

IV. EMPLOYMENT AND EARNINGS OF NEEDY FAMILIES

Employment

A key measure of the success of welfare reform is the effect on employment. Analysis of all available sources of information shows that the employment rate of current and former Temporary Assistance for Needy Families (TANF) recipients has increased significantly.

Between 1996 and 1999, the employment rate of current and former adult TANF recipients increased by 33 percent. In 1996, about one in four prior-year recipients was working the following spring, whereas in 1999, the figure had increased to more than one in three. Each March the Current Population Survey (CPS), which is used to calculate unemployment rates, collects information about households' income and program participation in the previous calendar year as well as employment and earnings data reflecting individuals' March employment status. As a result, DHHS knows whether adults who received Aid to Families with Dependent Children (AFDC) or TANF in the proceeding calendar year (who may or may not still be receiving welfare) were employed the following March. The employment rate increased from 27 percent in 1996 to 36 percent in 1999.

The percentage of working recipients reached 33 percent in Fiscal Year (FY) 2000. Thus, one in three adult recipients was working in a typical month, the highest level ever recorded and over a three-fold increase since 1996. Eighty percent of recipients who were working were in paid employment; others were engaged in work experience and community service.

Large employment gains are also evident from rigorous waiver evaluations that measure the effects of reform policies by comparing randomly assigned individuals who were subject to either welfare reform or standard AFDC rules. The CPS analysis, for example, does not separate out the effects of State welfare reform policies from those of the economy, other policies that promote employment such as the enhancement of the Earned Income Tax Credit (EITC), or the expansion of child care subsidies. The strength of experimental evaluation studies is that they isolate the impacts of specific policies and thus enable researchers to attribute outcomes directly to the policies put in place.

A number of such studies, e.g., those in Delaware, Florida, Iowa and Los Angeles County, consistently show welfare reform strategies having significant effects on employment for at least one major target group. Furthermore, the Los Angeles County study, along with a synthesis of twenty welfare-to-work programs, showed that these effects were obtained across a very broad spectrum of welfare recipients, including those who were the most disadvantaged, i.e., those who had low educational achievement, little work experience and high welfare use.

Recent findings from ten studies of families leaving welfare funded by the Assistant Secretary for Planning and Evaluation (ASPE) indicate that between 45 and 65 percent of former TANF

recipients found work in jobs that were covered by their States' Unemployment Insurance program. (Leavers, as defined in these DHHS studies, are single-parent cases that are closed for at least two months.) Employment rates were even higher – 62 to 75 percent – when measured as the percentage of those who were *ever* employed within the first 12 months. These employment rates are consistent with findings from many other leavers studies, although methodological differences cause rates to be slightly higher in some studies (e.g., rates are sometimes higher in studies using survey data, or limiting study population to leavers who do not return to welfare). While these employment rates are not radically different from the patterns of AFDC leavers in earlier studies, they indicate a dramatically large increase in the *absolute* number of families leaving welfare with earnings, especially given the significant caseload decline in the past few years. A variety of State studies summarized by the General Accounting Office (GAO) found that between 63 and 87 percent of adults have worked since leaving the welfare rolls.

Thus, each of these sources of information consistently points to higher levels of employment among current and former welfare recipients.

Earnings

Earnings are another important measure of how welfare reform is succeeding. CPS data reveal that earnings for female-headed families increased significantly between 1996 and 2000. These increases have been particularly notable for the bottom two income quintiles, that is, the 40 percent of those families with the lowest income. These groups include the women who are most likely to be former or present welfare recipients. Thus, whereas in 1996 only 26 percent of all families in the bottom income quintile (before counting the effects of government transfers and taxes) of female-headed families with children had earnings in the course of the year, in 2000 almost half did (48 percent). In 1996, the average annual earnings of these families was \$315; in 2000 it was \$1,646 (both in constant 2000 dollars and averaged over all families in the quintile). In the second quintile, 87 percent had earnings in 1996; 97 percent in 2000. For this group, real average annual earnings almost doubled, from \$6,304 in 1996 to \$11,509 in 2000.

That welfare reform has played a role in these increases is also supported by experimental evaluations both of broader welfare reform programs and programs that focus just on mandatory welfare-to-work activities. Although these evaluations produce a range of effects for different groups of individuals, they quite uniformly suggest that participants ranging from the most disadvantaged to the least have higher earnings as a result of the programs.

TANF administrative data (which report information only on welfare recipients who remain on the rolls) indicate that the average monthly earnings of those employed increased from about \$466 per month in FY 1996 to \$553 in 1998, \$598 in FY 1999, and \$668 in FY 2000, increases of 19, 28, and 43 percent respectively.

High Performance Bonus data show impressive job retention and earnings gains. Based on the data from the 49 States that competed for the bonus in FY 2000 (up from 46 States in the previous year), more than 1.2 million adults on welfare went to work between October 1998 and September 1999. Seventy-seven percent of those who entered employment were also working in the subsequent calendar quarter, a slight decrease from the 80 percent achieved in the prior year.

Average quarterly earnings increased 22 percent for current and former welfare recipients, from \$2,114 in the first quarter of employment to \$2,570 in the third quarter.

It is also important to note that earnings levels remain low for many women even after these large increases. Looking again at the CPS data, for the bottom quintile, although work has expanded, it is still too sporadic for most of those who work (the average number of weeks worked is a little less than 26 weeks per year), and about half of all families have no one who had earnings in the course of a year. For the second quintile, although work is nearly universal, average earnings are still below poverty and government supports, such as the EITC, are necessary to bringing families out of poverty.

The Department is funding a number of rigorous and in-depth evaluations that examine the effects of alternative State welfare reform strategies on families and children. As final reports are completed over the next two years, it will be important to review their results.

At a national level, recent expansions in the EITC have had a significant impact on low-income working families, including former welfare recipients. Recent data from the Census Bureau show that the EITC raised 4.3 million people out of poverty in 1998.

There may also be a link between the increases in labor force participation of single mothers and EITC expansions though it is hard to distinguish the impact of EITC from broader welfare reforms. It is probably no coincidence that, after remaining steady for many years, the percentage of single mothers that were working and the percentage of single mothers who were not on welfare, but working, both increased substantially between 1992 and 1998.

When earnings are combined with the EITC and other benefits, most families who go to work have a higher income than if they had remained on welfare. In the average State, a woman with two children could be better off working 20 hours a week than she would be on welfare. However, not all eligible families are accessing tax credits or other services and assistance that they might need. The reasons for this are not entirely clear but it is widely held that many people who leave welfare to work prefer to avoid other government aid as well.

As indicated by the findings of studies of former welfare recipients by the GAO, the Urban Institute, and Department of Health and Human Services (DHHS) grantees, a low-wage job may be the first step for many welfare recipients. In fact, given the work experience and skill level of many recipients, it is likely that a low-wage job will be the likely first successful step for many parents. That is why it is important for some families to have access to other programs, such as Food Stamps, Medicaid, the EITC, child support, and subsidized child care. These programs can help families with sub-poverty and above poverty wages get access to services, enabling them to work and progress in careers. A key area that States are pursuing now is employment advancement strategies, and job retention that can move families who enter the workforce at low wages up to higher wage jobs.

Employment retention and advancement are critical elements in the success of TANF. The goal of these elements is to move families who enter the workforce at low wages into more stable, higher-paying, and self-sustaining employment. To support this goal, DHHS has incorporated job retention and advancement objectives into a number of our activities, including the criteria

we have developed for the TANF High Performance Bonus system. In addition, in partnership with State and local TANF agencies, DHHS has launched a major, national evaluation of employment retention and advancement strategies. Through this multi-year initiative, we will work with State and local officials to design and test varied strategies to assist current and former TANF recipients and other low-income working families to sustain employment and advance in the labor market.

Participation in Medicaid and Food Stamps

Five years after welfare reform severed the link between Medicaid eligibility and receipt of cash assistance, States have made significant progress to both ensure that eligible families receive Medicaid and to eliminate many of the barriers that existed when Medicaid was linked to welfare. Much of this progress can be attributed to States' efforts to correct the problems identified in the on-site reviews that the Centers for Medicare and Medicaid Services (CMS) conducted in 1999 to determine how well States had delinked Medicaid eligibility from receipt of cash assistance and to determine why Medicaid enrollment levels were decreasing significantly nationwide. The site visits confirmed that the degree of investment States made to redesign their enrollment and retention strategies, both to adapt to welfare reform changes and to address longstanding problems in the Medicaid program, profoundly affected whether or not eligible families received Medicaid.

While many States were slow to implement the 1996 changes brought about by welfare reform, once their attention was focused on the need to make changes, most have taken action and some have adopted significant reforms in their Medicaid enrollment and retention processes that should markedly improve participation of families over time. However, some States continue to subject families who want Medicaid and TANF to the cash assistance procedural requirements such as participation in a face-to-face interview and providing documentation to support eligibility, which can deter their participation in Medicaid. CMS recently released a guide titled, *Continuing the Progress: Enrolling and Retaining Low-Income Families and Children in Health Care Coverage* that draws heavily from the on-site review findings to clarify Federal Medicaid requirements, provide States with guidance on a range of issues and process concerns specific to Medicaid/TANF delinkage, and to explain options States can choose to expand Medicaid coverage of low-income families and simplify the Medicaid rules. This guide is intended to provide guidance and technical assistance to State administrators as they continue their efforts to further refine their Medicaid programs.

While States have other options to expand coverage of low-income families and children through the State Children's Health Insurance Program (SCHIP) and increased flexibility through research and demonstration waivers, the declining economy and rising unemployment rate are forcing fiscal constraints that have led States to consider limiting the scope of Medicaid and or SCHIP services or coverage. CMS is currently exploring ways States can save Medicaid dollars while preserving benefits during the current budget crises.

In the case of the Food Stamp Program (FSP), enrollment has declined steadily since the early 1990s as declines in poverty have leveled off. Historically, households that received program benefits such as SSI and AFDC have had relatively high participation rates in the FSP and low-income working families have had generally low FSP participation rates. Thus, it is not

surprising that the declines in the AFDC/TANF caseloads (and the movement from welfare to work) have been accompanied by declines in food stamp participation.

Conclusion

Welfare reform has resulted in impressive gains in employment and earnings of aided families. Building on this success, States are now moving to help recipients retain employment and advance in their careers.

Appendices

Table 4:1 Employment Status of Single And Married Mothers, 1988 – 2000

Table 4:1

Employment Status of Single and Married Mothers, 1988 - 2000

	1988	1989	1990	1991	1992	1992	1993	1994	1995	1996	1997	1998	1999	2000
Married Mothers														
-with children under 6														
employed	53.2	54.8	55.8	55.2	55.2	55.2	55.7	57.8	59.7	59.9	60.8	60.6	59.5	60.7
unemployed	3.5	2.4	2.8	4.0	4.2	4.2	3.7	3.6	3.3	2.4	2.8	2.9	2.3	2.1
not in labor force	43.1	42.7	41.2	40.6	40.4	40.4	40.5	38.4	36.9	37.6	36.3	36.3	38.0	37.1
-with children under 18														
employed	60.9	62.3	62.7	62.1	62.9	62.9	63.3	64.7	66.4	66.8	67.6	67.1	67.1	67.7
unemployed	3.1	2.5	2.8	3.5	3.9	3.9	3.2	3.5	3.0	2.4	2.5	2.7	2.1	2.1
not in labor force	35.8	35.1	34.4	34.3	33.1	33.1	33.4	31.7	30.5	30.7	29.7	30.1	30.7	30.0
Married Mothers Under 200% of Poverty														
-with children under 6														
employed	34.71	36.29	36.36	35.8	35.3	35.3	36.0	38.5	39.1	39.0	39.7	41.2	39.3	42.3
unemployed	6.02	4.27	4.24	6.1	6.8	6.8	5.9	5.9	4.6	4.2	4.4	5.2	3.9	3.9
not in labor force	59	57.4	57.23	58.03	57.9	57.9	57.9	55.4	56.3	56.7	55.8	53.5	56.6	53.7
-with children under 18														
employed	40.4	42.7	42.6	40.5	41.0	41.0	41.8	43.7	44.2	44.4	44.6	44.5	43.4	46.2
unemployed	5.6	4.6	4.6	5.5	6.4	6.4	5.7	5.6	5.1	4.3	4.6	5.4	3.9	4.1
not in labor force	53.8	52.6	52.7	54.0	52.6	52.6	52.3	50.5	50.7	51.3	50.8	50.0	52.6	49.6
Single Mothers														
-with children under 6														
employed	42.9	44.5	47.8	46.0	44.0	44.0	45.8	46.4	50.1	52.6	57.6	58.8	61.9	64.5
unemployed	9.2	9.5	7.9	8.7	8.7	8.7	8.4	9.7	8.0	8.4	9.8	9.2	8.2	6.9
not in labor force	47.8	46.0	44.3	45.2	47.3	47.3	45.8	43.7	41.9	39.1	32.6	32.0	29.8	28.5
-with children under 18														
employed	57.0	57.2	58.9	57.4	56.2	56.2	56.8	57.1	59.7	62.1	64.2	66.4	68.4	70.2
unemployed	7.3	7.3	7.2	7.4	8.0	8.0	7.3	8.1	6.9	6.7	8.2	7.2	6.1	5.6
not in labor force	35.6	35.5	33.9	35.1	35.8	35.8	35.9	34.7	33.4	31.2	27.6	26.4	25.4	24.1
Single Mothers Under 200% of Poverty														
-with children under 6														
employed	34.73	36.4	36.34	37.2	34.8	34.8	39.1	39.4	42.6	44.4	50.4	51.1	54.6	58.5
unemployed	10.4	10.45	9.53	10	9.8	9.8	9.1	10.6	8.7	9.6	11.8	11.0	9.5	8.0
not in labor force	54.79	53.15	52.11	52.75	55.5	55.5	51.8	50.0	48.8	46.0	37.8	37.8	35.9	33.5
-with children under 18														
employed	44.0	45.4	46.3	45.7	44.1	44.1	46.0	46.1	48.2	51.1	54.4	56.6	59.0	60.8
unemployed	9.3	8.9	9.5	9.0	9.7	9.7	8.7	10.0	8.3	8.6	10.3	9.3	7.9	7.4
not in labor force	46.7	45.7	44.3	45.3	46.2	46.2	45.2	43.8	43.5	40.4	35.4	34.1	33.1	31.8

Source: CPS Data

