



Economic Impact Analysis Virginia Department of Planning and Budget

22 VAC 40-295 – State Board of Social Services Temporary Assistance for Needy Families August 5, 2003

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.G of the Administrative Process Act and Executive Order Number 21 (02). Section 2.2-4007.G requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. The analysis presented below represents DPB's best estimate of these economic impacts.

Summary of the Proposed Regulation

The Board of Social Services proposes to 1) eliminate all of the resource eligibility rules for the Temporary Assistance to Needy Families, 2) increase the eligibility redetermination period from 6 months to 12 months, 3) treat nonrecurring payments as income rather than a resource, 4) disregard student earnings from countable income, 5) change the effective date of assistance to the date of the application rather than the date of approval, 6) increase the time period a child can be absent from home and continue to be eligible for benefits from 45 days to 60 days and expand the accepted reasons for absence, 7) require two and three month consistency in the child support payments prior to suspending benefits and closing a case respectively, 8) allow informing recipients for mass changes through non-specific notices, 9) eliminate the prescriptive requirements for the use of emergency funds, 10) simplify the method of determining self-employment income, 11) streamline the case processing with the food stamp program, 12) allow the department to change the rules for the purpose of conducting pilot projects, 13) allow hearing

requests to be made verbally, and 14) increase the limit of overpayments the local departments are authorized to waive the collection.

Estimated Economic Impact

These regulations apply to Temporary Assistance to Needy Families (TANF). TANF provides temporary cash assistance to eligible families with children to meet their basic needs. The program serves approximately 32,000 recipients. The federal government provides approximately \$158 million funding for this program through a federal block grant and the Commonwealth provides an additional \$125 million annually. Average assistance is currently about \$262 per month per family. Since the assistance is available to financially needy families, eligibility rules for TANF include resource and income criteria.

The Board of Social Services (the board) proposes to change a number of TANF rules. Each one of these changes is individually discussed below.

Resource eligibility rules: One of the proposed changes will eliminate the TANF resource eligibility rules. Currently, the assistance is provided to families with countable resources less than or equal to \$1,000. In addition, there are numerous resources that do not count toward the \$1,000 limit. Among these items are the exclusion of one vehicle and up to \$5,000 in an account for the purposes of “self-sufficiency.” Enforcement of resource rules requires the Department of Social Services (the department) to collect information from the applicant and then verify the reported cash resources, bank accounts, trust funds, stocks, bonds, mutual funds, or any other financial assets. According to the department, collection and verification of resource information are administratively expensive while the resource eligibility rules currently prevent only 40 people receiving assistance. Based on this information, the board proposes to eliminate all of the TANF resource eligibility criteria. It is estimated that this change will increase the assistance provided by \$127,200 for 40 families and provide \$323,050 savings in administrative staff time annually.

Although the department anticipates net fiscal benefits from this change, this expectation does not appear to be founded on reliable assumptions. The expected number of recipients who would be eligible when the resource rules are eliminated is based on the current available data. However, the use of current data for this estimation is statistically inappropriate, as it does not consider the behavioral response of rational potential recipients to this change. After the

resource rules are eliminated, a number of applicants with excessive resources will apply and qualify. The current data does not contain information on such cases because people with excessive resources would not apply while the resource rules are in place. Thus, the expected increase in the number of recipients and the costs may be significantly underestimated. In other words, the behavioral response of the potential recipients may be higher than the estimated 40 additional recipients because this estimate assumes that the effect of behavioral response will be zero. Also, this proposed change will provide incentives to people to convert their stream of income into a resource and gain eligibility for TANF benefits. Such transactions are often not very difficult to arrange. For example, a divorce settlement may provide for a cash settlement rather than a stream of support payments. Thus, there could be an additional increase in the TANF caseloads not accounted for in the department's estimated fiscal effect.

However, no data currently exists to make a reliable estimate of the magnitude of this effect. The department has argued that the behavioral response is likely to be small because i) there are not many poor enough people in Virginia to qualify; ii) the monthly average benefit is only \$254; iii) the average stay on the program is less than a year; and iv) there is a two-year time limit. Also, there is the possibility that the added incentives for asset accumulation may help some of the recipients move out of poverty.

In short, while there are a number of mitigating factors, the actual long-term costs of this proposed change may be greater than the estimated 40 additional TANF cases when potential recipients adjust their behaviors to maximize their benefits under the proposed rules with no resource criteria. Thus, eliminating all of the resource eligibility criteria may pose a fiscal risk for the Commonwealth of unknown magnitude.

An alternate and lower risk way of reducing costs associated with administration of resource rules could be conducting random verifications of reported resources. The main purpose of the proposed change is to reduce administrative costs. The random check approach is a cost effective and a sound practice utilized in many other regulatory programs. In this case, random check approach has the potential to provide significant administrative cost savings

without introducing significant fiscal risks. For example, randomly verifying 10% of the cases would reduce the administrative staff time by 72%.¹

Eligibility re-determinations: The proposed changes will replace the certification approach for eligibility. Currently, TANF recipients are certified to receive benefits for a 6-month fixed period of time. Thus, every six months local agencies receive new applications, conduct face-to-face interviews, and make necessary verifications. The board proposes to replace the current approach with a 12-month re-determination period. This is expected to reduce the number of case verifications by approximately 39,000 cases and estimated to save approximately \$2.1 million in staff time. Similarly, significant time savings for applicants are also expected. On the other hand, it is possible that less frequent re-determinations will hurt the ability of the department to receive updated information on cases and prevent non-eligible persons from receiving benefits in a timely fashion.

Nonrecurring payments: The proposed regulations will treat nonrecurring payments (lump sums) as income in the month of the receipt. Currently, the recipients are not provided benefits for the duration of the time it would take them to collect TANF benefits in the amount equal to the lump sum payment. For example, a \$5,000 received in insurance payments renders the recipient receiving \$262 per month ineligible for 19 months. However, the department indicates that in many cases the recipient spends the lump sum, reapplies for TANF benefits, and qualifies. With this change, the recipient will be ineligible in the month he receives the lump sum payment, but will continue to receive the benefits for the remaining 18 months. This change is expected to make about 171 families eligible for TANF assistance and increase payments by \$271,890. On the other hand, approximately \$3,157 savings in staff time is expected as a result of fewer reapplications.

Student income: The proposed regulations will disregard the earned income of a student who is not the head of household when determining income eligibility. Currently, this income is counted in the gross screening after six months. It is estimated that approximately 10 families will qualify for the assistance because of this change. While the assistance amount is expected to

¹ This is based on the following assumptions provided by the Department of Social Services: a) there are 70,000 affected cases, b) it takes 3 minutes staff time to collect resource information and 12 minutes to verify that information on average.

increase by \$31,800, approximately \$558 in staff time is expected to be saved. The proposed exemption is also expected to provide incentives for students to work.

Effective date of assistance: The proposed regulations will change the start of TANF assistance to the date of application from the date of approval. With this change, benefits will be provided to recipients for the time it takes to process applications. The average processing time is currently about 30 days. This change is estimated to increase the assistance provided by \$74,817.

Child absence: With the proposed changes, if the child is absent from home more than 60 consecutive days he/she will be ineligible for TANF. This time period is currently 45 days. Also, the specific reasons for absence that are acceptable will be changed to the more open ended good cause. As a result of both of these changes, fewer children will be found ineligible. Thus, TANF benefit payments are expected to increase by \$28,558. On the other hand, approximately \$2,012 in staff time is expected to be saved since there will be less administrative work associated with a lower number of ineligibility determinations.

Child support collections: It is proposed to suspend TANF payments when the child support collections in two consecutive months (if considered as income) make a family ineligible and to close the case when this amount continues to make the family ineligible in the month of the suspension. Currently, the department stops and starts payments every month depending on the change in the eligibility when the child support payments are taken into account. If the child support payments are \$50 higher than the TANF benefits, the case is closed. However, in many cases there is no consistency in the amount of child support received. Thus, the TANF case is closed and reopened very often. According to the department, closing the case only after three consecutive months of receiving payments in excess of TANF benefits will prevent closing and reopening of many cases and provide consistency in receiving payments. This is expected to provide \$10,000 savings in staff time. The amount of assistance the beneficiaries receive will stay unchanged, but the funds will come from different programs of the agency's budget.

Mass change notices: The proposed changes will allow the department to send notices to recipients for the changes in benefits due to events affecting large populations such as cost of living adjustments without the specific information about the change in the benefit amount. This

change is estimated provide \$13,845 savings in staff time, but as a result recipients will no longer receive specific information about the change in the support amount.

Emergency assistance: The board proposes to eliminate prescriptive language on the provision of emergency assistance. This type of assistance is provided in the event of an emergency such as a fire. Current language is very specific about how this money can be spent. For example, it specifies what could be bought with these funds and requires many types of verifications prior to the purchase. Elimination of this prescriptive language is estimated to save about \$2,215 in staff time.

Standardized disregards: The proposed changes will standardize income disregards so that they do not fluctuate. Currently, the department applies \$90 income disregard for the earned income in the first month, \$30 disregard in next four months, and \$90 disregard thereafter. It is proposed to replace these disregards by a flat dollar amount plus 20% of the remainder of earned income. Although the proposed language does not specify the flat dollar amount, the department plans to use the amount used in the food stamp program and expects no significant change in benefits. However, this change is expected to simplify the calculation of income disregards and save approximately \$11,076 in administrative staff time.

Self-employment income: The board proposes to simplify the method of determining self-employment income. Currently, self-employment income is determined by subtracting business expenses from gross receipts. However, the determination of business expenses is administratively costly. The proposed changes will allow the department to establish a standard business expense ratio as a percent of gross revenues. This simplification is expected to provide \$1,154 savings in staff time. It is possible that this change may affect the eligibility determinations for some individuals, but is not expected to have a significant program wide fiscal impact.

Case processing: The board also proposes to streamline the TANF case processing with the food stamp program by making changes to processing time frames, reporting requirements, action on changes, and advance notice requirements. Since the same employees process the information on two programs, some administrative cost savings are anticipated.

Pilot programs: The proposed changes will provide authority to the department to change the TANF rules established in these regulations for research purposes. Such research projects

may be used to analyze the impact of a planned change in program rules, may provide useful information on the potential effects, and may reduce risks associated with the planned changes.

Hearings: The proposed changes will allow the recipients to request hearings orally. Currently, this must be done with a written request. The proposed change may provide some small administrative cost savings by reducing the paperwork involved in hearing requests. On the other hand, it may increase the number of hearing requests and consequently the administrative costs by removing a potential barrier. The net effect of this proposed change cannot be estimated at this time due to lack of data.

Collection of overpayments: The board proposes to increase the overpayment amount the local departments may suspend (when the collection is not cost effective) from \$35 to \$125. In most cases, the local departments deduct overpayments from the next TANF payments. Thus, this limit applies only when the recipient has received overpayments and stopped receiving TANF payments. Because such cases are not common, the department does not anticipate any significant change in the collections because of this change.

The main overall effects of the proposed changes include an anticipated increase in the TANF assistance provided and a decrease in the staff time required to administer this program. According to the department, there are no plans to reduce staffing. Instead, anticipated savings in staff time might be redirected to focus on the employment component of the Virginia welfare program, or other programs administered by the local departments such as the food stamp program.

Businesses and Entities Affected

The proposed changes will affect all TANF recipients. Currently, average monthly enrollment is about 32,000.

Localities Particularly Affected

No localities are particularly affected by the proposed regulations.

Projected Impact on Employment

The proposed regulations are expected to provide administrative timesavings amounting to approximately 2.5% of the total eligibility worker time used by the local departments to administer this program. However, there are no plans to reduce staff because caseloads for

benefits programs have been increasing. Caseloads across eligibility programs have risen more than 107,000 in FY 2002. Also, none of the changes are expected to have a direct effect on employment. Thus, no significant effect on employment is expected.

Effects on the Use and Value of Private Property

The proposed regulations are not anticipated to have a direct effect on the use and value of private property.