694 a month for a single parent with two children and no other income) to more than 500,000 families with more than 1 million children, and serves as a gateway to employment through such services as counseling, child care assistance, job placement, subsidized employment, job search, and other work related activities.

The Center's analysis is based on Census Bureau survey data and other government data, an updated poverty measure, and corrections for underreporting of TANF and other public benefits, as explained in detail below.

Major findings of the analysis include:

- If TANF is eliminated, about 190,000 California children would be pushed into deep poverty, defined as family income below 50 percent of the poverty line, in 2011.
- This includes approximately 50,000 children in the Los Angeles metropolitan area.
- The number of children below half the poverty line in California would increase more than 40 percent, from approximately 450,000 children to about 640,000 children. That is, the analysis projects that about 450,000 children will have income from TANF and other sources (such as earnings, food stamps, SSI, and tax credits) below half the poverty line, but if their TANF is eliminated, the number in such deep poverty would rise to 630,000.

The analysis is conservative insofar as it focuses solely on the effect of the potential loss of TANF income support, not the program's child care or other work supports. The analysis takes into consideration the increase in SNAP benefits that families would be expected to receive following the loss of TANF cash income. For renters living in subsidized housing, where the subsidy formula ties monthly rent levels to household income, the calculation also accounts for the likely decline in rent. Because of extremely tight labor market in California, the analysis assumes no net increase in employment would result from ending TANF.

Data Sources and Definitions

The Center's analysis examined household survey data collected by the U.S. Census Bureau in 2005-2007 as part of the Annual Social and Economic Supplement of the Current Population Survey (CPS), a nationally representative survey covering approximately 100,000 addresses. Because interviewees in the CPS, as in most household surveys, tend to underreport their participation in key

benefit programs, this analysis also incorporates corrections to the survey data. The corrections come from the TRIM3 simulation model, an ongoing effort by the Urban Institute under contract with the U.S. Department of Health and Human Services to model the current utilization patterns in TANF and other income support programs and the potential impact of policy changes on program participation and benefit payments. In this analysis, data on families' TANF income, food stamp income, and Supplemental Security Income (SSI) are from TRIM baseline estimates of current policy. Unlike standard CPS data, program participation levels in these TRIM data are adjusted to approximate levels reported in administrative records.

We also incorporate an expanded poverty measure. Because the official poverty definition is based on a family's total pre-tax cash income, it leaves out the value of key forms of cash-like assistance for low-income families, and ignores effect of child care and other expenses in reducing disposable income. It also relies on a poverty line that was based in large part on a survey of household consumption patterns in 1955. We address these limitations by using a poverty measure that was recommended by the National Academy of Sciences and that is preferred by many analysts. (A federal interagency working group recently announced plans to adopt a supplemental poverty measure based chiefly on these recommendations.) As with the official poverty line, a person is considered poor if his or her annual family income is below the family's poverty line. Unlike the official measure, the new measure counts toward a family's income the value of its benefits under the Supplemental Nutrition Assistance Program or SNAP (formerly called food stamps), government rent subsidies, and energy assistance, and the net effect of federal and state income and payroll taxes including tax credits such as the earned income tax credit. Child care and other necessary work expenses and out-of-pocket medical expenditures are subtracted. (The measure also uses a broadened definition of family that counts unmarried partners, partners' children, and foster children as part of the family.)

The poverty line under the measure is based on what a modest-spending family spends on basic needs; specifically, the national poverty threshold is based on the 33rd percentile of what a household of four spends on food, clothing, and shelter including utilities. This amount is adjusted for family size and composition and varies based on the local cost of housing. Because housing costs are relatively high in California, we project that the average poverty threshold in California in 2011 will be \$30,450 for a family of four.

The analysis recalculates the value of SNAP food assistance and housing subsidies before and after TANF is eliminated. Program parameters for 2010 from USDA were used for the SNAP simulation. For individuals with housing subsidies, the analysis calculated as the lesser of 30 percent of household income or the local Fair Market Rent for 2010. Both amounts were inflated to 2011 dollars using Congressional Budget Office inflation projections.

Finally, projected levels of TANF and SNAP participation in this analysis were checked against the latest administrative data from the TANF and SNAP programs and were found to be comparable.