

Chapter I. Introduction

The Welfare Indicators Act of 1994 (Pub. L. 103-432) directed the Secretary of Health and Human Services to develop indicators of the extent to which American families depend upon income from welfare programs and to publish annual reports on welfare dependency. These reports are to address questions concerning the extent to which American families depend on income from welfare programs such as Aid to Families with Dependent Children (AFDC), the Supplemental Security Income Program (SSI) and the Food Stamp Program (FSP). (Data shown for 1997 and later years will include the Temporary Assistance for Needy Families (TANF) program in place of AFDC.) Specific issues that HHS is directed to address are the rate of welfare dependency, the degree and duration of welfare reciprocity and dependence, and predictors of welfare dependence.

An Advisory Board on Welfare Indicators was established under the Act to assist the Secretary in defining welfare dependence and in choosing appropriate data for inclusion in the first annual report. The Board consisted of a bipartisan group of experts appointed by the Senate, the House of Representatives and the President. Before its termination in October 1997, the Board developed a statistical definition of welfare dependence and oversaw the production of the first of these Annual Reports. This second annual report gives updated data on the measures of welfare reciprocity, dependency, and predictors of welfare dependence developed for last year's report.

Organization of Report

This introductory chapter provides an overview of the specific summary measures of welfare dependence proposed by the Advisory Board. It also discusses summary measures of poverty, following the Board's recommendation that dependence measures not be assessed in isolation from measures of deprivation. Analysis of both measures is important because changes in dependence measures could result either from increases in work activity and other factors that would raise family incomes, or from sanctions in welfare programs that would reduce welfare program participation but might not improve the material circumstances of these families. The introduction concludes with a brief discussion of data sources used for the report.

Chapter II of the report, Indicators of Dependence, presents a broader group of indicators of welfare reciprocity and dependence. These indicators include measures of the extent of reciprocity for each of the three programs considered separately, as well as information on income from all three programs in combination. Interactions of AFDC, SSI and FSP benefits with periods of employment and with benefits from other programs are also shown. The second chapter also includes data on movements onto and off of welfare programs, and on the extent to which welfare reciprocity in adolescence is correlated with later adult reciprocity.

Chapter III, Predictors and Risk Factors Associated with Welfare Receipt, focuses on predictors of welfare dependence -- risk factors believed to be associated with welfare receipt in some way. These predictors are shown in three different groups:

- (1) **Economic security** -- including measures of poverty, receipt of child support, health care coverage, and so forth -- is important in predicting dependence in the sense that families with fewer economic resources are more likely to rely on welfare programs for their support.
- (2) Measures of **work status** of adult family members also are important, because families must generally receive an adequate income from employment in order to avoid dependence without severe deprivation.
- (3) Finally, **teen behaviors** are very important since a high proportion of long-term welfare recipients became parents as teens, often outside of marriage. Starting a family in these circumstances may lead to dependence because teens generally lack adequate skills, preparation and resources to support a child.

Additional data are presented in three appendices. Appendix A gives basic data on each of the three main welfare programs and their recipients over the past several years. These three programs are the Aid to Families with Dependent Children (AFDC) program, the Food Stamp Program, and the Supplemental Security Income (SSI) program. The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) (Pub. L. 104-193), enacted in 1996, ended the AFDC program and replaced it with the Temporary Assistance for Needy Families (TANF) Program, which is run directly by the states. This year's annual report includes data on the first year of the new program whenever those data have been available. The available data on TANF in 1997 are shown in Appendix A.

Appendix B provides additional detail on potential risk factors that could not be included in Chapter III because of space considerations. These risk factors are primarily measures of poverty and economic security. Finally, additional data on nonmarital childbearing are included in Appendix C.

Measuring Welfare Dependence

Welfare dependence, like poverty, is a continuum, with variations in degree and in duration. Families may be more or less dependent if larger or smaller shares of their total resources are derived from welfare programs. The amount of time over which a family depends on welfare might also be considered in assessing their degree of dependency. Nevertheless, a summary measure of dependence to be used as an indicator for policy purposes must have some fixed parameters that allow one to determine which families should be counted as dependent, just as the poverty line defines who is poor under the official standard. The definition of dependence developed by the Advisory Board for this purpose is as follows:

A family is dependent on welfare if more than 50 percent of its total income in a one-year period comes from AFDC/TANF, Food Stamps and/or SSI, and this welfare income is not associated with work activities. Welfare dependence is the proportion of all families who are dependent on welfare.

This measure is not without its limitations. The Advisory Board recognized that no single measure could fully capture all aspects of dependence and that the proposed measure should be examined in concert with other key indicators of dependence and deprivation. In addition, while the proposed definition would count unsubsidized and subsidized employment and work required to obtain benefits as work activities, currently available data do not permit distinguishing between welfare income associated with work activities and non-work-related welfare benefits. As a result, the data shown in this report overstate the incidence of dependence (as defined above) because welfare income associated with work required to obtain benefits is classified as welfare and not as income from work. This proposed definition capture also represents an essentially arbitrary choice of a percentage (50 percent) of income from welfare beyond which families will be considered dependent. However, it is relatively easy to measure and to track over time, and is likely to be associated with any very large changes in total dependence, however defined. For example, as the recent changes in welfare law move more recipients into employment or work-related activities, dependence under this definition is expected to decline.

In 1994, the most recent year for which complete population data are available on monthly income and benefit reciprocity, 18.0 percent of the population received means-tested assistance, and close to one-third of this group, or 5.6 percent of the total population, would be considered dependent under the above definition, as shown in Table SUM1. Reciprocity and dependency rates are higher in both 1993 and 1994 than they were in 1987 and 1990. Reciprocity rates, for example, rose from rates of about 14 to 15 percent in 1987 and 1990, to rates of 17 to 18 percent in 1993 and 1994. This rise is consistent with administrative data showing higher than average AFDC and Food Stamp caseloads in 1993 and 1994. What is not apparent from administrative records, but is shown in these national survey data, is that dependency rates also were higher in 1993 and 1994, in the range of 5 to 6 percent, as opposed to the rates of between 4 and 5 percent, seen in 1987 and 1990.

Table SUM 1. Percentage of the Total Population with More than 50 Percent of Income from Means-Tested Assistance Programs

	1987		1990		1993		1994	
	Any Receipt of Assistance	More than 50% of Income	Any Receipt of Assistance	More than 50% of Income	Any Receipt of Assistance	More than 50% of Income	Any Receipt of Assistance	More than 50% of Income
All Persons	14.9	4.7	14.1	4.2	17.0	5.9	18	5.6
Racial Categories								
Non-Hispanic White	9.3	2.2	8.9	2.1	10.9	2.8	11.1	2.6
Non-Hispanic Black	40.9	15.7	36.6	14.6	41.8	16.7	43.2	16.8
Hispanic	28.3	10.9	29.5	8.3	33.9	14.2	37.1	12.9
Age Categories								
Children Age 0 - 5	24.5	10.0	24.0	10.3	29.0	13.3	32.4	12.5
Children Age 6 - 10	23.2	10.1	20.2	8.5	24.0	12.3	28.6	12.0
Children Age 11 - 15	19.8	8.0	18.8	6.4	22.6	10.5	24.9	9.3
Women Age 16 - 64	14.4	4.6	14.1	4.6	17.3	5.8	17.5	5.5
Men Age 16 - 64	10.1	2.0	9.5	1.5	12.0	2.7	12.3	2.5
Adults Age 65 & over	13.6	2.6	12.1	1.9	12.2	2.0	12.3	2.2

Note: Means-tested assistance includes AFDC, SSI and Food Stamps. While only affecting a small number of cases, General Assistance income is included within AFDC income. The 1993 data have been revised based on the 1993 SIPP panel; the 1993 data in earlier reports were drawn from an earlier SIPP panel.

Source: Unpublished data from the SIPP, 1987, 1990, and 1993 panels.

In Table SUM 2, the dependence indicator is calculated in more detail for specific combinations of programs. The first column shows dependency when counting income from all three programs as welfare (as was done in Table SUM 1), while the second and third columns show dependency when counting AFDC and Food Stamp benefits only, or counting SSI only. In general, about three-fourths of families who are dependent based on income from all three programs also are dependent under a definition that considers AFDC and Food Stamps alone. As might be expected, the one exception involves adults aged 65 and over. Whereas two percent of elderly recipients are dependent under the definition that includes AFDC, Food Stamps and SSI, less than one-half percent are dependent when SSI is excluded. Table SUM 2 also shows that non-whites and the very young are more likely to be dependent than other racial and age categories, and they are primarily dependent on AFDC and Food Stamps. Even in these populations, however, the vast majority of families do not meet the criteria for dependence.

Table SUM 2. Percentage of the Total Population with More than 50 Percent of Income from Various Means-Tested Assistance Programs, 1994

	AFDC, SSI and Food Stamps	AFDC and Food Stamps	SSI only
All Persons	5.6	4.1	0.9
Racial Categories			
Non-Hispanic White	2.6	1.8	0.5
Non-Hispanic Black	16.8	11.9	2.9
Hispanic	12.9	10.3	0.9
Age Categories			
Children Age 0 - 5	12.5	10.6	0.5
Children Age 6 - 10	12.0	9.3	0.9
Children Age 11 - 15	9.3	6.6	0.7
Women Age 16 - 64	5.5	3.8	1.1
Men Age 16 - 64	2.5	1.2	0.8
Adults Age 65 and over	2.2	0.3	1.4

Note: While only affecting a small number of cases, general assistance income is included within AFDC income.

Source: Unpublished data from the SIPP, 1993 panel.

A third measure of dependence, shown in Table SUM 3, indicates the proportion of the welfare population that meets the dependence definition over an extended period of time, as well as the proportion receiving any welfare benefits over time. During each of the two time periods presented, about half of all recipients did not receive more than 50 percent of their income from AFDC and Food Stamp benefits in any of the ten years examined. About one-quarter (23 percent in the 1982-1991 time period) were dependent for one to two years, with lower proportions dependent for longer periods of time. Only 4 percent of those who were received welfare in 1982, for example, were dependent for 9 to 10 years. This is a smaller percentage than the proportion of recipients that received welfare of any amount for 9 to 10 years (11 percent). There is a small tendency for the proportion of spells of welfare dependence that are longer to grow over this period, but the change is not large enough to be statistically significant. Child recipients have longer spells of welfare receipt and welfare dependence than do recipients in general, as shown in the bottom half of the table.

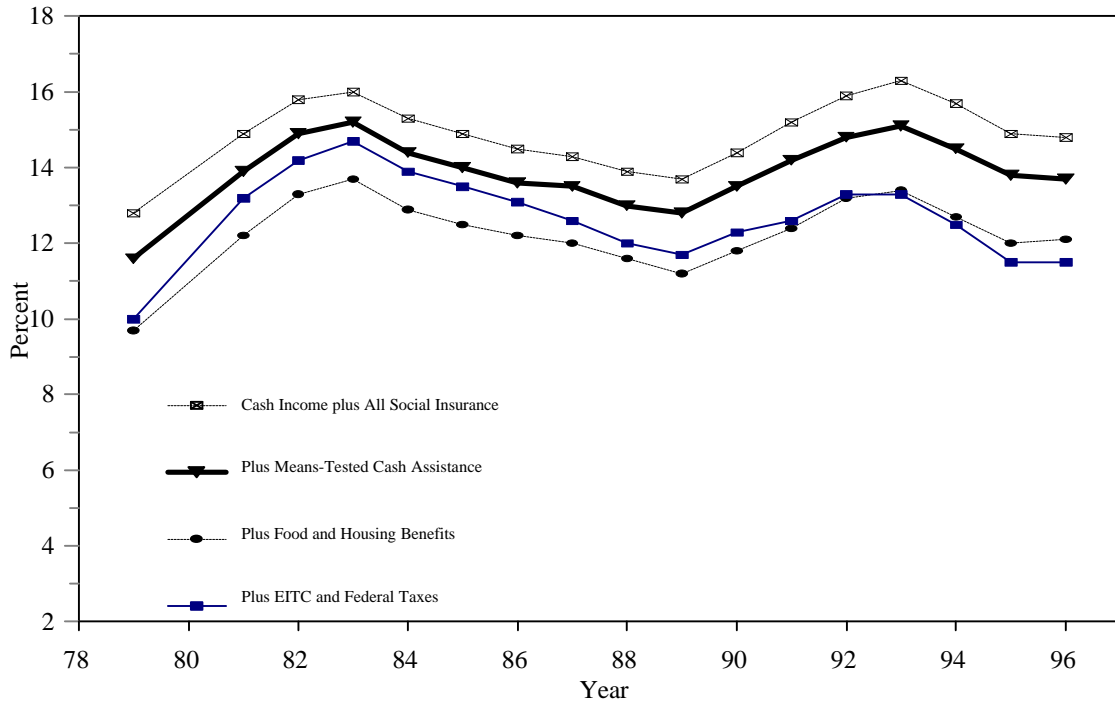
Table SUM 3. AFDC Receipt and Percentage of Recipients with More than 50 Percent of Income from AFDC and Food Stamps by Number of Years

Years	All Recipients 1972 – 1981		All Recipients 1982 – 1991	
	Any AFDC Receipt	AFDC & Food Stamps >50% of Income	Any AFDC Receipt	AFDC & Food Stamps >50% of Income
0 Years	--	55	--	50
1 - 2 Years	49	22	47	23
3 - 5 Years	28	14	28	15
6 - 8 Years	13	5	15	9
9 - 10 Years	11	4	11	4
	100%	100%	100%	100%
Years	Children 0 - 5 in 1972: 1972 - 1981		Children 0 - 5 in 1982: 1982 - 1991	
	Any AFDC Receipt	AFDC & Food Stamps >50% of Income	Any AFDC Receipt	AFDC & Food Stamps >50% of Income
0 Years	--	39	--	34
1 - 2 Years	37	25	34	28
3 - 5 Years	29	21	29	16
6 - 8 Years	15	6	17	13
9 - 10 Years	19	9	20	8
	100%	100%	100%	100%

Note: Recipients include all individuals receiving at least \$1 in AFDC or Food Stamp benefits in the first year of the ten-year time period (1972 or 1982). "AFDC Receipt" is defined as whether the person received AFDC at any time during the year. "AFDC & Food Stamps, >50% of Income" is defined as whether the person's AFDC and Food Stamps benefit was more than 50% of their yearly income. "0 Years" means that while the person received means-tested assistance, their benefits were 50% of their income for zero years during the time period. For example, a person listed as receiving AFDC for 6 - 8 years ("Any AFDC Receipt") may never have received benefits greater than 50% of their income (0 years, AFDC and Food Stamps >50% of Income).

Source: Unpublished data from the PSID, 1972 - 1991.

Figure SUM 4. Trends in Poverty with and without Means-Tested Benefits: All Persons, 1979–1996
 Percent of Total Population in Poverty



Source: Table SUM 4.

Measuring Deprivation

Changes in dependence may or may not be associated with changes in the level of deprivation, depending on the alternative sources of support found by families who might otherwise be dependent on welfare. To assess the social impacts of any change in dependence, changes in the level of poverty or deprivation also must be considered. One way of measuring deprivation is to look at changes in the level of need over time. Elsewhere in this document, for example, measures of food insecurity and of the poverty gap – the amount of income that would be needed to bring all of those below poverty to the poverty line – are presented. (See Table ECON 9 in Chapter III for measures of food insecurity and Tables B-1 and B-2 in Appendix B for poverty gap measures.)

The deprivation measure presented in this chapter, however, focuses directly on changes in the anti-poverty effectiveness of welfare and related programs. Table SUM 4 (and its associated figure) shows how much welfare programs have reduced poverty rates for all persons since 1979.

Similar data are shown for persons in families with related children under age 18 in Figure SUM 5 and Table SUM 5.

Table SUM 4. Percentage of Persons in Poverty before and after the Inclusion of Means-Tested Benefits: All Persons, Selected Years 1979 – 1996

	1979	1981	1983	1986	1989	1991	1993	1995	1996
Cash Income plus All Social Insurance	12.8	14.9	16.0	14.5	13.7	15.2	16.3	14.9	14.8
Plus Means-Tested Cash Assistance	11.6	13.9	15.2	13.6	12.8	14.2	15.1	13.8	13.7
Plus Food and Housing Benefits	9.7	12.2	13.7	12.2	11.2	12.4	13.4	12.0	12.1
Plus EITC and Federal Taxes	10.0	13.2	14.7	13.1	11.7	12.6	13.3	11.5	11.5
Reduction in Poverty Rate	2.8	1.7	1.3	1.4	2.0	2.6	3.0	3.4	3.3

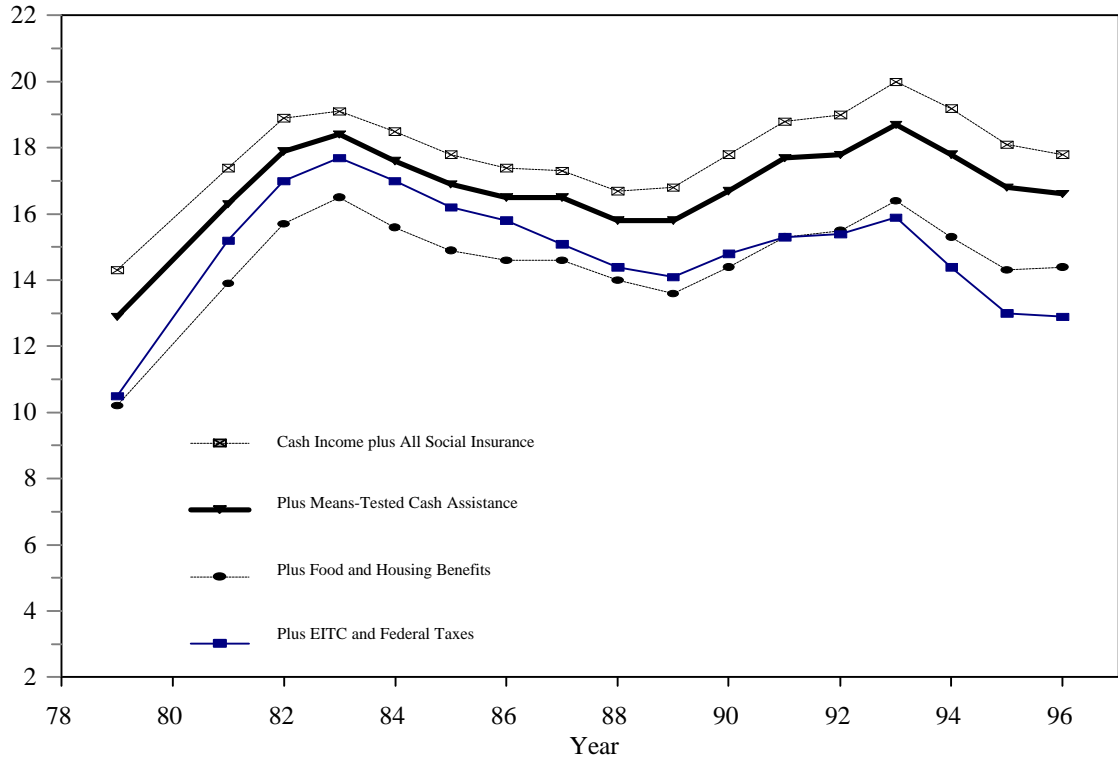
Note: The first measure of poverty, labeled cash income plus all social insurance, includes social security but not means-tested cash transfers. Adding means-tested cash transfers yields the official census definition of poverty, the second line in the table. Food and housing benefits may be received either as cash or (more generally) as in-kind benefits in which case the market value of food and housing benefits is added. EITC refers to the refundable Earned Income Tax Credit, which is always positive whereas Federal payroll and income taxes are a negative adjustment. The fungible value of Medicare and Medicaid is not included.

Source: Congressional Budget Office tabulations. Additional calculations by DHHS.

As can be seen by the figures and tables, many more families would be poor if they did not receive welfare benefits. Counting only cash income and social insurance (excluding welfare), the poverty rate for all individuals would be 14.8 percent in 1996, as shown in the top line in Figure SUM 4 and Table SUM 4. The official poverty rate, which adds means-tested cash assistance, was about one percentage point lower, as shown in the second line in the table and figure. The rate is further reduced when counting food and housing benefits (see third line in figure and table) and when counting taxes, including refunds through the Earned Income Tax Credit (EITC) (see fourth line). This final poverty rate – taking into account all sources of support – is a more complete measure of deprivation than is the official poverty rate or other measures that exclude some types of support. Breaking it down in this fashion allows the relative contribution of different sources – including cash welfare and relatively fungible in-kind welfare benefits – to the alleviation of poverty to be observed.

Poverty rates of all types began to increase in 1990 as the economy went into a recession, reaching a peak in 1993. As economic conditions have started to improve rates have come down, both before and after means-tested assistance. The gap between poverty rates before and after public assistance has increased slightly over time, particularly in the last few years as the size of the EITC has grown. The EITC is a work-related benefit, however, and is not included as assistance in estimating dependence. The contribution of all sources of means-tested support (including cash assistance, food and housing benefits, and the EITC and taxes) to the reduction in poverty has remained roughly constant, except that during the recession of the early 1980s these

**Figure SUM 5. Trends in Poverty before and after Including Means-Tested Benefits:
All Persons in Families with Related Children
Under 18 Years of Age, 1979 – 1996
Percent of Population in Poverty**



Source: Table SUM 5.

**Table SUM 5. Percentage of Persons in Poverty before and after Including Means-Tested Benefits:
All Persons in Families with Related Children under 18 Years of Age, 1979-1996**

	1979	1981	1983	1986	1989	1991	1993	1995	1996
Cash Income plus All Social Insurance	14.3	17.4	19.1	17.4	16.8	18.8	20.0	18.1	17.8
Plus Means-Tested Cash Assistance	12.9	16.3	18.4	16.5	15.8	17.7	18.7	16.8	16.6
Plus Food and Housing Benefits	10.2	13.9	16.5	14.6	13.6	15.3	16.4	14.3	14.4
Plus EITC and Federal Taxes	10.5	15.2	17.7	15.8	14.1	15.3	15.9	13.0	12.9
Reduction in Poverty Rate	3.8	2.2	1.4	1.6	3.5	3.5	4.1	5.1	4.9

Note: The first measure of poverty, labeled cash income plus all social insurance, includes social security but not means-tested cash transfers. Adding means-tested cash transfers yields the official census definition of poverty, the second line in the table. Food and housing benefits may be received either as cash or (more generally) as in-kind benefits in which case the market value of food and housing benefits is added. EITC refers to the refundable Earned Income Tax Credit, which is always positive whereas Federal payroll and income taxes are a negative adjustment. The fungible value of Medicare and Medicaid is not included.

Source: Congressional Budget Office tabulations. Additional calculations by DHHS.

programs did somewhat less to reduce total poverty. Current poverty-reduction rates for

assistance programs are about the same as in 1979, although a bit more of the reduction comes in the form of non-cash benefits. In general, the net effect of means-tested support has been to reduce poverty rates by about three percentage points for all individuals (as shown in Table SUM 4) and by about five percentage points for individuals in families with related children under six (as shown in Table SUM 5).

The relatively small changes in the level of overall deprivation since the late 1980s are consistent with the small changes in the dependence rate seen earlier. As larger changes in dependence occur under PRWORA, it will be both necessary and interesting to track changes in these deprivation rates as well. If this legislation succeeds in its aims, dependence should fall noticeably while deprivation measures remain largely unchanged.

Data Sources

For purposes of this report, the Survey of Income and Program Participation (SIPP) has been used the most extensively and is considered the most useful national survey. Its strengths are its longitudinal design, system of monthly accounting, and detail concerning employment, income and participation in federal income-support and related programs. These features make the SIPP particularly effective for capturing the complexities of program dynamics and many of the indicators and predictors, or risk factors, associated with welfare receipt.

The SIPP does not, however, follow families for more than three years. Therefore, the Panel Study of Income Dynamics (PSID) and the National Longitudinal Survey of Youth (NLSY) also are used in this report. Both the PSID and NLSY collect annual income data, including transfer income, over a long time-period, providing vital data for indicators of long-term and inter-generational welfare receipt, dependence, and deprivation.

Some indicators in this report are based upon the annual Current Population Survey (CPS), which is available on a more timely basis than the SIPP. The CPS measures income and poverty over a single annual accounting period, and provides important information regarding childhood poverty. Finally, the report also draws upon administrative data for the AFDC, Food Stamp and SSI programs.