

**Welfare Reform in South Carolina:  
A Preliminary Analysis**

**Executive Summary**

by

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## Executive Summary

1. The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 created the Temporary Assistance for Needy Families (TANF) block grant, which replaced the Aid to Families with Dependent Children (AFDC) program. By federally funding programs for needy families in the form of block grants, PRWORA severed the link between state and federal spending on cash benefits. In addition, PRWORA gave states unprecedented flexibility to create new cash assistance programs for families with children. This paper presents a preliminary assessment of the impact of welfare reform on caseload growth in South Carolina.

2. AFDC originated during the Depression as part of the 1935 Social Security Act. The incentive to work for many AFDC recipients was low in part because benefits were reduced dollar for dollar with earnings. The incentive to save was also low because families on welfare could not accumulate more than \$1,000 in assets or own a vehicle worth more than \$1,500. The hope is that under PRWORA, which allows states to set income and asset limits, it can be determined which combination of incentives is best able to reduce welfare dependency.

3. Highlights of welfare reform included time limits, changes in asset, limits, and family cap provisions.

*Time Limits.* PRWORA forbids states from using TANF funds to aid families that include an adult who has received 60 months of TANF benefits. As seen in **Table 1**, South Carolina and Georgia implemented limits stricter than those required by PRWORA.

**Table 1. Time Limits in the Carolinas and Georgia**

|                | Short Run Time Limit | Lifetime Time Limit | Benefit Termination? | Implementation Date |
|----------------|----------------------|---------------------|----------------------|---------------------|
| South Carolina | 24 Out of 120 Months | 60 Months           | Yes                  | Oct.-96             |
| North Carolina | 24 Out of 60 Months  | 60 Months           | Yes                  | Jul. 96; Jan. 97    |
| Georgia        | 48 Months            | 48 Months           | Yes                  | Jan.-97             |

*Work Requirements.* Under PRWORA, states must require parents or other caretakers to engage in work-related activities after no more than 24 months of aid. **Table 2** shows work requirements and sanctions in the Carolinas and Georgia.

**Table 2. Work Requirements and Sanctions**

|           | Immediate Work Required? | Initial Sanction Reduction | Minimum Sanction Length | Most Severe Sanction | Minimum Length, Most Severe Sanction |
|-----------|--------------------------|----------------------------|-------------------------|----------------------|--------------------------------------|
| <b>SC</b> | No                       | 100%                       | 1 mo. after compliance  | 100%                 | 1 mo. after compliance               |
| <b>NC</b> | Yes                      | \$50                       | 3 months                | \$75                 | 12 months                            |
| <b>GA</b> | Yes                      | 25%                        | 1 month                 | 100%                 | Lifetime                             |

South Carolina requires work when the individual is “determined able to engage in work,” while North Carolina and Georgia require TANF recipients to engage in work-related activities immediately. South Carolina imposes a 100 percent reduction in benefits for failure to comply with its work requirements. North Carolina imposes longer sanction lengths, but relatively low benefit reductions. Georgia has a comparatively mild minimum sanction, but the most severe maximum sanction.

*Asset Limits.* PRWORA gives states the authority to set asset limits, including the use of TANF funds to create Individual Development Accounts, a restricted savings account that allows individuals to accumulate savings to be used for postsecondary education, home ownership, and business capitalization. These limits are shown in **Table 3**. Taken as a whole, South Carolina’s asset limits are among the highest in the nation.

**Table 3. Asset Limits in the Carolinas and Georgia**

|                | TANF        |               | AFDC        |               | Restricted Saving Acct. |
|----------------|-------------|---------------|-------------|---------------|-------------------------|
|                | Asset Limit | Vehicle Limit | Asset Limit | Vehicle Limit |                         |
| South Carolina | \$ 2,500    | \$ 10,000     | \$ 1,000    | \$ 1,500      | \$ 10,000               |
| North Carolina | \$ 3,000    | \$ 5,000      | \$ 1,000    | \$ 1,500      | n/a                     |
| Georgia        | \$ 1,000    | \$ 4,650      | \$ 1,000    | \$ 1,500      | \$ 5,000                |

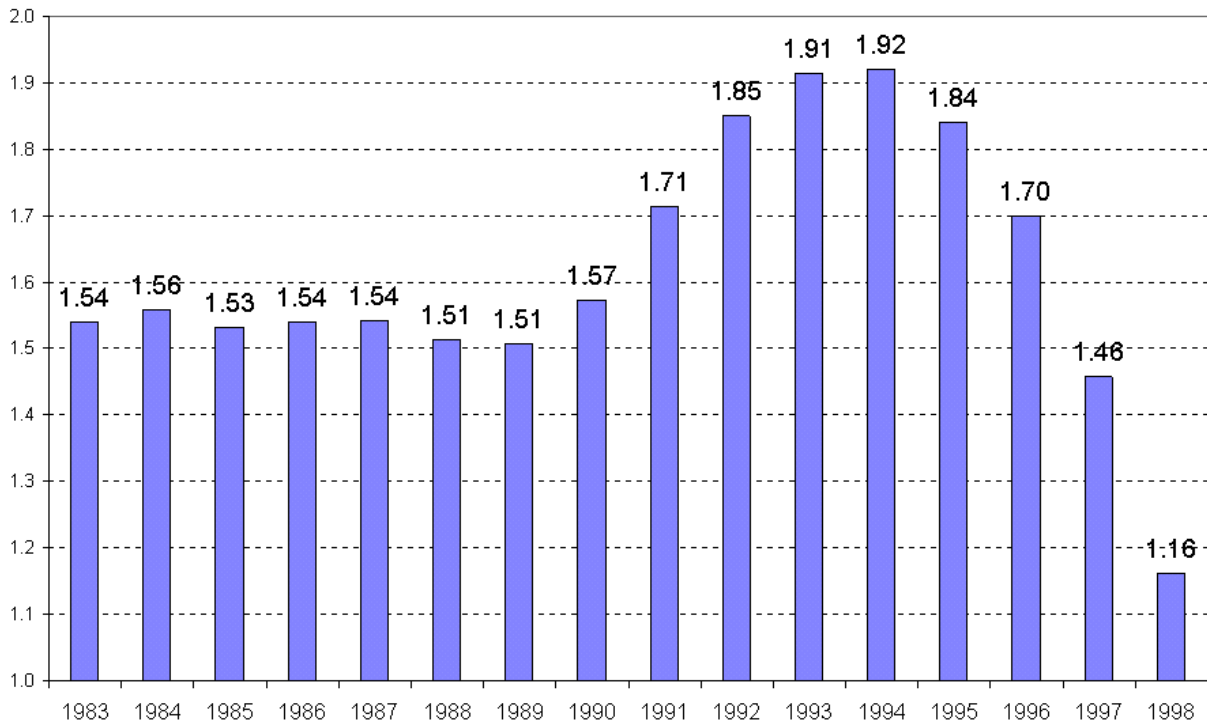
*Family Caps.* Under AFDC, welfare benefits automatically increased whenever the family grew in size. Under PRWORA, states have the option of setting limits on payments without regard to family size. South Carolina has not implemented a family

cap. Benefits increase by \$41 per month for each additional child (provided as a voucher). By contrast, North Carolina and Georgia have implemented family caps.

4. PRWORA contains incentives for states to reduce their welfare caseloads and help families make the transition from welfare to work. To receive their full TANF block grant, states must achieve minimum work participation rates, beginning at 25 percent in FY 1997 and rising by five percentage points per year, reaching 50 percent in FY 2002 and after. Because states have pecuniary incentives to reduce caseloads, any reduction in caseloads is due to a combination of changes in behavior of welfare recipients and program administrators. It is difficult to separate the two because researchers typically observe only the behavior of welfare recipients.

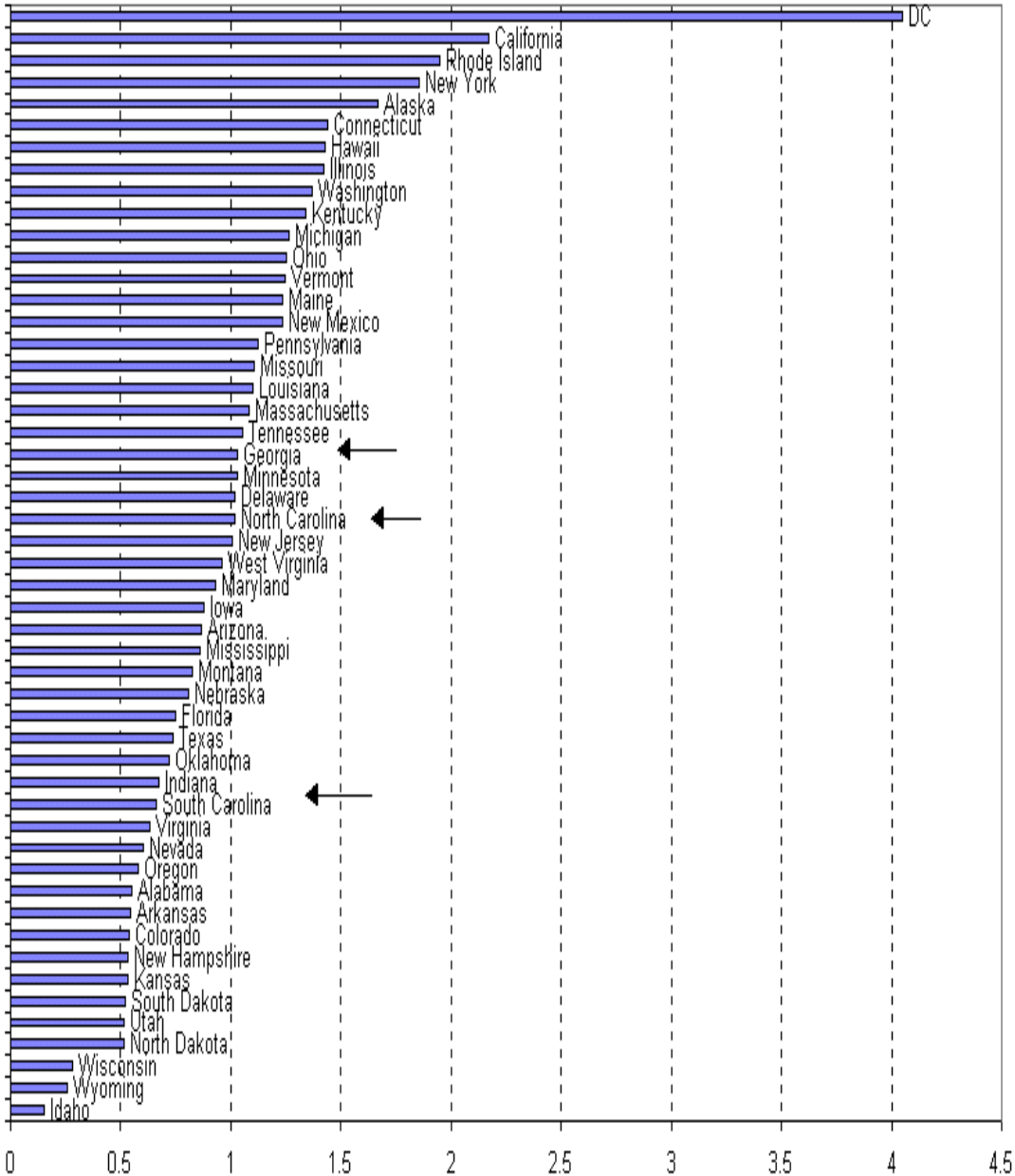
5. The number of welfare cases in the U.S. fell from 4.98 million in FY 1994 (1.92 cases per 100 persons) to 3.13 million (1.16 cases per 100 persons) in FY 1998, a decline of 37 percent (see Figure 1).

**Fig. 1. AFDC Cases per 100 Persons, 50 States and DC, FY 1983-98**



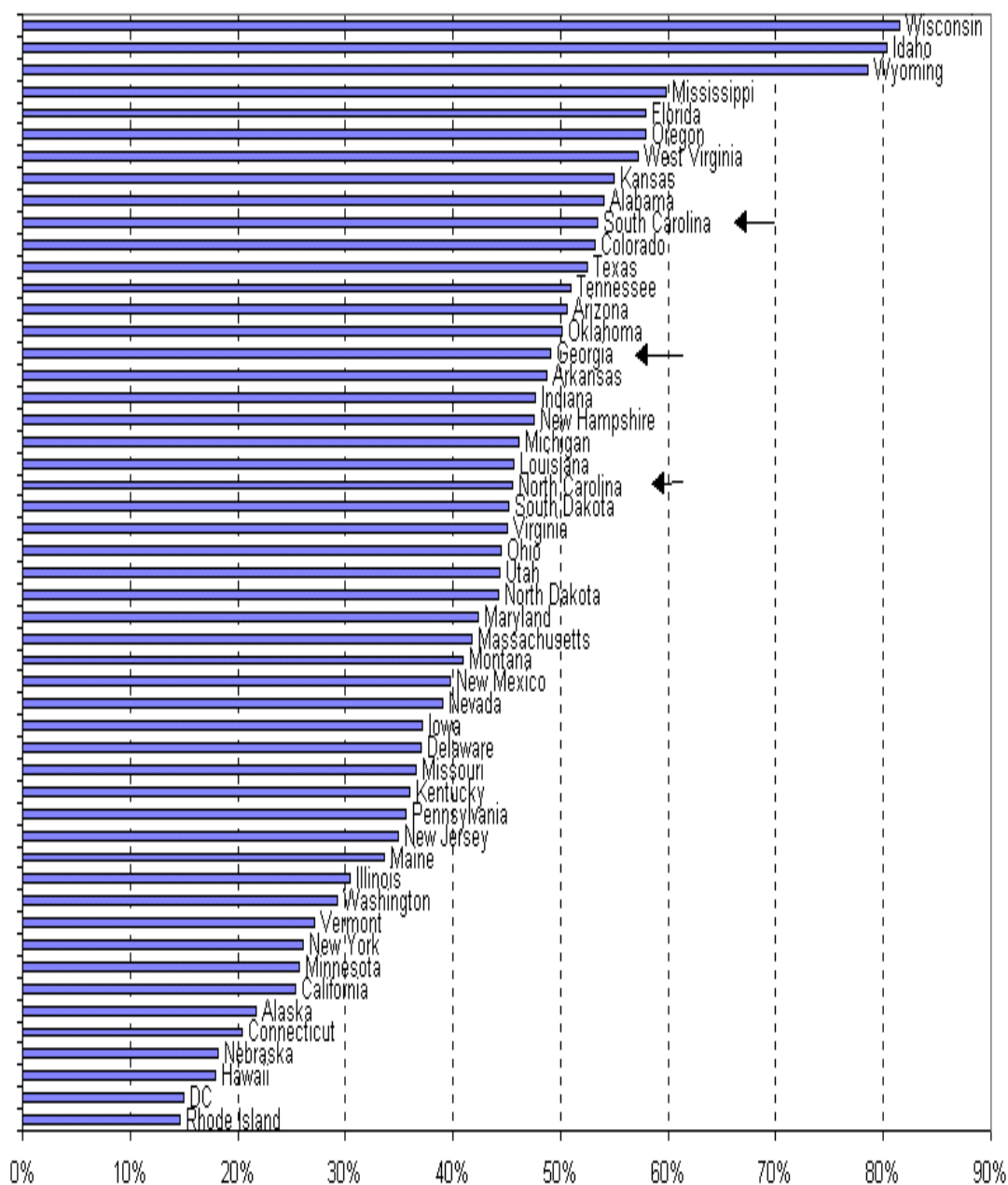
6. Relative to the nation, welfare participation has historically been, and continues to be low in South Carolina (see **Figure 2**). South Carolina’s FY 1998 caseload was 15<sup>th</sup>-lowest in the nation. North Carolina’s FY 1998 caseload was 1.02 per 100 persons (28<sup>th</sup> lowest) and Georgia’s was 1.03 per 100 persons (31<sup>st</sup> lowest).

**Figure 2. Welfare Cases per 100 Persons, FY 1998**



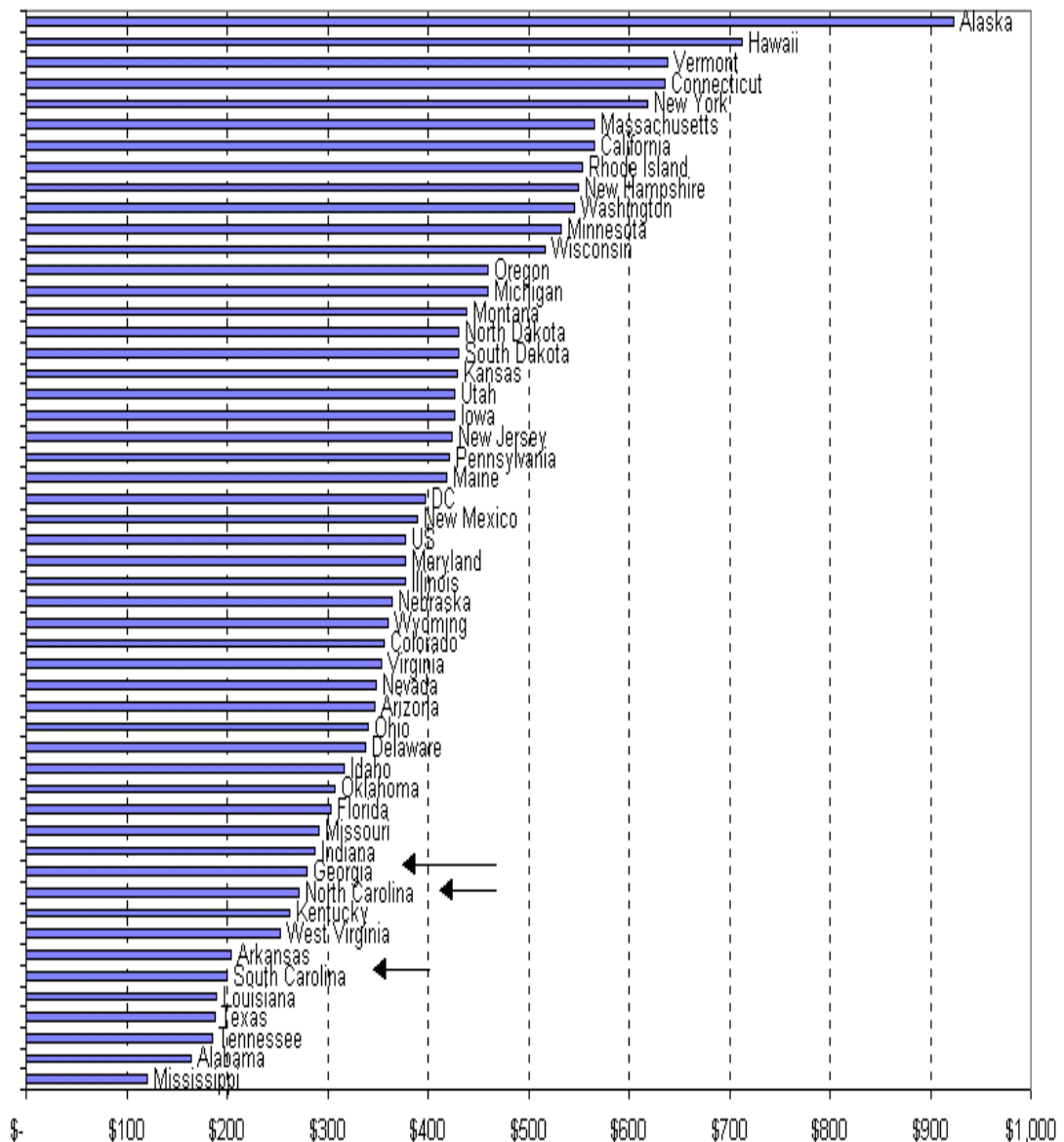
7. Caseloads in South Carolina fell from 1.42 cases per 100 persons (51,925) in FY 1994 to 0.66 cases per 100 persons (25,293) in FY 1998, a decline of 54.2 percent. The 54.2 percent decline in South Carolina's caseload was 10<sup>th</sup> highest in the nation. North Carolina's decline of 45.6 percent was 22<sup>nd</sup> highest and Georgia's decline of 49.1 percent was 16<sup>th</sup> highest (see **Figure 3**).

**Figure 3. Percent Decline in Welfare Cases per 100 Persons, 1994-98**



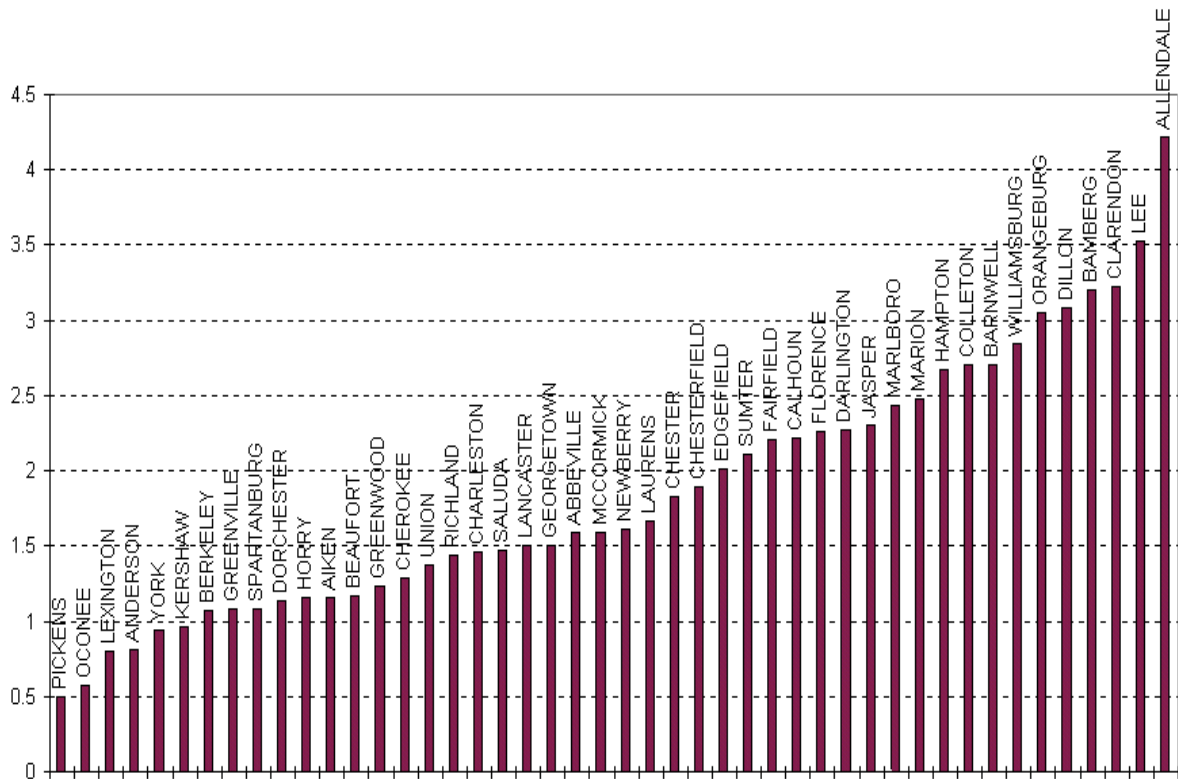
8. Adjusted for inflation, welfare benefits declined between 1990 and 1997 by 21 percent in South Carolina (7<sup>th</sup> largest decline in the nation), by 19 percent in North Carolina, and by 16.5 percent in Georgia. The median maximum welfare benefit for a family of three in January 1997 was \$377. South Carolina \$200 benefit was 6<sup>th</sup> lowest in the nation (see **Figure 4**). North Carolina's benefit was \$272 (10<sup>th</sup>-lowest) and Georgia's was \$280 (11<sup>th</sup> lowest). South Carolina's welfare benefit was about 11.6 percent of the earnings of full-time workers in manufacturing, lower than either North Carolina (14.3 percent) or Georgia (14.4 percent). Differences across states in FY 1998 welfare caseloads were strongly positively related to welfare benefits.

**Figure 4. Maximum Welfare Benefits for a Family of Three, January 1997**



9. Caseloads varied greatly across South Carolina counties (see **Figure 5**). For the first seven months of FY 1999, the median county caseload was 0.5 per 100 people, ranging from 0.2 cases per 100 persons in Pickens County to 1.2 cases per 100 people in Clarendon County. Caseloads tended to be higher in counties with higher rates of unemployment, lower average levels of education, and higher average welfare stipends per case.

**Fig. 5. FY 1999 Welfare Cases per 100 Persons in South Carolina by County**



10. Regression analysis on county level, annual data for South Carolina revealed that caseloads rise by:

- a. 3.5 percent for each percentage point increase in the unemployment rate;
- b. 2.5 percent for each 10 percent increase in welfare benefits;
- c. 1.2 percent for every 10 percentage point decrease in average SAT scores;
- d. 16.5 percent for every 10 percent decrease in median household income.

11. The estimated effects of SAT scores may appear to be small, but it must be kept in mind that better educated students earn higher incomes. Income had an extremely large negative effect on welfare caseloads. Indeed, because education is one of the few variable most under the control of policy makers, it should receive high priority.

12. Regression analysis using county level monthly data for South Carolina yielded slightly smaller estimated effects of unemployment, but significantly larger estimated effects of stipends. Each 10 percent increase in welfare stipends was estimated to increase caseloads by 6.2 percent.

13. I estimated that welfare reform reduced caseloads in South Carolina by about one third. This was very close to the effect estimated by Wallace and Blank (1999) for the U.S. as a whole (also using monthly data). Again, it must be kept in mind that this decline is a result of changes in behavior on the part of both welfare recipients and welfare administrators. More research is necessary to separate out these effects.

14. Although welfare reform appears to be a resounding success, enthusiasm may need to be tempered for a number of reasons. The most important one is that the economy is growing faster, and unemployment is lower, than at any time since the middle 1960s. The real test of welfare reform – both of recipients and of our resolve as a nation to stay with reform — is the next recession. Nor is it yet clear whether welfare reform has had other desirable effects, such as reducing teen pregnancy or the number of households headed by single women. Put differently, the reduction in caseloads since 1996 is a necessary, rather than a sufficient condition, for the long-run success of welfare reform.