

# **Leaving Welfare**

## **Employment and Well-Being of Families that Left Welfare in the Post-Entitlement Era**

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## Introduction

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) made sweeping changes to the U.S. system of support for low-income families with children. The law eliminated the old welfare program, Aid to Families with Dependent Children (AFDC), and replaced it with the Temporary Assistance for Needy Families (TANF) program. The principal goals of the TANF program are to reduce long-term dependence on cash assistance and to encourage self-sufficiency through work. To this end, the program mandated work for most welfare recipients and limited the length of time benefits could be received.<sup>1</sup>

The years following welfare reform witnessed unprecedented declines in welfare caseloads across the country. Many supporters of the new law, including President Clinton, declared welfare reform a success. But a growing chorus of voices questioned whether leaving welfare was an end in itself and began looking for evidence of how those families that left welfare were faring. One result of this questioning was a proliferation of studies examining the situations of former recipient families—welfare leavers.

This book pulls together in one place much of the vast array of resulting information on how welfare leavers are faring. It provides comparisons of welfare-leaver outcomes across geographic areas and supplements these results with national-level outcomes where available. We then draw out some general conclusions for welfare reform and for future study.

### **BRIEF REVIEW OF WELFARE REFORM**

PRWORA encompassed a number of broad changes in social assistance programs. The central change in the legislation, often referred to as welfare reform, is the replacement of AFDC with TANF.<sup>2</sup> The TANF program gives increased flexibility to states to design their cash assistance programs within the framework of federally mandated work re-

quirements.<sup>3</sup> States are required to have an increasing percentage of their caseload (for an increasing number of hours per week) in work or federally specified work activities.<sup>4</sup> States must impose sanctions on individuals who fail to meet work requirements. The law also limited to five years the amount of time an adult, over her lifetime, could receive federally funded TANF benefits. Unlike AFDC, TANF is not an entitlement for those meeting specific income criteria. States can decide the conditions for receipt of benefits.

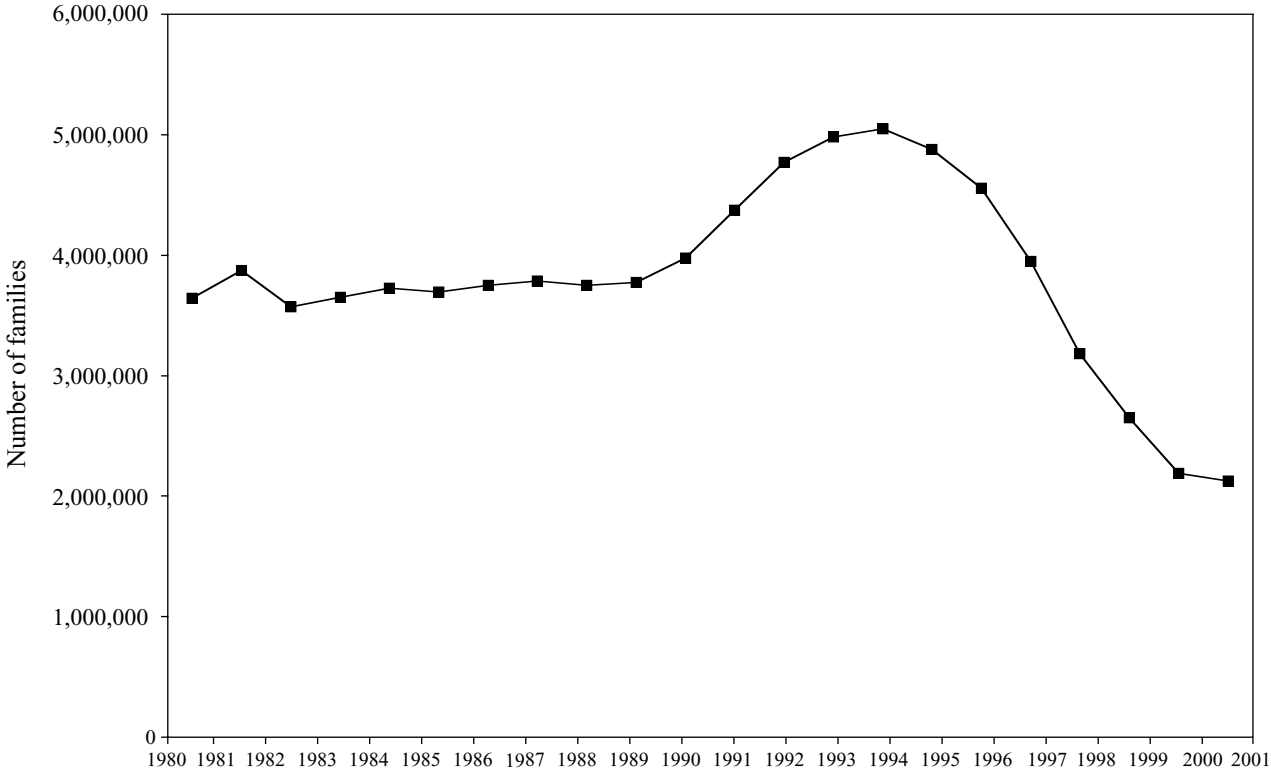
Under TANF, states used the new flexibility to implement a number of different strategies to increase work among recipients.<sup>5</sup> Some states made it easier to combine work and welfare by allowing recipients to keep a greater amount of their earnings before losing benefits, often referred to as expanding earned income disregards. Many states mandated work activities as a condition of benefit receipt with minimal exemptions. Some states require work activities up front, as a part of the application process. States have a range of sanctions for failing to comply with work requirements, from a small reduction in benefits to loss of the total grant until compliance. Although all states must abide by the federal five-year limit, some states impose shorter limits, as short as 15 consecutive months, while other states use state funds for long-term recipients, essentially eliminating the time limit for families.

As a result of the different choices made by states, welfare programs now vary broadly from state to state, ranging from very stringent to more lenient programs. Despite these differences, all states have made their programs more work-focused in response to the federal legislation (Nathan and Gais 1999).

## **WHY STUDY WELFARE LEAVERS?**

The number of families on welfare (see Figure 1.1) has fallen by more than 50 percent since 1996, from about 4.5 million to just over 2 million in March 2003. In just the first two years after reform, more than a million families left the rolls. Although these families were no longer dependent on cash assistance, many questions remained about their circumstances. Had they moved into employment and attained self-sufficiency? Were families experiencing serious material hard-

**Figure 1.1 Families Receiving AFDC/TANF**



SOURCE: USDHHS.

ships? Did exit from welfare signal a long-term reduction in dependence?

The nature of the changes to welfare also prompted greater demands for information on how welfare leavers were faring. Before reform, it was generally assumed that anyone voluntarily leaving AFDC would do so because she was better off financially. Relatively few families were cut off welfare for non-economic reasons. Under TANF, more families can be cut from the rolls, because of either sanctions for not meeting requirements or time limits on benefits. Pressures of stricter new requirements, particularly work requirements, or the desire to “bank” future months of eligibility could also cause families to exit voluntarily.

After such major changes and steep caseload declines, there were many calls from the media, critics of the law, and welfare administrators for immediate information to understand the impact of welfare reform on families. While carefully designed evaluations are the only true way to measure the impact of welfare-reform provisions on families' behavior and outcomes, even in the best of circumstances, such studies could not produce answers for years to come. Studying the economic circumstances of leavers shortly after reforms, however, could provide valuable information relatively quickly.

Critics of the law, who had predicted serious unemployment and material hardship as a result of the changes, wanted to know whether these predictions had come true. Welfare program administrators, who were designing and implementing program changes, wanted to know the potential problem areas that needed to be addressed. Studies of leavers had the potential to shed light on a number of specific questions, including the following:

- Were families leaving welfare finding work? Was the observed caseload decline associated with increased employment?
- Were families that left welfare becoming self-sufficient, measured, for example, by income levels higher than poverty?
- What role were non-TANF government benefits playing in supporting leaver families?
- Were families that left welfare better off than when they were on welfare?

- Was there a subset of families that were experiencing significant hardship after leaving welfare? For example, was there any evidence for predictions of significant increases in homelessness, child abuse, or extreme poverty?

In response to the need for immediate information, government agencies and policy researchers conducted dozens of studies of welfare leavers in specific geographic areas. The best of these studies combine administrative data from states' welfare and Unemployment Insurance (UI) systems with surveys of TANF leavers. In addition, there have been several national studies of the status of welfare leavers using data from general-use surveys such as the National Survey of America's Families (NSAF) and the Survey of Income and Program Participation (SIPP), which can help place findings from location-based leaver studies in a national context.

## **WHY THIS BOOK?**

This book provides the bottom line on what we know about the status of leaver families in the first years after welfare reform. Drawing on information from many of the location-specific leaver studies and other national-level research, we provide a comprehensive picture of the employment, income, and hardships families experience after leaving welfare. We also highlight problem areas for leaver families that could be addressed by future policy and program changes.

While other publications have summarized results from leaver studies,<sup>6</sup> this book goes beyond summary to draw out major findings, put them in the context of national results, and discuss what they mean for welfare reform.

For the many consumers of individual leaver studies, it is important to be able to put a single study's results in context. It is impossible to draw broad inferences from specific leaver studies because they cover only one geographic area. By examining results from multiple studies of different geographic areas, and in many cases comparing these to national results, we show whether a specific study finding is true more generally across the country.

It is also important to gain insight on the uniformity of national-level findings on the experience of families that left welfare. Our exam-

ination of results across geographic areas shows whether there is significant variation across the country on the economic situation of leaver families.

In addition, the outcomes of leavers vary considerably. Although we focus on the outcomes for the average leaver, much can be learned by examining the range of outcomes across different types of families, such as nonworking leavers and those who lost benefits due to sanctions. When possible, we highlight differences in how various subgroups of welfare leavers are faring.

Finally, welfare reform is an ongoing process. The 1996 changes were not the final word on “fixing” welfare, but one step, albeit a giant step, in a long line of changes that undoubtedly will continue into the future. For this reason, it is important to have a lasting record of what was learned after such a major policy change. This book endeavors to provide that record for one piece of the puzzle, understanding the status of families that left welfare.

## CAVEATS TO USING LEAVER STUDIES

The conclusions one can draw from studying welfare leavers have limitations. Most studies of welfare leavers are not evaluations of welfare reform’s impact on families leaving welfare. That is, they make no attempt to measure the extent to which welfare policy changes *caused* the outcomes (or changes in outcomes) that they report. They do not try to identify what would have happened to welfare leavers (or whether they would have left) in the absence of welfare reform. While many studies provide information on changes in measures for leavers before and after leaving welfare, this does not mean welfare reform caused any change. This fact needs to be kept in mind when drawing conclusions from these results.

By definition, leaver studies focus on families that not only have come in contact with the welfare system but who also have actually received benefits. Under welfare reform, formal diversion programs steer some applicants away from welfare, and some families, aware of the more stringent rules governing welfare, may not even bother to apply for benefits. The well-being of low-income families that stay off

welfare is an important concern to those interested in the effects of welfare reform, but it cannot be addressed through leaver studies.<sup>7</sup>

In addition, comparing and synthesizing results from studies of welfare leavers must be done carefully, because there are many differences across them in both methods and site-specific factors. First, the quality and methods of individual leaver studies vary substantially. We draw here only from studies that used documented reliable methods, providing assurance that results are accurate. Second, the geographic areas in which the studies were conducted vary substantially in ways that could affect outcomes for welfare leavers. These differences include local labor markets, state and local welfare policies (such as generosity of benefits, sanctions, and time limits), other state policies (such as the availability of a state earned income tax credit or public health insurance), and the average characteristics of welfare caseloads.<sup>8</sup> All of these differences likely affect leavers' post-welfare experiences. We make no attempt here to ascribe specific variations in outcomes across studies to specific differences in study methods or sites. However, when discussing results, we highlight differences across studies where appropriate.

## **WHAT HAVE WE LEARNED?**

The book is divided into four sections: methods used in welfare leaver studies (Chapter 2), work among leavers (Chapters 3 and 4), leavers who aren't working (Chapter 5), and the well-being of leaver families (Chapter 6).

Chapter 2 discusses the studies we focus on in this book, including how they were selected and the methods used in conducting welfare leaver studies.

Getting recipients to work was a major goal of the welfare reform legislation. Chapter 3 shows that the majority of welfare leavers across the country (about 60 percent) went to work. Although working leavers are paid, on average, comfortably more than the minimum wage, they do not have a comprehensive set of benefits. Indeed, fewer than half of all working leavers have paid sick leave, which means that any illness can cost them a day's pay and potentially their jobs.

Chapter 4 discusses issues of employment over time: job retention and earnings growth among leavers. During the first year after leaving welfare, overall employment rates for leavers remain fairly stable at around 60 percent. This overall stability, however, masks a certain amount of churning: on average, more than 7 in 10 leavers work at some point during their first year after exit, but only 4 in 10 work consistently. The average earnings of employed leavers in the fourth quarter after exit are 10 percent higher than the earnings of employed leavers in the first quarter after exit. Finally, while child care subsidies, food stamps, and Medicaid can improve the material well-being of working leavers—and therefore help them stay at work and off welfare—participation in these programs is quite modest.

Although many leavers left for work, many others did not. Chapter 5 discusses groups of leavers that have had a less successful experience under welfare reform. A substantial number of leavers are not working because they don't want or need to; that is, they prefer to care for their families at home or have a working spouse. However, many leavers are not working because they are in poor health or cannot find work. Some nonworking leavers return to welfare relatively quickly, indicating their initial exit did not lead to long-term independence from assistance. About one-fifth of all leavers in a given cohort return to TANF over the course of a year. Another 10 to 12 percent of families that left welfare have no earnings, have not returned to welfare, and have not transitioned to a public disability program. These families face multiple barriers to work and serious economic hardship. In addition, many who left welfare "involuntarily"—through sanctions for failure to follow rules—also have serious barriers to work and material hardships.

On average, leaver families have relatively low incomes and face significant material hardships. Chapter 6 reviews the evidence on family income and poverty as well as additional measures of leaver families' experiences with problems with food, housing, and health care. Despite some variation across geographic areas, most leaver families have, on average, relatively low incomes of \$1,000 to \$1,500 a month. About 40 to 50 percent of leaver families live in poverty, which is less than estimates of poverty among current welfare recipients. Measures of leavers' experience of food- and housing-related material hardships, while varied, show that about a quarter of leaver families experience at least some food- or housing-related problems after leaving TANF.

However, the evidence is mixed on whether these problems increase or decrease after exiting TANF, with some states finding an increase and some a decrease. The one exception is that more leavers have trouble accessing medical care after leaving TANF than when they were on TANF.

The results in Chapter 6 also emphasize the importance of work for the well-being of leaver families. Earnings are the primary source of income for leaver families, accounting for as much as three-quarters of family income. Families without a worker, not surprisingly, have substantially lower incomes. They also generally face greater material hardships.

All the findings from the leaver studies reviewed in this volume reflect the status of welfare leavers in the mid 1990s through the early years of the new millennium. During this time, the U.S. economy boomed and unemployment dropped to a 30-year low. Consequently, it is not unreasonable to expect that, during leaner economic times, leavers would face greater challenges moving from welfare to work and maintaining healthy families. Thus, to a certain extent, the findings synthesized here may represent a best-case scenario for welfare leavers.

Nevertheless, the information presented in studies of welfare leavers holds important implications for welfare policy and future research. For policy, it is clear that the majority of families leaving welfare are working, and the problems they face are similar to those faced by the working poor: relatively low pay, meager benefits, limited potential for growth, and unstable jobs. As such, programs that put more resources in the hands of working poor families can be extremely valuable for improving the well-being of working welfare leavers. One example is expansion of the Earned Income Tax Credit (EITC), which provides a supplement to earnings for low-wage workers through the tax system, regardless of whether or not they owe taxes.

Because working leavers tend to have low wages and, at least at first, short job tenures, many are not eligible to collect UI should they lose their jobs. Consequently, their only recourse may be returning to TANF. States should consider using some of their TANF block grants to underwrite the cost of providing UI benefits to working leavers who are between jobs, which could reduce return rates to TANF and help leavers maintain their attachments to the labor market.

Instability of work, returns to welfare, and low to modest wage gains over time may also be a reflection of the poor quality of jobs for which many welfare recipients qualify. However, a focus on immediate work experience does not have to be mutually exclusive with education and training to “move up the ladder.” Evidence shows that the most successful programs have a balance between immediate work and longer term skill-building activities (Gueron and Hamilton 2002), yet PRWORA limited the ability of states to count education and training activities as work activities, thus providing a disincentive for states to use these strategies. Changes in the law to remove these restrictions could encourage more long-term success in improving family incomes.

The well-being of working leavers could also be improved if they more fully participated in programs for which they are eligible, particularly child care subsidies, Food Stamps, and Medicaid. For example, many go without food stamps simply because it is hard to meet the administrative eligibility requirements, such as appearing in person to prove continued eligibility (recertifying) for benefits, while working. Expanding the hours of food stamp offices and/or allowing families to apply/recertify for benefits by mail, phone, fax, or Internet could help more working leavers make ends meet. A number of states are already implementing some of these changes.

In the same way, participation in Medicaid could be increased if enrollment were automatically extended to all leavers for three months without the need to redetermine eligibility. This would give state agencies time to contact leavers and provide them with information about transitional assistance. Other strategies to ensure leavers know they are eligible for benefits and to simplify procedures also need to be considered.

These policies could improve the material well-being of leavers and help them remain off the welfare rolls. In addition, these policies may have the added benefit of encouraging more families to leave welfare for work and shortening the length of time families spend on welfare.

## **FUTURE RESEARCH**

Our work here also offers insights for how to make the most of future research on leavers. One of the impressive outcomes of the

leaver studies is their contribution to increasing capacity of many state welfare agencies for undertaking research studies. The U.S. Department of Health and Human Services (USDHHS) has played a key role in this development through its provision of technical guidance and funding of a number of leaver, diversion, and other welfare-recipient studies. In addition, the desire to have information on how leavers are faring has prompted many states to undertake leaver studies even without federal funding. It is important to continue to build on these efforts.

One possibility for continuing research is for states to put out periodic tracking studies, using administrative data sources, of how new cohorts of leavers are faring. Many states that have conducted leaver studies have the capacity to link TANF program information with state UI data. If states were to link these two data systems as a matter of course, they would be able to monitor the work status of welfare leavers, track individual leavers' earnings growth over time, and monitor leavers receipt of benefits such as food stamps and Medicaid. The federal government could even require data-reporting elements of states.

In addition, broader efforts to continue research on how leavers are faring could be undertaken. While much basic information can be garnered from linked administrative data, survey data can provide a much fuller picture of the status of welfare leavers. Syntheses of individual place-based surveys of welfare leavers, such as this volume, are useful, but because of issues of cross-site comparability, they provide at best a patchwork understanding of how welfare leavers are doing. Similarly, national studies using current data are limited because general-use data sets do not have a sufficiently large number of families leaving welfare at the same time to allow for comprehensive analyses. Consequently, it would be useful to have a national survey of welfare leavers with samples drawn from state administrative data. Detailed uniform data on a national sample of leavers—especially if those data are longitudinal, capturing leavers at, for example, 6, 18, and 36 months after exit—would be an important resource for research. Such data would provide a comprehensive picture of welfare leavers across the nation and would allow researchers to examine how local policies, practices, and circumstances affect the status of these families.

Finally, it is also important to draw attention to the families that are not leaving welfare. Welfare “stayers” are likely to become a grow-

ing issue as more families start exhausting their lifetime TANF allotments. Understanding the needs and obstacles facing long-term stayers and helping them make and sustain transitions off welfare is an important area for future research. Indeed, the USDHHS has recognized this need and has funded six location-based stayer studies. Other states, using newly gained research capacity, could also carry out some study of current recipients using the USDHHS-developed survey instrument or a shorter variant. While conducting a survey is more expensive than using administrative data, it may be well worth the investment for state welfare agencies moving into the next stage of implementing welfare reform.

Since the passage of PRWORA, welfare caseloads have fallen dramatically. Studies of welfare leavers have helped us understand how families have coped with the transition off welfare. Many work; some cannot. Most are no worse off than they were while on welfare, while some have prospered and some have foundered. In the chapters that follow, we document what these studies have shown about the ability of leavers to find and retain jobs and the challenges they face. We conclude by discussing the implications these leaver studies hold for state and federal policy as well as identifying future research needs.

### Notes

1. For a detailed review of the provisions of the 1996 law, see Greenberg and Savner (1996). For a brief overview of the law, see Chapter 1 in Blank and Haskins (2001).
2. In addition, the law included a reorganization and increase in funding for child care programs, limitations on Supplemental Security Income eligibility for children with disabilities, elimination of most noncitizens' eligibility for public assistance, and tougher food stamp and child support enforcement program rules.
3. Before PRWORA a growing number of states had received waivers to redesign their AFDC programs, many using the policies described here. Some of the state waiver experiences served as a model for the eventual federal law.
4. A provision to allow "credit" toward the work requirement for states' past case-load declines made meeting these requirements, at least for single-parent families, relatively easy for most states.
5. Other policy changes unrelated to work were also implemented, such as not increasing benefits for children born to mothers on TANF (known as a family cap) and requirements on paternity establishment.
6. Many of these studies have been reviewed in Acs and Loprest (2001a, 2002), Brauner and Loprest (1999), USDHHS (2000), and U.S. General Accounting Office (1999).

7. Several studies have used methods similar to those used in location-based welfare leaver studies to look at families that have applied for welfare but have been either denied or diverted (see <http://aspe.hhs.gov/hsp/leavers99/rpts-apps.htm>).
8. See Chapter 2 for a more detailed discussion of the differences in methods and other site-specific factors across leaver studies.