

STATEMENT BY
TOMMY G. THOMPSON
SECRETARY
DEPARTMENT OF HEALTH AND HUMAN SERVICES
ON “WELFARE REFORM: BUILDING ON SUCCESS”

BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE

MARCH 12, 2003

Mr. Chairman, Senator Baucus and members of the Committee, I am honored to appear before you today to discuss the next phase of welfare reform, and the importance of completing reauthorization of our welfare and child care programs as quickly as possible. Over one year ago the President proposed a reauthorization plan that included critical changes to strengthen the Temporary Assistance for Needy Families (TANF) program and the child support enforcement program while also providing a strong commitment to child care. The proposal builds a foundation for helping even more families achieve self-sufficiency, for helping those finding jobs succeed and progress in employment and for helping to build stronger, healthier families.

I believe it is extremely important, and I know you do also, that we complete reauthorization of the TANF and child care programs and enact child support reform legislation quickly so that States can plan properly for the future and, more importantly, so families can benefit from the improvements envisioned.

The House recently passed H.R. 4, a plan very similar to the proposal it adopted last year and which is based on the President's reauthorization principles. In addition, Senator Talent and others recently introduced S. 5, which also is based on the President's plan. The Administration supports the framework of both these bill, and is very pleased to be working with this committee, under Chairman Grassley's able leadership, toward swift much-needed reauthorization of welfare reform consistent with the President's budget.

Last year I appeared before this committee to discuss the President's welfare reform plan and I appreciate the comments, concerns and candor that members of this Committee provided regarding our proposal as well as the interesting ideas you shared. I recognize that we will not always agree, and the President and I fully understand that you will want to do some things differently than we have proposed. However, I am convinced that even with these differences we can produce stronger and better programs for America's low-income families. I come before you today not only to present our proposal once again but also to ask you to work with me, and with the House of Representatives, to complete this critical work.

Together our work on welfare reform has had a profound impact on our nation's most vulnerable families. We have exceeded the most optimistic expectations by assisting millions of families in moving from dependence on welfare to the independence of work. We have provided a strong commitment to child care to ensure parents can go to work without worrying about the safety and well-being of their children, and we have succeeded in collecting record amounts of child support on behalf of children with a parent absent from the home. I am confident that together our work in reauthorizing the TANF program and the Child Care Entitlement Programs, along with making improvements to our Child Support Enforcement program, will lead to even greater achievements in the future.

President Bush's proposal for the next phase of welfare reform is based on four important goals: help more welfare recipients achieve independence through work; promote strong

families; empower States to seek new and imaginative solutions to help welfare recipients achieve independence; and show compassion to those in need. These goals formed the guideposts in shaping the Administration's proposals for TANF, child care and child support.

I would like to take a few moments now to remind members of the important progress we have made in strengthening families under these three critical programs and highlighting the specific areas the President has targeted for improvement. I will begin with TANF, the cornerstone of our welfare reform efforts.

Temporary Assistance for Needy Families

TANF has been a tremendous Federal-State partnership success. Congress established a clear expectation that cash assistance should be temporary and adult recipients should be expected to work and pursue self-sufficiency. At the same time States were given a great deal of flexibility to reform their welfare programs to achieve these goals. As a result, millions of families have been able to end their dependency on welfare and achieve self-sufficiency.

TANF caseloads have declined for the sixth straight year. The number of persons receiving TANF cash assistance in September 2002 was 4,995,719 - - a decline of 6.2 during the fiscal year, and a decline of 59.2 percent since August of 1996 when the TANF law went into effect.

Families receiving TANF benefits declined 3.9 percent during fiscal year 2002 to 2,024,691. Overall, since the TANF legislation was passed in August of 1996, the number of families receiving TANF assistance has dropped by 54.1 percent.

Indeed, our recent experience confirms that the 1996 law has fundamentally changed the way welfare works in America. While we are understandably concerned about job opportunities for recipients, recent data demonstrates that, despite the rise in unemployment during the recent recession, TANF caseloads have not increased as early critics of welfare reform had anticipated. In fact, from March 2001, when the recession began, until September 2002, caseloads declined 4 percent for families and 8 percent for recipients. Welfare programs grounded in expectations of work and focused on helping clients find employment can help families tremendously even when economic opportunities appear to be less available.

Declining dependency has not been the only positive outcome we have seen since TANF was created:

- Employment among single mothers has grown to unprecedented levels, and a new study, recently published in Science Magazine reported that, “In families...mothers’ entry into employment was related to a significant increase in family income across every model specification.”
- Child poverty rates are at or near historic lows. This is one of the most important outcomes we could have hoped to achieve – and TANF has been a stunning success. The overall child poverty rate has fallen from 20.5% in 1996 to 16.3% in 2001 - a

20% decline. The poverty rate for African American children is down 24% since 1996 and in 2001 reached its lowest level ever recorded. The Hispanic child poverty rate dropped from 40.3 percent to 28.0, the largest five year drop on record. This is all the more remarkable as the nation was in a recession for most of 2001. Putting this into perspective, in all previous recessionary periods since the early 1960's, child poverty increased - on average 1.4 percentage points during a recessionary year, and never less than 1.0 percentage point in such a year. Yet, between 2000 and 2001 overall child poverty rates essentially remained unchanged, and child poverty among African American and Hispanics both declined.

- The rate of births to unwed mothers has stabilized.
- The share of young children living with married mothers ended a decades-long decline in 1996.
- The share of unmarried women with a young child stopped growing and began to decline in mid-decade as well.

But even with this notable progress, much remains to be done, and States still face many challenges. The President's reauthorization proposal builds on this success by:

- strengthening the Federal-State partnership;
- asking States to help every family they serve achieve the greatest degree of self-sufficiency possible through a creative mix of work and additional constructive activities;
- helping States find effective ways to promote healthy marriages and reduce out-of-wedlock childbearing;

- improving the management and, therefore, the quality of programs and services made available to families; and
- allowing States to integrate the various welfare and workforce assistance programs operating in their States.

I would like now to take a few moments to explain again some of the details of our proposal.

Strengthening the Federal-State Partnership

Our proposal seeks to strengthen the Federal-State partnership by maintaining the Federal financial commitment to the program and by making some key policy changes to increase State flexibility. We provide \$16.5 billion each year for block grants to States and Tribes and an additional \$319 million for annual Supplemental Grants to States that have experienced high population growth and had historically low funding levels. We also reauthorize and improve the \$2 billion Contingency Fund. We continue the current maintenance of effort (MOE) requirement for States' contribution to assistance for children and families. Finally, we restore the policy permitting the transfer of up to 10 percent of TANF funds to the Social Services Block Grant, which current law limits to 4.25%.

In addition to these basic funding provisions, we propose a number of policy changes on the use of funds that will provide States increased flexibility in managing their programs.

- The distinction under current law between “assistance” and “non-assistance” has been a source of considerable confusion for States and has restricted State creativity in

helping those not on welfare who lose jobs to avoid going on welfare. We ease limitations on services for the unemployed by clarifying the definition of “assistance” so that rules tied to such spending would not apply to child care and other non-cash support services.

- While current law allows States to carry over funds from year-to-year, there is no clear way for States to signal that the carry over funds are purposely conserved against difficult economic times, rather than simply unspent. We allow States to designate “rainy day funds” and clarify that such funds would be reserved for future TANF use.
- Further, we revise current restrictions on carried over funds, which limited their use only to expenditures on “assistance,” by allowing such funds to be spent on any service or benefit that achieves a TANF purpose. Had action been completed on reauthorization last year, this provision would have enabled States to use nearly \$2.4 billion in TANF balances that remained available at the end of FY 2002 for child care assistance right now. Instead, those funds must be reserved for cash benefits.

Maximize Self-Sufficiency Through Work

The second element of our reauthorization proposal is to maximize self-sufficiency through work. Evidence suggests that under current law a substantial portion of TANF recipients are not engaged in *any* activity leading toward self-sufficiency. In addition, a recent study from the University of Michigan shows that in the States with the strongest work incentives, single parents have seen larger increases in income than in States with weaker work requirements.

So under the President's proposal, first and foremost, States would be required to engage all TANF families with an adult in self-sufficiency activities. States must approve activities as part of self-sufficiency plans and regularly review case progress.

In addition to the requirement for such universal engagement, we increase the direct work requirement, in order that parents can become accustomed to a full work week of activities, instead of just the 30 or 35 hours a week required under current law. In order for a case to be counted as participating, our proposal requires a full 40 hours per week of participation in monitored, constructive activities by welfare recipients. Cases counted as participating would be required to average at least 24 hours per week (of their total required 40 hours) in direct work, including employment, on the job training, and/or supervised work experience. States will have the flexibility to decide which activities should make up the remaining 16 hours. These could include a variety of services the States determine are needed by the family.

On a temporary basis, certain cases could be counted as participating even when they are not averaging 24 hours per week in direct work. These cases would still be fully participating but could be in work-related training, short-term substance abuse treatment, or rehabilitation for up to three months within any 24-month period.

When calculating participation rates States will continue to be allowed to exclude parents with children under 12 months of age. As in current law, teen parents who are heads of

households and maintain satisfactory school attendance will be deemed as meeting all participation requirements.

We also gradually increase minimum requirements concerning the share of its caseload a State must engage in these direct work activities. Under the existing law, the participation rate began at 25 percent in 1997 and rose to just 50 percent in 2002. We propose that in the first year at least 50 percent of all TANF families headed by a parent be required to participate in combined work and other activities designed to help them achieve self-sufficiency. This percentage will increase five percentage points each year until reaching 70 percent in five years. There will be no separate standard for work participation for two-parent cases.

The current penalty structure will apply when a State fails to meet either, or both, of the universal engagement or participation rate requirements. Potential penalties will be limited to a maximum of five percent of a State's TANF grant, as under current law. States subject to a penalty will have the opportunity to develop a corrective compliance plan, and no penalty will be assessed as long as they are making progress toward meeting the requirements. The current caseload reduction credit will be phased out so that States still receive full credit against participation targets in the first year, 50 percent of credit in the second year and no credit thereafter. In its place States would receive an employment credit to provide an incentive for moving families from welfare to work. The five-year cumulative lifetime limit for TANF cash assistance will be retained. States also may continue to exempt up to 20 percent of their cases from this limit.

Finally, Tribes face significant barriers to helping their members achieve self-sufficiency, but under current law they did not fully receive the kind of technical assistance that would make a difference in their ability to serve their families in order to make a difference in the lives of this vulnerable population. HHS will undertake a major new expanded and enhanced technical assistance effort for tribal organizations to help them build and administer effective Tribal TANF programs.

Promote Child Well-Being and Healthy Marriages

Congress recognized the fact that two-parent, married families represent the ideal environment for raising children when it enacted TANF, incorporating a variety of family formation provisions. However, State efforts to promote healthy marriages represent just one percent of total TANF program expenditures. The limited attention paid to family formation in implementing TANF is due in part to the fact that States lack the knowledge and tools to implement successful marriage and family formation programs. Our proposal embraces the needs of families by promoting child well-being and healthy marriages. To this end, we establish improving the well-being of children as the overarching purpose of TANF. This meaningful change recognizes that the four current goals of TANF are important strategies for achieving this purpose. Similarly, we clarify and underscore that the fourth goal of TANF is to encourage the formation and maintenance of healthy, two-parent, married families and responsible fatherhood.

Research shows that both adults and children are better off in two-parent families. It is no criticism of single parents to acknowledge the better outcomes for children of married-couple families. Rather it supports the underlying principles to redirect our policies to encourage healthy marriage especially when children are involved. Our approach to promoting healthy marriage is to provide financial incentives for States, often working together with private and faith-based organizations, to develop and implement innovative programs to support family formation and healthy marriages. These demonstration programs will be carefully evaluated and information about successful programs will be broadly disseminated.

In addition, we target \$100 million from the discontinued Out-of-Wedlock Birth Reduction Bonus for broad research, evaluation, demonstration and technical assistance, focused primarily on healthy marriage and family formation activities. Funds previously used for the Out-of-Wedlock Birth Reduction Bonus could be spent far more effectively on developing innovative approaches to support family formation and healthy marriages. Strong and stable families are good for children and must be a central goal of our next steps in welfare reform.

Along those lines, we also redirect \$100 million from the current High Performance Bonus to establish a competitive matching grant program for States and Tribes to develop innovative approaches to promoting healthy marriages and reducing out-of-wedlock births. State expenditures will be matched dollar for dollar and TANF funds may be used by States to meet their matching requirement.

We require States to discuss in their State plans the efforts they will make to accomplish the family formation goals of the TANF program, including the promotion of healthy marriages, and their efforts to provide equitable treatment for two-parent married families.

And finally, within the context of our goals to strengthen family formation and reduce illegitimacy, we reauthorize the Abstinence Education grant program to States and territories at \$50 million per year. In fiscal year 2003, 53 out of a possible 59 States and jurisdictions applied for and received Section 510 Abstinence Education grants to promote abstinence from sexual activity outside of marriage, focusing on groups most likely to bear children out of wedlock.

Improve Program Performance

Our fourth reauthorization element focuses on improving program performance. TANF has allowed States to become great innovators. At the same time, the shift to work and family-based aid has presented considerable management challenges. Keeping the President's focus on governing with accountability, we propose to focus increased emphasis on results rather than dollars spent. We replace the current High Performance Bonus, which includes measures not directly related to work, with a \$100 million Bonus to Reward Employment Achievement for meeting the employment goals of TANF. We also require States to establish and report on performance goals related to each of the four major goals of TANF and to describe in their State plans how they are addressing each.

Likewise, States will be required to describe particular strategies and programs they are employing to address critical TANF challenges. We will research the best ways to construct performance measures that relate to the TANF goals, collaborate with States to identify key performance measures, and build uniform data support and reporting methodologies.

Program Integration

For any organization to succeed, it must never stop asking how it can do things better. Using the flexibility under programs such as TANF and the One-Stop Career Center system, States have made great strides towards transforming and integrating their public assistance programs into innovative and comprehensive workforce assistance programs. But, with greater flexibility even more can be accomplished. The final key element of our TANF proposal seeks to enable far broader State welfare and workforce program integration. Other major Federal assistance programs serving low-income populations provide similar assistance to TANF. Yet the potential effectiveness of all these programs combined is greatly compromised by differences in administrative practices and program rules. These make serving low-income populations more difficult than need be and hampers State efforts to help individuals and families escape government dependency.

In our proposal, we establish new State program integration waivers to permit States to further integrate welfare and workforce development programs in order to improve the effectiveness of these programs. Broad flexibility to design new strategies and approaches will be provided. The proposed waiver authority could apply to many aspects

of selected Federal programs, including funding and program eligibility and reporting rules, enabling States to design fully integrated welfare and workforce development systems that could revolutionize service delivery.

I would like to turn now to another program that offers a vital connection to a family's ability to achieve self-sufficiency: child support enforcement.

Child Support Enforcement

Child support is a critical component of Federal and State efforts to promote family self-sufficiency. For the low-income families who receive child support, it makes up a significant portion of the family budget (on average 26 percent).

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) put in place a number of important child support enforcement measures. Measures such as increased automation, expansion of the Federal Parent Locator Service to include the National Directory of New Hires and Federal Case Registry, the passport denial program, the financial institution data match, and license revocation have significantly improved State performance and strengthened child support collection efforts. Equally important, PRWORA streamlined paternity establishment, particularly voluntary paternity establishment, to encourage fathers to take the first step toward providing their children with financial and emotional support. The impact of these changes has been dramatic. The annual number of paternities established or

acknowledged has reached almost 1.6 million and in FY 2002, with a caseload of 16.1 million cases, a record of over \$20 billion in child support was collected.

Like TANF, our proposals in both our 2003 and 2004 budget requests for child support enforcement build on our success under PRWORA. These proposals will increase child support collections and direct more of the support collected to families, moving the child support program toward a focus on families and away from the historic purpose of recoupment of Federal and State outlays.

Directing More Support to Families

Currently, States and the Federal government can keep some of the child support collected on behalf of current and former TANF recipients to defray welfare costs to taxpayers. Our proposal would change that law and give States an incentive to give more of the child support collected from non-custodial parents directly to the family. Children and their families will benefit financially and, equally important, the children will see that their parents support and care for them.

Today, more families receiving TANF assistance are working and the assistance they receive is more temporary. The Wisconsin W-2 waiver demonstration clearly indicates that non-custodial parents are more likely to pay child support and to pay more child support when they know their families will receive the support.

Currently, about half the States pass through a portion of child support collections to TANF families, using State funds. Under our proposal, the Federal government would share in the cost of amounts passed through to families and disregarded for purposes of determining TANF eligibility. We would waive the Federal share of amounts passed through and disregarded that are above the State's pass-through and disregard amount in a base year, up to the greater of \$50 per month or the difference between \$100 and the base-year amount. Federal contributions to the passthrough of collections to TANF families will provide a strong incentive to States to begin to pass through additional support to these families, or increase the amount of their current passthrough. This proposal would increase collections going to families by \$136 million over five years.

Under a similar proposal to increase support reaching families, States would be given the option to adopt simplified distribution rules under which all support collected on behalf of families that have left welfare would be given to the families. This proposal would increase collections distributed to families by \$850 million over five years and make it easier for States to explain and support their child support distribution policies.

Increasing the Amount of Child Support Collected

The second prong of our strategy for child support enforcement is to increase the amount of support collected by adding to our existing cadre of enforcement tools.

First, we expand our successful program for denying passports to parents owing more than \$2,500 in past due support. The passport denial program, run jointly by HHS and the

Department of State, currently denies passports to delinquent parents owing more than \$5,000 in past due support. In FY 2000 alone, individuals with child support arrearages paid \$3.6 million in lump sum child support payments to avoid losing their passports. An additional number of these individuals have entered into payment agreements under which support payments are made regularly to children. Our new proposal would generate an additional \$32 million to families over five years.

We also will expand the Federal administrative offset program by allowing certain Social Security benefits to be offset to collect unpaid child support in appropriate cases selected by the States. Currently under the Federal Debt Collection Act, Old Age, Survivors and Disability (Social Security) benefits can be offset only for Federal debt recovery. Our proposal provides a limited expansion to include child support debts and would be subject to the same offset thresholds, or safeguards, as in current law. This proposal would increase collections to families by \$55 million over five years.

Our final enforcement proposal would ensure that child support orders are fair to both custodial parents and children as well as noncustodial parents by requiring States to review and adjust child support orders in TANF cases every three years, reinstating a pre-PRWORA policy.

Typically, the ability of obligors to pay child support increases over time. Periodically reviewing and adjusting child support awards to reflect current income can result in increases in the amount of the support provided and the economic security of single

parent families. The needs of low-income families change as they obtain employment and move off of TANF; regular reviews will ensure that they will continue to receive child support at an appropriate level.

There also are legitimate reasons to reduce an existing award, for instance, if the obligor has lost his or her job or otherwise suffered a major decline in income. In those cases, periodic review and adjustment means that the award amount is fair and that the child support agency is assisting a low-income parent who does not have the current ability to pay support, by helping the parent avoid building up a large and unmanageable arrearage.

The President also proposed several additional proposals in his 2004 budget. These proposals use technology, improve coordination and expose untapped income. For example, the gaming proposal would intercept the gaming winnings of child support debtors, directing approximately \$700 million to families over five years. We also propose to use technology to support federal seizure of debtor bank accounts in multi-state institutions, increasing collections to families by approximately \$500 million over five years. When combined with the foundation provided by the 1996 law and our welfare reform proposals, will deliver \$2.6 billion in previously unpaid child support to families over the next five years.

Processing Fee

In addition to our proposals for increasing support and directing more of the support collected to families, we will require States to impose a \$25 annual processing fee on

families that have never used public assistance in cases where the State has been successful in collecting support on their behalf. Because the fee is collected only when the State is successful in collecting support and represents a fraction of the cost of the services families receive, we are confident it will not pose a barrier to families seeking child support enforcement services.

As States and the Federal government struggle to serve all the needs of its citizens, it is imperative that we find innovative ways to finance the child support enforcement program. This minimal step toward contributing to the costs of the program is reasonable and represents a firm step toward changing the perception that the purpose of the child support program is to recoup welfare benefits.

I would like to turn now to child care, a key support service.

Child Care

Our TANF reauthorization proposal is based on our expectation that all families will be fully engaged in work and other meaningful activities. To make this possible, we must ensure that resources are available to help families pay for safe, affordable child care when they need it. Child care assistance is a vital support for many low income families. It supports self sufficiency by enabling families to accept and retain jobs. In addition, by improving the quality of care, it plays a role in supporting healthy child development and school readiness.

Reauthorization

As work continues to reauthorize the child care assistance program, the Administration is committed to preserving key aspects that have made the program a success, including administrative flexibility for States and Tribes, and parental choice. The major restructuring of the Federally funded child care programs under PRWORA remains an effective and efficient method for distributing child care funds to States. States have flexibility to determine the best use of those funds to meet the varying needs of their low-income populations. Therefore, our proposed reauthorization of the discretionary Child Care and Development Block Grant (CCDBG) and mandatory Child Care Entitlement programs does not seek any changes to the underlying structure and financing of these essential programs. Rather, we enthusiastically support maintaining the historically high level of funding for child care.

Funding

Our proposal includes \$2.1 billion for the Child Care and Development Block Grant and \$2.7 billion for Child Care Entitlement -- a total of \$4.8 billion for what is referred to as the Child Care and Development Fund or CCDF.

However, these funds are only part of the picture. States continue to have flexibility to use Temporary Assistance for Needy Families (TANF) funds for child care both by transferring up to 30 percent of TANF funds to CCDF and by spending additional TANF money directly for child care. In recent years, States have used significant amounts of TANF funds for child care, including \$2 billion for transfers to CCDF and \$1.6 billion in direct spending in FY 2001. As I mentioned earlier, our proposal would increase

administrative flexibility by allowing States to use unobligated TANF balances (approximately \$2.4 billion at the end of 2002) on services other than assistance--such as child care.

In addition to CCDF and TANF, other Federal programs also fund early childhood care and education, including the Social Services Block Grant and Head Start. Our proposal to strengthen Head Start would allow States the option of better coordinating the \$23 billion in Federal and State spending on child care and early childhood education programs like Head Start and State pre-K programs.

Federal and State funding available through our child care programs, TANF, and the Social Services Block Grant will provide child care assistance to an estimated 2.5 million children in FY 2004. This level is more than double the roughly 1.2 million children served when welfare reform was passed in 1996. We estimate that in 2001 we served 42 percent of eligible children in families with income below poverty for a family of three. This estimate does not capture children whose child care requirements are being met through other sources--such as at home, with relatives, or at schools, Head Start, State pre-K, and other programs--many of which do not require parental payments or are heavily subsidized.

Supporting Work

Due largely to the success of welfare reform, the employment rates of single-mother heads of households with low incomes (less than 200 percent of the Federal poverty line) increased from 51 to 61 percent between 1996 and 2000. Child care assistance can make

a critical difference in helping these mothers find and retain jobs. A GAO study found that single parents who received child care assistance more often successfully completed their training, obtained jobs, or experienced other positive outcomes. Eighty percent of all mothers who received child care subsidies in 2000 were employed (with most of the other parents receiving subsidies while in training or education).

Promoting Child Development and Literacy through Child Care

In addition to supporting working parents, quality child care promotes early childhood development and literacy skills. We cannot overstate the value of high quality early childhood program. Research clearly shows that the positive outcomes for children engaged in high quality care are significant, particularly for low-income youth. The most effective early childhood programs positively influence a child's social and emotional development, enhance the likelihood of successful school performance in the early grades, and in some instances, reduce later risks of involvement with the special education and juvenile justice systems.

Our proposal maintains funding for quality investments in child care. A minimum of four percent of the CCDF must be spent on activities to promote quality. In addition, we would retain set-asides for infant and toddler care, school-age care and resource and referral services, additional quality expenditures, and ongoing research to identify and promote effective child care practices.

I'd like to congratulate the many States that have shown leadership and innovation in using these resources to build an infrastructure that supports quality child care. In FY

2001, States spent \$716 million in current and prior year funds to improve the quality of child care services--9 percent of combined Federal and State expenditures under CCDF--far more than the amount required under Federal law. A growing number of States are addressing the retention and compensation of child care providers--usually tied to advances in training. For example, many States have implemented the T.E.A.C.H. (Teacher Education and Compensation Helps) Early Childhood scholarship program which assists providers in furthering their education and rewards them with increased compensation. More than half of States also are investigating or implementing tiered systems that provide higher subsidy reimbursement rates to providers that meet quality benchmarks. Other approaches that States are using to improve quality include: grants and loans to providers for specific quality improvements, training and technical assistance for providers and staff, and monitoring of compliance with regulatory requirements.

President Bush's early childhood initiative *Good Start, Grow Smart* also is making a critical contribution to efforts to improve quality. This initiative aims to support the school readiness of young children through nurturing environments that foster early literacy, language, pre-reading, and math skills. The President has asked our Child Care Bureau to work with States to address three goals through the CCDF biennial planning process: (1) developing voluntary early learning guidelines for children ages 3 to 5 that align with State K-12 standards and describe what children need to know and be able to do to succeed in kindergarten; (2) developing State plans for professional development and training of child care teachers to enable them to support the school readiness of

young children; and (3) developing State plans for coordination across early childhood programs and funding streams. The Child Care Bureau will continue to provide technical assistance and guidance to States, which are currently at varying stages of addressing these goals, as they move forward.

State Flexibility

States have significant flexibility to decide how child care funds will be used and what will be emphasized in achieving the overall goals of improving access to care and the quality of care. Within basic Federal requirements, States define income eligibility, set the parent co-payment scale, determine provider reimbursement rates, and define the target population served. States have taken advantage of this flexibility to design a wide variety of State subsidy systems and coverage patterns that fit their particular needs and priorities. For example, income eligibility levels range from 39 to 85 percent of State median income (or 122 percent to 325 percent of the Federal poverty level). States decide whether to target certain populations e.g., whether to focus on families transitioning off TANF or to treat all families the same regardless of TANF status or history. Some States, such as Wisconsin under my leadership as Governor, have created a single subsidy system that serves low-income families, regardless of welfare status.

My Department supports an array of studies to promote a better understanding of State and local child care policies and to provide results that will lead to more informed decision-making. For example, we are currently funding the first federally sponsored child care policy demonstrations that will be rigorously evaluated.

Promoting Parental Choice

Our nation's child care system is built on the foundation of parental choice--recognition that parents, not government agencies, should decide what is best for their children. In CCDF, we support parental choice through vouchers and access to a wide range of child care providers--so that families can choose a caregiver that best meets their needs, whether with a relative, neighbor, child care center, or faith-based program. In FY 2001, 84 percent of CCDF subsidy payments were made using certificates or vouchers. Using these vouchers and other child care payments, 58 percent of children were cared for in a child care center, while 31 percent were in family child care homes, three percent were in group homes, and eight percent were in the child's home.

To help parents make these critical child care decisions, we also support parental choice by equipping parents with the information and tools they need to make well-informed choices for their children. States are required to provide consumer education and outreach under the CCDF, which many States do in partnership with local child care resource and referral agencies. Nationally, my Department funds the Child Care Aware web-site and toll-free hotline to link parents to information about child care in their local communities.

In summary, the Administration clearly recognizes that child care assistance is fundamental to our self-sufficiency strategy for low-income families, as well as for promoting child development and school readiness.

Finally, let me address one last component of our reauthorization proposal that also helps meet the needs of families making the transition to independence.

Transitional Medical Assistance (TMA)

TMA allows families who could not otherwise afford health care coverage to remain eligible for Medicaid for up to 12 months after they lose welfare-related Medicaid eligibility due to earnings from work. The program was scheduled to sunset in September 2002 but has been extended by Congress to June 30, 2003. The President's budget proposal would extend TMA through fiscal year 2008 at a cost of \$400 million in FY2004, and \$2.4 billion over five years.

We are also proposing modifications to TMA provisions to simplify it and make it work better with private insurance. These provisions include giving States the option to offer 12 months of continuous care to eligible participants and allowing States to waive income-reporting requirements for beneficiaries. In addition, States that have Medicaid eligibility for children and families with incomes up to 185 percent of poverty may waive their TMA program requirements. States have the option of offering TMA recipients "Health Coupons" to purchase private health insurance instead of offering traditional Medicaid benefits. These modifications would cost \$20 million in FY2004 and \$290 million over five years.

Conclusion

Mr. Chairman, the proposal I bring before you today contains many different elements. What binds these fundamental elements together is the desire to improve the lives of the people and families protected by America's social safety net. As noted by the President when he spoke this year about the need to move forward and improve welfare reform, "The welfare law is a success because it put government on the side of personal responsibility, and it has helped people change their life for the better - helped people realize their dreams; helped people help themselves. That's one of the key principles of the law that makes a lot of sense, that has helped make the law effective." This committee demonstrated its desire to help low-income families succeed when you made the hard choices on the original precedent-setting PRWORA legislation and in your ongoing interest in the impact of these changes. It is time to take the next steps in welfare reform and the President and I stand ready to work with you to achieve even greater successes for America's neediest families.

I would be happy to answer any questions you have.