A Brief History of the AFDC Program

On August 22, 1996 President Clinton signed into law the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 (Public Law 104–193). PRWORA replaced the Aid to Families with Dependent Children (AFDC) program that had been in existence for 60 years. As a baseline for understanding the impacts of the new law, this report summarizes data on the AFDC program as it existed prior to this new legislation.

Origins of the AFDC Program

In the face of widespread hardship and the exhaustion of public and private resources for the poor during the Depression, Congress passed the 1935 Social Security Act. What we know as Social Security today was only one of several programs that Congress included in the Act. The Act also included funds for the States to help destitute elderly, blind, and children. Many but by no means all of the states already had such programs. These state programs were often the descendants of the "outdoor" relief as contrasted with "indoor" or poor house relief that existed from Colonial times. For example, by 1931, 200,000 children in every state except Georgia and South Carolina lived in homes supported in part by mothers' pensions. In most instances, assistance was restricted to destitute widows. (Katz, p. 133.) The states almost always placed the duty to provide relief on local governments with the funding to come from local property taxes.

Federal Assistance to States

The provisions to help states provide support for children was contained in Title IV of the Act, which took up only three pages of text. Participation by any state was voluntary. To participate in the program, states had to submit a plan for the approval of federal administrators. The Social Security Act stipulated certain elements of the plan as conditions for the receipt of assistance. The conditions were at first very minimal. State and local treasuries were stretched so thin by the Depression that few governors or legislatures hesitated to propose a plan. However, in 1939 eight states – Connecticut, Illinois, Iowa, Kentucky, Mississippi, Nevada, South Dakota, Texas – and the territory of Alaska still had no Aid to Dependent Children program (Coll, p. 104).

Instead of appropriating a fixed amount of money for each year to be divided among the states, Congress authorized reimbursement of a certain portion of state expenditures without any ceiling on the total amount. The Act authorized the Secretary of the Treasury to reimburse each state with an approved plan for one-third of its benefit payments, up to a maximum federal payment of $6 per month for the first child plus $4 for each additional child. The Act appropriated an initial $24,750,000 and "a sum sufficient to carry out the purposes of this title" for subsequent years. A variety of changes to the formula were made over the years, but the basic structure of an open-ended appropriation continued until the passage of the Temporary Assistance to Needy Families Act (TANF) in August 1996.

Persons Covered

The original title of the program was Aid to Dependent Children. The stated purpose of Title IV was to provide financial assistance to needy dependent children. The federal program made no provision for assisting a parent or other relative in the household although it did specify that the child must live with a parent or other close relatives to be eligible for federal aid. It was not until 1950 that the federal government began to share in the maintenance costs of a caretaker relative.

Congress later *allowed* states to claim federal reimbursement for assisting other persons under the AFDC program, for example–

- the child of an unemployed parent and that parent (AFDC-Unemployed Parent), effective in 1961;

- a second parent in a family with an incapacitated or unemployed parent was allowed effective in 1962 and the name of the program was changed to Aid to Families with Dependent Children;

- "any other individual" in the home deemed essential to the child, known as the "essential person" option, effective in 1968; and

- an unborn child, in last trimester of mother's pregnancy, effective in 1981.

There were optional provisions that the states could choose to adopt or not depending on their own political and policy decisions. A state might choose to participate in the Unemployed Parent program for several years and then decide to reverse that decision. For example, in 1978 twenty-eight states participated in the AFDC-UP program and in 1982 that number had dropped to twenty-three states.

Eventually the Federal government made it mandatory that states provide benefits to–

- the second parent in families with an incapacitated or unemployed parent, effective in 1984 (previously, some states did not cover the spouse of an

incapacitated or unemployed parent);

- the families of unemployed parents, effective in October 1990. (States that previously did not offer AFDC-UP were allowed to limit benefits to 6 months yearly.)

Administration

The Federal government was empowered to make rules for the "proper and efficient administration" of the program. Initially, there were very few requirements imposed on the states regarding the administration of the program. The original "rules" took the form of "State Letters" issued by the Social Security Board. These directives and interpretations of the Act were organized and developed into a *Handbook of Public Assistance Administration* in 1945. It was not until 1967 that this system was replaced with a set of formal rules published in the *Code of Federal Regulations*.

The state was required to designate a single agency to be responsible for the administration (or supervision, if locally administered) of the program. The Act required that the state's program be available in all parts of the state and that the state's rules be consistently applied. This meant that local governments, which often continued to have a considerable financial stake in the program, could not impose local rules on applicants and recipients. States were permitted to continue to impose their own residency and citizenship requirements. In 1950 Congress required states to provide an opportunity for anyone to apply for aid, to furnish aid with reasonable promptness to all eligible persons, and to provide the opportunity for a "fair hearing" to those denied assistance or not given a response within a reasonable period of time.

Eligibility and Benefits

States were required to establish a standard of need, limitations on the possession of personal or real property, rules for the treatment of any earned or unearned income, and a payment standard. In the original proposed legislation, Congress was asked to include a provision requiring states to pay "a reasonable subsistence compatible with decency and health." Congress refused to accept this proposal, and instead inserted the clause "as far as practicable under the conditions in such State." (Derthick, p. 44-45.) As a result, the amounts diverged over time and eventually became unrelated to each other. In 1967 states were required to update their AFDC cost standards by July 1, 1969, but not to increase their payments.

The standard of need was the maximum amount of income allowed for a family to be considered "needy." In the early years the need standard and the payment standard were identical in many states. However, over time more states did not provide a payment equal to their need standard and after 1981 this became the common practice. In recent years the standard of need was almost always considerably higher than the amount actually provided in assistance for any given family size. For example, in July 1994 the average of the states' need standards, weighted according the share of the total caseload,

was $688 per month. However, the average payment standard was $420 per month. The standard of need was usually based on some estimate of the minimum amount necessary for subsistence. The payment standard was based on whatever funds the state legislature appropriated.

Age of Eligible Child

All children through the age of 15 were eligible for assistance. Congress gave states the option of aiding children older than 15 as follows: children aged 16 and 17 if regularly attending school, effective in 1940; students aged 18-20 in high school or a course of vocational or technical training, 1964; and students aged 18-20 in college or university, 1965. However, in 1981, Congress ended a child's eligibility on his 18th birthday or at state option, if he were still in high school, on his 19th birthday.

Income of Family Members

In 1939 states were required in determining need, to consider any other income and resources available to the applicant. In 1981, Congress required states to treat a portion of the income of an AFDC child's stepparent (living in the same home) as available to the child. Effective in 1984, Congress required that any parent and brother or sister of a needy child who lived in his home (except for Supplemental Security Income recipients) must be included in the AFDC assistance unit of the child and, thus be included in calculating the family's needs, income and resources.

Work Requirements and Incentives

In 1961 as part of the inclusion of unemployed parents in the program, states were required to deny assistance to families if the unemployed parent refused to accept work without "good cause." In 1962 Congress authorized federal funds to establish Community Work and Training (CWT) programs for federally-aided recipients age 18 and over. CWT programs were to pay wages equal to the prevailing rates in the community for same type of work and to ensure that appropriate standards of health and safety were observed. States were required to disregard work-related expenses and permitted to exclude income that was saved for the future identifiable needs of a dependent child. The denial of assistance for refusal of a job was expanded to include refusing to accept a training assignment.

In 1964 under Title V of the Economic Opportunity Act, Congress authorized the creation of Community Work and Training projects in states that had not yet included the unemployed parents category in their AFDC programs. Congress also provided for a more liberalized recognition of work-related expenses and allowed states to supplement the grants of participants up to the state's standard of need.

In 1968 Congress required states to set up a work and training program called Work Incentive (WIN) for "appropriate" AFDC recipients. The program was to be jointly administered by the Department of Health, Education and Welfare (HEW) and the

Department of Labor through the state welfare departments and employment service offices. All unemployed fathers had to be referred to the program. In 1971, Congress required that all AFDC parents register for work or training with the WIN program except for mothers under age 6. The Family Support Act of 1988 replaced WIN with the Job Opportunities and Basic Skills Training program (JOBS) in a new part IV-F of the Social Security Act. It required states, to the extent resources allowed, to engage most mothers with no child below age 3 in education, work, or training under JOBS.

When setting up WIN to take effect in 1968, Congress offered a financial incentive for AFDC adults to work in the form of a permanent disregard of a portion of earnings. Previously only work expenses were deducted from adult earnings and the remainder was counted against the AFDC check (payment standard) in most states. The new law required states to disregard the first $30 earned and one-third of the remaining monthly earnings. The result was that working recipients would not lose AFDC eligibility until gross earnings were 150% of their basic benefit plus $30 monthly plus 150 percent of work-related expenses.

In 1981 Congress repealed the permanent work incentive (disregard of one-third of every extra dollar), confining it to the first 4 months of a job. In the later months of a job (and for applicants) states were to disregard only a standard allowance plus actual child care expenses, up to a ceiling. For instance, after 12 months on a job, a standard sum of $75 monthly (later raised to $90) was to be disregarded. In 1981, Congress also imposed a Federal gross income limit (150 percent of the need standard, later raised to 185 percent). In 1988, Congress required states not to count as income against the AFDC grant any earned income tax credit (EITC) payments received by a AFDC working parent (and to disregard these payments as a resource for two months).

In 1981, Congress gave states authority to design and test their own "welfare-to-work" WIN programs. Further, it authorized funding for job search, work relief (Community Work Experience Programs – CWEP) and subsidization of a job with the AFDC benefit (work supplementation). A job search component was added in 1982. The Family Support Act of 1988, which established JOBS, greatly enlarged funding for welfare-to-work efforts. It also required all states to offer aid to families of unemployed parents, at least for part of the year.

Funding

In the 1935 Act, Congress set the Federal share of AFDC payments at 33 percent, up to individual payment maximums of $18 for the first child and $12 for additional children. Thus, for the first child, the maximum Federal share was $6. Subsequently matching maximums were increased and based on average spending per recipient. In 1956, variable matching rates were established, providing more generous Federal reimbursement for states with lower per capita incomes. But these variable rates applied only to average expenditures, up to a ceiling, above specified amounts per recipient. In 1965, when Medicaid was established, Federal matching for every AFDC dollar spent by

the states became available. States that implemented Medicaid were allowed to use its open-ended matching formula for total AFDC benefits as well. Medicaid matching rates, inversely related to state per capita income, have a statutory floor of 50 percent and a ceiling of 83 percent. In FY1997 the actual top rate is 77.09 percent, in Mississippi.

Waivers from AFDC Law

Section 1115 of the Social Security Act, established in 1962, allowed the waiver of specified parts of AFDC law (namely, provisions setting forth requirements for state plans) in order to enable a state to carry out a project that the Secretary of HEW judged likely to promote the objectives of AFDC. Presidents Reagan, Bush, and Clinton all promoted use of waivers for state experimentation. The Clinton administration approved waivers from more than 40 states, many of them for statewide reforms, before passage of the law repealing AFDC on August 22, 1996.

Social Services

In 1956 Congress authorized reimbursement of 50 percent of the costs of “rehabilitation services,” and authorized grants for demonstration projects designed to reduce dependency. In 1962, Congress increased the Federal reimbursement rate for social services to AFDC families and opened up eligibility for services to former and potential AFDC families. The matching rate was raised to 75 percent. Later, in 1975, Congress replaced open-ended funding for social services with a block grant in a new title XX of the Social Security Act.

Foster care

Effective in 1962, Congress authorized payments for foster care for AFDC-eligible children. This responded to a ruling by the HEW Secretary that states would no longer be permitted to deny AFDC to a needy child on the basis of "unsuitable" home conditions; they were to continue aid to the child in the home while making arrangements for the child to live elsewhere. In 1980, Congress established a program of adoption assistance and foster care for children in a new part IV-E of the Social Security Act.

Interaction of AFDC with Other Benefit Programs

Food Stamps

Food assistance programs were not considered a “welfare”program, but rather nutrition programs. They were designed to help low-income families afford a better diet. While the Food Stamp Program had its origins during the New Deal, in 1961 the program was revived at a modest level by President Kennedy. In 1968 a television documentary, shown on Thanksgiving, publicized the existence of malnutrition and hunger in the United States. Hunger quickly became an issue in the presidential election campaign of that year, and after the election President Nixon expanded the program. Another major

expansion occurred in 1974 when Congress required all states to offer the program.

The program is designed so that food stamp benefits make up the difference between the household's expected contribution to its food costs (estimated at 30 percent of net income) and an amount judged to be sufficient to buy an adequate low-cost diet. This amount is derived from the U.S. Department of Agriculture's Thrifty Food Plan with adjustments for the size of the household and inflation.

All AFDC families were qualified to receive food stamps unless they lived in a larger household. More than 85 percent of all AFDC families usually received food stamps. The Food Stamp program treated the AFDC grant as countable cash income in determining benefits. For every extra dollar of AFDC income, food stamps were reduced by about 30 cents; at the same time, when AFDC payments declined, food stamps were increased by about 30 cents per lost AFDC dollar. Thus, if an AFDC recipient were penalized by one dollar for failing to comply with a program rule, food stamps reduced the net loss to 70 cents. The interaction between AFDC and the Food Stamp Program had important financial implications for states. If a state wanted to increase the income of its AFDC recipients, it had to increase AFDC by $1.43 to obtain an effective $1 increase in the recipient's total income ($1.00/0.7 = $1.43). Although the law permitted state AFDC programs to count as income some of the value of a family's food stamps–the amount duplicating the food allotment in the state's maximum payment schedule–no state did so.

Child Support Enforcement

In the 1950 amendments, effective July 1, 1952, states were required to give prompt notice to appropriate law enforcement officials of the furnishing of aid to an abandoned or deserted child. This was known as the "NOLEO" amendment. The rationale was that by requiring welfare agencies to provide this notice, law enforcement officials (usually District Attorneys) would be obliged to find the deserting parent who would be forced to support the child(ren) under the laws of the state regarding the responsibility of parents toward their children. In 1967 Congress required states to establish programs to determine paternity and to locate absent parents and secure support from them. Congress also authorized the first attempt to establish a "parent locator" service whereby states would provide lists of absent parents to HEW who would request the IRS to furnish the addresses of such parents to the states.

In 1975 the Child Support Enforcement program was enacted as a new part IV-D of the Social Security Act. Families and applicants were required to assign their rights to child or spousal support to the state as a condition of AFDC eligibility and to cooperate with the state in establishing the paternity of a child born outside of marriage and in obtaining support payments. Child support payments made on behalf of an AFDC child were paid to the child support agency rather than directly to the family. If the child support collections were insufficient to disqualify the family from AFDC, the family received its full monthly AFDC grant. In 1984 the law required states to disregard the first $50 of the

child support payment in making AFDC benefit calculations. The remainder of the monthly child support payment reimbursed the state and Federal Governments in proportion to their assistance to the family. A few states elected to disregard additional amounts of child support to bring the total payment up to the level of the need standard. If the family's income, including the child support payment, was sufficient to make the family ineligible for AFDC, future child support payments to the family were usually made by the noncustodial parent through an intermediary such as the local child support agency or office of the court clerk.

Medicaid

In 1950, the definition of “aid” was broadened to include medical or remedial care for ADC recipients. This was the precursor to the Title XIX program enacted in 1965. Under the welfare reforms of 1988 and the creation of the JOBS programs, states were required to provide Medicaid to AFDC recipients and to offer 12 months of transitional medical coverage to those who lost AFDC eligibility because of earnings. During the second six months of transitional coverage, states could limit the scope of benefits; it also could impose a monthly premium on families whose income, net of necessary childcare expenses, exceeded 100 percent of the Federal income poverty guidelines. The monthly premium could not exceed three percent of the family's gross income. States also were required to provide Medicaid coverage to all members of AFDC-UP families during months when they were not paid cash benefits because of a state-imposed time limit. States were permitted to offer Medicaid to "medically needy" families whose income was above AFDC limits but not more than one-third above the maximum AFDC payment for a family of their size. ("Medically needy" income limits for aged and disabled persons also were based on 133 1/3 percent of AFDC maximum payment levels for their size of "family.")

Earned Income Tax Credit (EITC)

Low-income wage earners, including those who leave welfare with a job, are eligible for a cash supplement from the U.S. Treasury in the form of an earned income credit (EITC). The Earned Income Credit was first introduced into the tax code in 1975. The credit equals a specified percentage of wages up to a maximum dollar amount. For tax year 1997, the maximum credit for a tax filer with one child is $2,210. For two or more children the maximum credit is $3,656 ($305 monthly rate), received for earnings between $9,140 and $11,930. At higher levels credits are phased out. For families with more than one child, they end at an adjusted gross income of $29,290. EITC is a refundable credit; persons with income below the taxation threshold receive the credit as a direct payment from the U.S. Treasury. Federal law required that EITC be ignored as income (and for two months as a resource) in determining AFDC eligibility and benefits. The new welfare law permits states to decide how the EITC will be treated by their own TANF programs. Food stamps, Medicaid, Supplemental Security Income (SSI), and some housing programs must ignore EITC as income.

Social Security

In AFDC, Social Security benefits were treated as unearned income; thus, AFDC benefits were reduced by $1 for each $1 of Social Security benefits. Under 1984 law, Social Security survivor benefits received by one AFDC child were counted as income available to other family members.

Supplemental Security Income (SSI)

Under AFDC law, the SSI recipient (whether a child or an adult) was not regarded as a part of the AFDC unit. Thus, his needs could not be taken into account in determining the AFDC benefit level. Nor could any of his income or resources (including non-SSI income) be counted as available to the AFDC family.

Sources

Burke, Vee. *Brief Legislative History of Title IV-A of the Social Security Act.* Washington, DC, Unpublished manuscript, 1997.

Coll, Blanche D. *Safety Net: Welfare and Social Security, 1929-1979.* New Brunswick, NJ, Rutgers University Press, 1995.

Derthick, Martha. *The Influence of Federal Grants: Public Assistance in Massachusetts*. Cambridge, MA, Harvard University Press, 1970.

Katz, Michael B. *In the Shadow of the Poorhouse: A Social History of Welfare in the United States*. New York, NY, Basic Books, 2nd edition, 1996.