

Welfare Reform in California

Early Results from the Impact Analysis

EXECUTIVE SUMMARY

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PREFACE

In response to national welfare reform legislation—the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), which was signed in August 1996—California passed legislation on August 11, 1997, that replaced the existing Aid to Families with Dependent Children (AFDC) and Greater Avenues to Independence (GAIN) programs with CalWORKs, the California Work Opportunity and Responsibility to Kids program. Following an open and competitive bidding process, the California Department of Social Services, which administers CalWORKs, awarded a contract to RAND to conduct a statewide evaluation of the CalWORKs program.

This RAND report presents an executive summary of the key findings from the first report of the impact analysis component of the evaluation, *Welfare Reform in California: Early Results from the Impact Analysis* (MR-1358-CDSS).

The implementation of the CalWORKs program is described in a parallel set of process analysis reports. The second of these, *Welfare Reform in California: State and County Implementation of CalWORKs in the Second Year* (MR-1177-CDSS) and its corresponding executive summary, *Welfare Reform in California: State and County Implementation of CalWORKs in the Second Year* (MR-1177/1-CDSS), were released in February 2001.

For more information about the evaluation, including the reports from the parallel process analysis components, see <http://www.rand.org/CalWORKs> or contact:

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1. INTRODUCTION

This document, produced under contract from the California Department of Social Services (CDSS), is an Executive Summary of RAND's first report on the impact of the California Work Opportunity and Responsibility to Kids (CalWORKs) program (MR-1358-CDSS). CalWORKs was intended to increase the participation of welfare recipients in welfare-to-work (WTW) activities, to cut the welfare caseload, and to improve the life circumstances of those who leave welfare. This study examines progress toward those goals. We begin by describing trends in four outcomes—activities of welfare recipients, the welfare caseload, experiences of welfare leavers, and poverty among single mothers—from the early 1990s (before CalWORKs) through the most recently available data (since the enactment of CalWORKs). We also compare outcomes in California with outcomes in the rest of the nation. Having described variation in outcomes through time and across states, we present a preliminary discussion of the causes of the observed variation through time and across states.

We consider four outcomes

The Welfare Reform Context

CalWORKs is California's implementation of federal welfare reform—the Personal Responsibility and Work Opportunities Reconciliation Act of 1996 (PRWORA). PRWORA fundamentally changed the American welfare system, replacing the Aid to Families with Dependent Children (AFDC) program with the Temporary Assistance for Needy Families (TANF) program. An entitlement was transformed into a time-limited benefit; an emphasis on cash assistance was transformed into an emphasis on rapid exit from welfare through work; and finally, a strongly federally directed program was transformed into a program that devolved most—but not all—program design choices to the individual states.

PRWORA fundamentally changed America's welfare system

CalWORKs preserves the state's historically high benefit levels and strong financial encouragement to work, while sharply increasing funding for WTW programs and child care. CalWORKs also devolves to the state's 58 counties considerable discretion in designing and implementing their WTW programs.

Overview of Key Findings

There have been nearly continuous improvements in almost all outcomes since about 1993. Participation in WTW activities and employment and earnings of welfare recipients have risen sharply; the welfare caseload has fallen sharply; employment and earnings of those leaving welfare have risen; and, in the most recent years, poverty has fallen.

We find nearly continuous improvements in outcomes in California since 1993 . . .

... while interstate comparisons are mixed

Interstate comparisons are more mixed. Compared with the rest of the nation, California's participation rates are higher, and the decline in its welfare caseload is smaller; the declines in poverty are similar.

Our analyses of the causes of this variation over time and across states are ongoing. The preliminary results presented in the full report and summarized here build on the observation that the timing of the start of the improvements (about 1993) predates by several years both federal welfare reform and CalWORKs—the legislation *and* the implemented programs. Thus, CalWORKs is unlikely to account for the bulk of the improvements we discuss here.

Some improvements result from the economic recovery

The start of the improvements is coincident with the beginning of the recovery of California's economy from a deep recession. Since that time, the economic recovery has been nearly continuous, so we would expect at least some of the improvements after welfare reform to result from the economy. In addition to the economy, there is also evidence of effects of welfare reforms that predate CalWORKs.

Post-CalWORKs reforms contribute to improvements in the most recent period

It is early to expect large effects from the CalWORKs reforms. The CalWORKs legislation did not pass until August 1997, new policies did not go into effect until early 1998, and the modal county rolled out its WTW programs in pieces through (at least) the summer of 1999. Our data extend only through the fall of 2000 (and in some cases, the summer of 1999). However, the limited post-CalWORKs data do point to some evidence of the effects of welfare reform and the implementation of CalWORKs in the most recent period. More evidence on CalWORKs effects will be provided in a second impact analysis report which will include data through mid-2001.

2. WHAT HAS HAPPENED TO OUTCOMES OVER TIME AND COMPARED TO THE REST OF THE NATION?

We begin by describing variation through time and compared to the rest of the nation for four outcomes: work participation rates and earnings among current welfare recipients, the size of the welfare caseload, the status of those who leave welfare, and poverty rates among single mothers.

Work Participation Rates and Earnings Among Current Recipients

Counties use their CalWORKs funds to provide services that are intended to help recipients find jobs, to make them self-sufficient, and to enable them to leave cash assistance. These services are also intended to engage enough recipients in qualifying activities to enable the state to meet the federal aggregate work participation-rate requirements. How successful have the counties been in engaging current recipients of cash assistance in WTW activities? For how many hours are they participating? And how much are they earning?

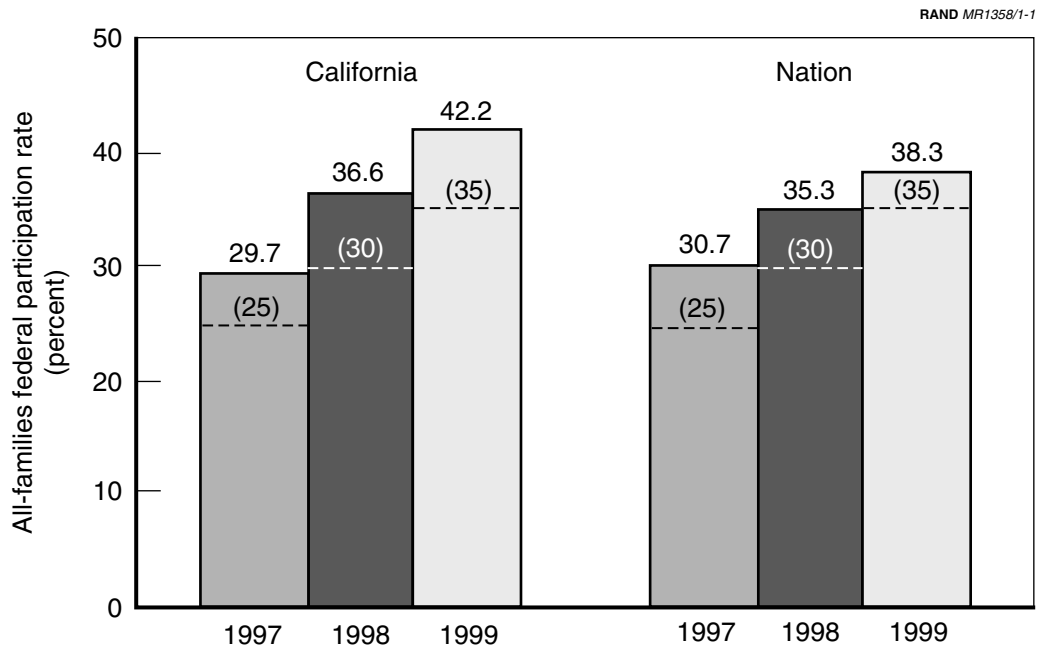
Work Participation Rates in California Have Risen Over Time and Are Higher Than Those in the Nation As a Whole

Figure 1 shows that California's all-families participation rate has risen over time, growing from 30 percent in federal fiscal year (FFY) 1997 to over 42 percent in FFY 1999 (ending September 1999, the most recent date for which data are available), and easily satisfies the statutory federal work-participation rates, which started at 25 percent in FFY 1997 and grew to 35 percent in FFY 1999. In addition, as shown in Figure 1, with the exception of the first year, California's work participation rates are above those for the nation as a whole, reaching a difference of almost 4 percentage points in FFY 1999.

California's all-families participation rates easily satisfy federal requirements

However, Work Participation Rates Are Far from Universal

While California's work participation rate for all families (42.2 percent) is above the rates required by PRWORA, it is far from the CalWORKs legislation's requirement that all nonexempt recipients participate in WTW activities at least 32 hours per week (more for two-parent cases).



Note: Federal statutory participation rates in parentheses
 Source: U.S. Department of Health and Human Services.

Figure 1—All-Families Federal Work-Participation Rates over Time

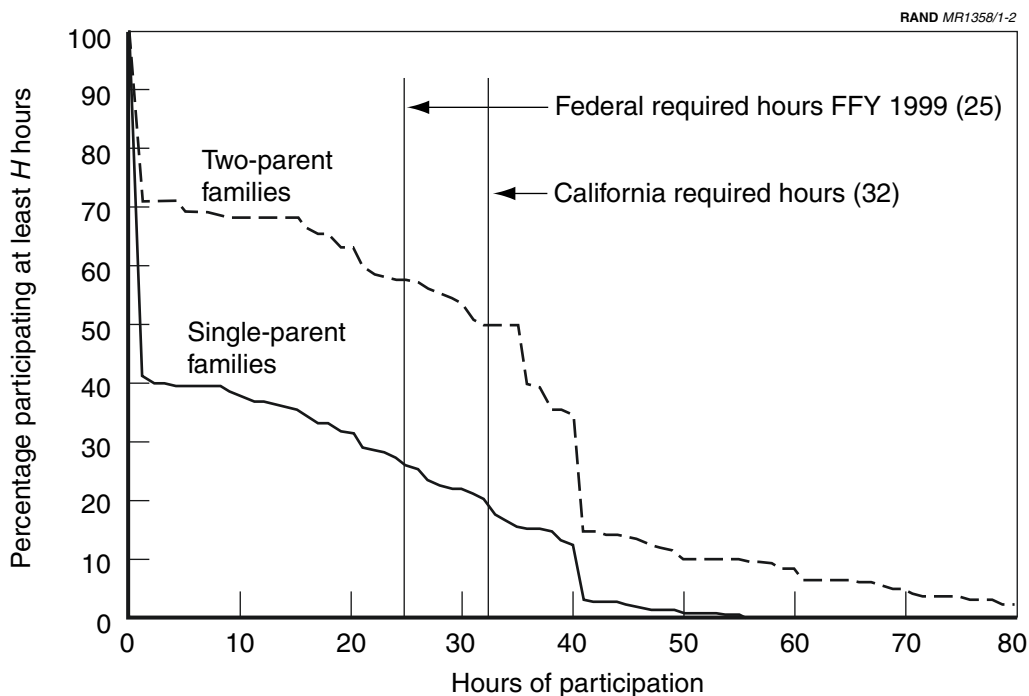
High work participation rates are known to be difficult to achieve, and although no one expected literally universal participation, the reported levels appear to be lower than many observers expected.

We can see this more clearly in Figure 2, which displays the hours of participation as reported in the California Q5 data for FFY 1999 (the most recent data available). About 55 percent of one-parent families (black line) and 80 percent of two-parent families (dashed line) participated at least one hour in an average month in FFY 1999.

Only 31 and 63 percent of one- and two-parent cases are participating 25 hours per week . . .

. . . and participation is lower still at California's 32-hour standard

The number of cases that participated enough hours to meet the statutory requirement is much smaller. For this period, the federal statute required 25 hours per week for one-parent families (with fewer hours for women with children under six years of age). Using this 25-hours-per-week standard, participation rates in California are lower, about 28 percent and 57 percent for one-parent and two-parent cases, respectively. At the 32 hours per week required by the CalWORKs statute, participation is lower still, about 20 percent and 51 percent for one-parent and two-parent cases, respectively.



SOURCE: RAND tabulations from FFY 1999 Q5 microdata file.

Figure 2—Hours of Participation for One-Parent and Two-Parent Cases in FFY 1999

Of Those Participating, Most Are Working and Their Earnings Are Growing

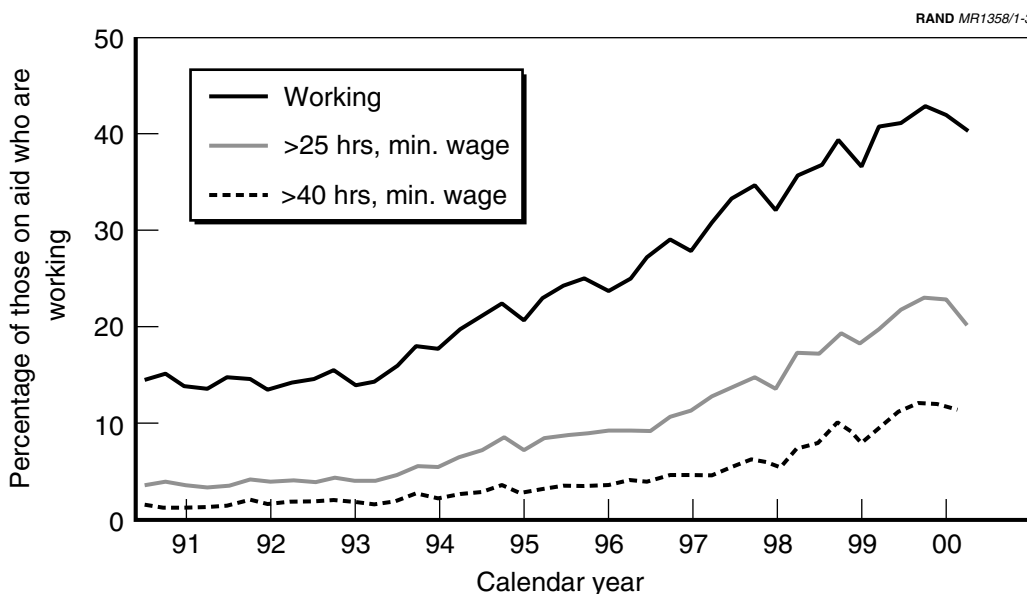
TANF and CalWORKs implicitly treat work as the ideal form of participation. Like recipients in the rest of the nation, those who are participating in some activity in California overwhelmingly participate in work (as opposed, for example, to job search, work experience, or education and training activities); in FFY 1999, 84.2 percent of those participating in California were working, compared with 70 percent in the nation as a whole. However, in the period covered by these data (through September 1999), county WTW programs appear to be less successful in obtaining some form of participation from those who are not yet ready for unsubsidized work. Since that time, counties have turned to refining their programs for this not-yet-work-ready population. The second impact analysis report will consider more recent data and the success of those refined programs.

Of those participating, Californians are more likely to be working than are those in the rest of the nation

The fraction working has increased since the early 1990s . . .

. . . most of the increase occurred before CalWORKs

While work participation rates are available only back to FFY 1997, information on employment and earnings is available back to 1990 from employers filing for the Unemployment Insurance system. Figure 3 displays both total employment in a quarter and a rough proxy for hours worked. (See the full report for a discussion of this proxy.) Since the early 1990s, the proportion of the caseload that is working in a quarter has increased from about 15 percent to about 40 percent, with much of the increase occurring before CalWORKs.



Source: RAND tabulations from MEDS-EDD match file.

Figure 3—Employment and Earnings for One-Parent Families over Time

The Welfare Caseload

The level and composition of the caseload is a key indicator of outcomes under CalWORKs, and it provides important insights into the effects of CalWORKs' policies and programs. In addition, the size and composition of the caseload drive total aid payments and the staffing levels needed to administer the welfare grant and provide any given level of WTW services.

The Caseload Has Declined Sharply but Less Than That of the Nation As a Whole

California's caseload has declined 39 percent from its peak

The changes in the caseload are dramatic. Figure 4 shows that since its peak in March 1995 (again, well before CalWORKs), California's welfare caseload has fallen approximately 1 percent per month. As of December 1999, the caseload had fallen about 39 percent from its peak, and the decline has continued since then. This decline is unprecedented and

broad-based. However, the decline is smaller than that in the rest of the nation. The caseload in the rest of the nation peaked a year earlier—in March 1994—and the decline has been steeper, falling about 59 percent from its peak.

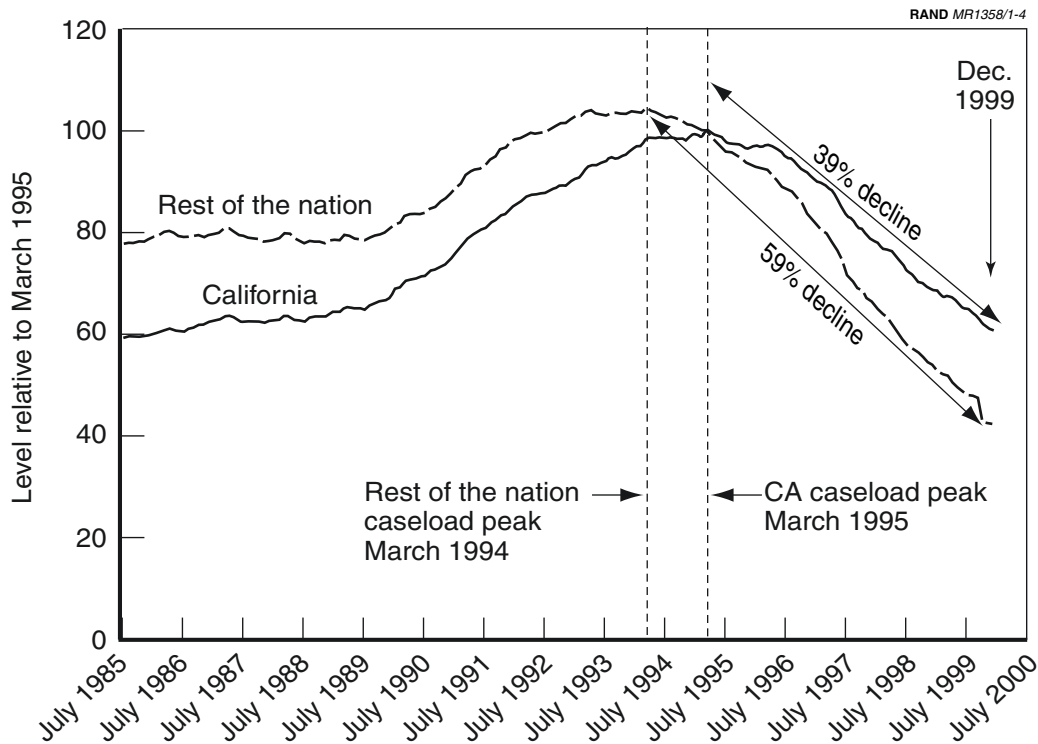


Figure 4—Welfare Caseload Decline: California Versus the Rest of the Nation

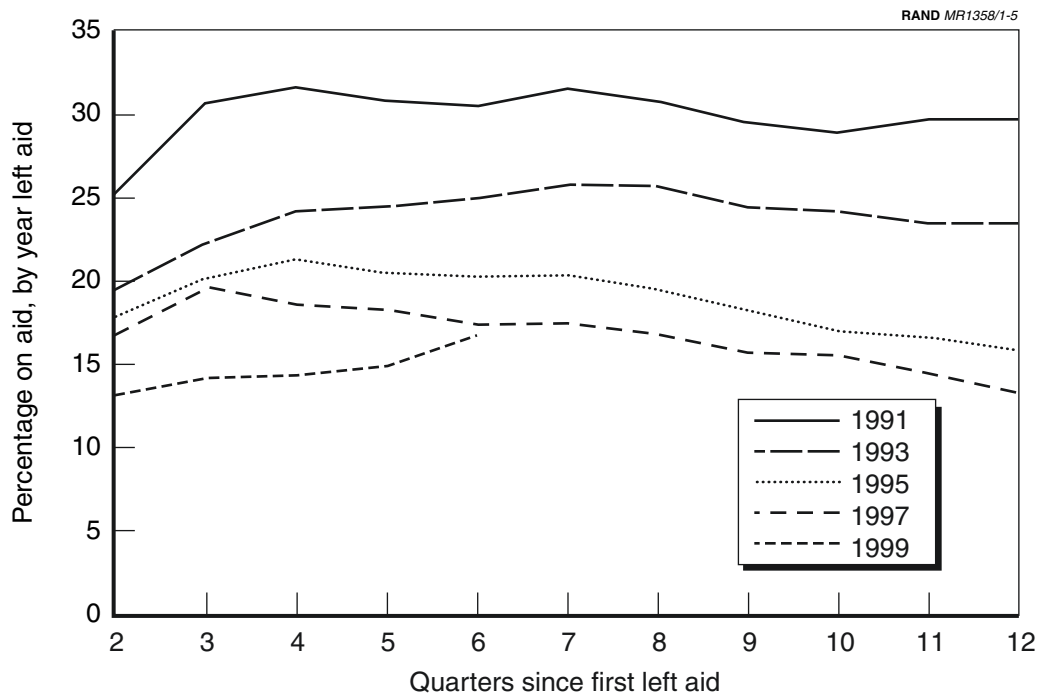
Welfare Leavers

Beyond the falling caseload, we would like to know how those who left welfare are faring. Do they return quickly? Are they employed? What are their earnings?

The Share of Welfare Leavers Returning to Aid Is Low and Falling

Figure 5 shows the percentage of leavers who are back on welfare within one to 12 quarters (i.e., three years) after leaving welfare. Each line on the chart refers to a cohort of leavers (i.e., those who first left aid in a given calendar year). As shown in the figure, exit from welfare is not always permanent. Nevertheless, rates of return to welfare have fallen sharply. In the early 1990s, one-fourth or more of welfare recipients were

Rates of return to aid are low and falling



SOURCE: RAND tabulations from 5 percent MEDS-EDD microdata match file.

Figure 5—Return to Welfare

back on welfare by the third quarter, and the fraction rose with quarters since leaving aid. Rates of return fell sharply and steadily through the mid-1990s, so that by 1997 they were about 15 percent. From the perspective of the whole decade, the rates of return to aid remain quite low, and the overwhelming majority of leavers—more than four out of five—are off welfare in each subsequent quarter.

Employment and Earnings of Leavers Rise Sharply in Later Cohorts

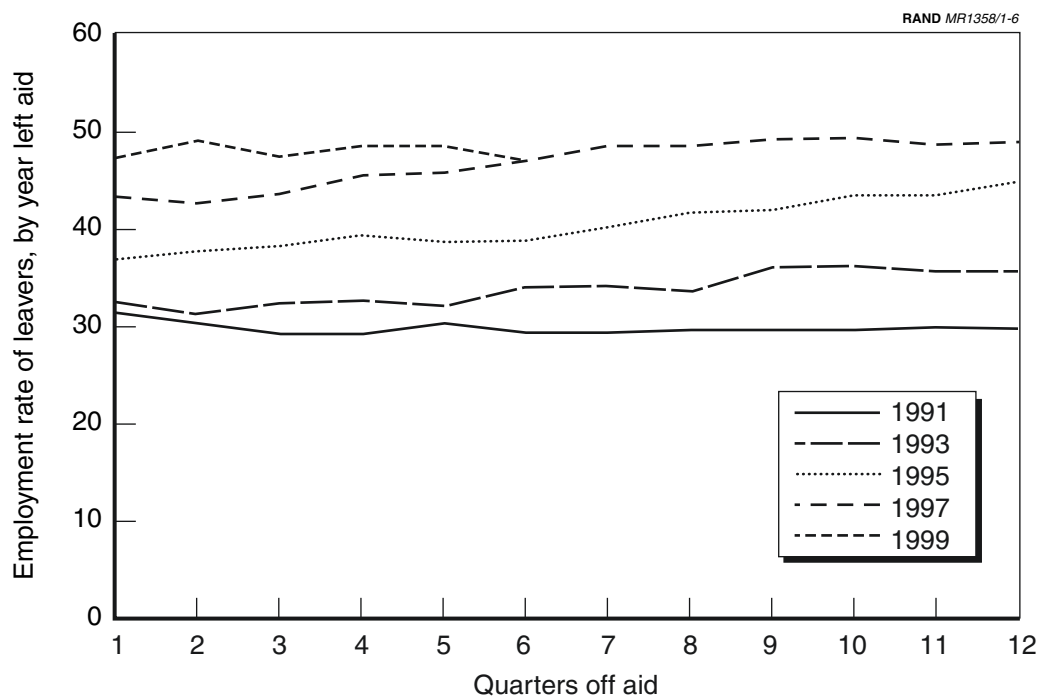
Rates of employment have risen steadily to 50 percent in 2000

How are leavers faring? Figure 6 shows the increase in the percentage of welfare leavers employed in each quarter by cohort. In the most recent cohorts (leavers in 1997 and 1999), employment rates were about 50 percent—half of leavers are employed, and this fraction is stable with time since leaving welfare. This level of employment represents a significant increase over earlier cohorts of leavers: For the cohort who left welfare in 1991, employment levels were about 30 percent. Rates of employment increased steadily through the 1994 and 1996 cohorts, after which they have leveled off at approximately 50 percent.

While employment is an important outcome in and of itself, the goal of PRWORA and CalWORKs is self-sufficiency. Thus, beyond employment, we consider earnings and earnings growth. Like the rate of employment, earnings among welfare leavers are also higher for later cohorts. Furthermore, cohort earnings rise about 10 percent in each of the first three years after leaving welfare. However, at least on average, the earnings growth is from a low base, so that only about one-fourth of the sample have earnings equivalent to full-time work at the minimum wage. While this fraction has risen sharply over time (see Figure 3), the low absolute levels also raise a question about how other leavers are supporting themselves. We plan to explore this issue in the coming year with additional analyses.

Earnings rise 10 percent per year in each of the first three years after leaving welfare . . .

. . . but absolute levels are low



SOURCE: RAND tabulations from 5 percent MEDS-EDD microdata match file.

Figure 6—Employment of Leavers by Cohort

Medi-Cal Coverage Has Risen Sharply Since CalWORKs Was Enacted

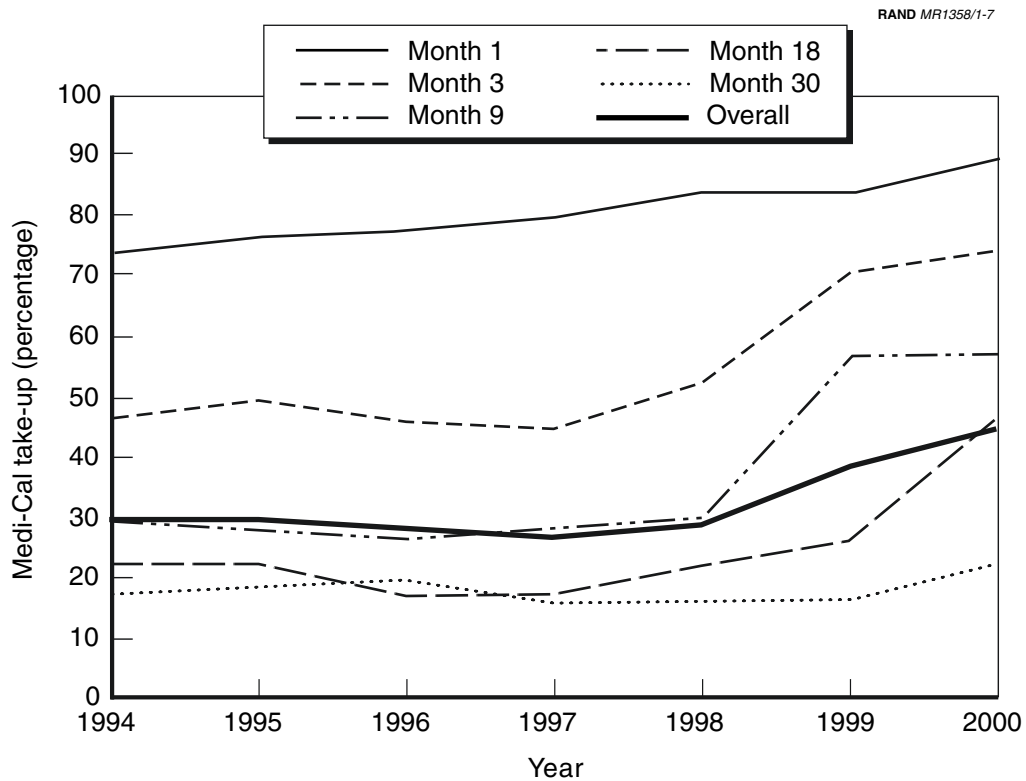
While federal welfare reform was intended to move current welfare recipients into the workforce and off welfare, Medicaid (Medi-Cal in California) coverage was intended to continue. Consistent with this goal, federal and California welfare reform broadened eligibility for Medi-Cal among welfare leavers.

Medi-Cal take-up is high in the first month after leaving aid . . .

. . . with take-up showing a sharp increase with CalWORKs

Figure 7 tabulates the success of county welfare departments in providing Medi-Cal to leavers. Immediately on leaving CalWORKs, leavers have high Medi-Cal coverage levels, from 74 percent in 1994 to approximately 90 percent in 2000. This is a result of the 1985 Edwards v. Kizer decision that was implemented in the early 1990s. The policy directed county welfare departments to place welfare leavers in the “Edwards Hold” until their continued eligibility for Medi-Cal was redetermined.

Coverage levels drop with time since leaving welfare. Today, only about 74 percent of welfare recipients have Medi-Cal coverage three months after leaving; 57 percent have coverage at nine months; 46 percent have coverage at 18 months; and 22 percent have coverage at 30 months. However, at all durations past one month, coverage levels exhibit a sharp and steady continuing increase under CalWORKs (i.e., beginning in 1998).



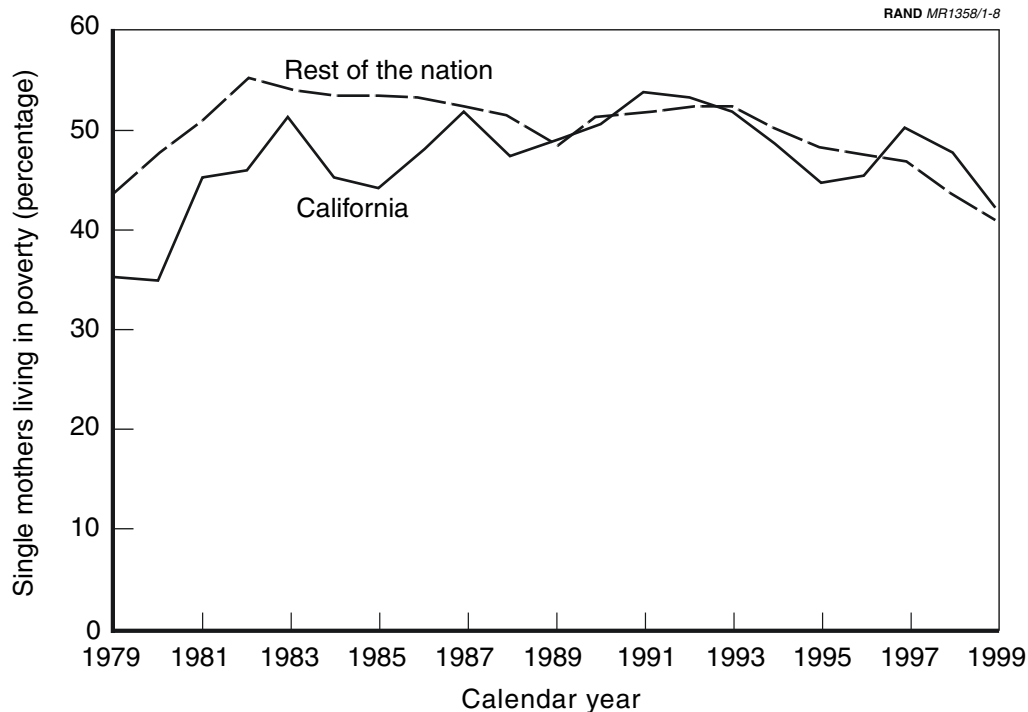
SOURCE: RAND tabulations from 5 percent MEDS-EDD microdata match file.

Figure 7—Medi-Cal Coverage Among Welfare Leavers by Month Since Leaving Welfare and Calendar Year

Outcomes for All Single-Parent Households Are Also Improving

Proponents of federal welfare reform argued that one of its effects would be to encourage potential recipients to make life choices leading to self-sufficiency so that they would never enter welfare. In the 1990s, both in California and in the rest of the nation, single mothers have become more likely to work, and their earnings are rising. In addition, single-mother households have falling poverty rates (see Figure 8). These patterns continue and accelerate longer-term trends, although there is some evidence that the improvements in California began later than in the rest of the nation. The declines in poverty among single-mother households in the past two years are among the largest ever recorded. Up to sampling variability, the levels and patterns in California are identical to those in the nation as a whole.

Declines in single-mother poverty rates in the past two years are among the largest ever recorded



SOURCE: RAND tabulations from March CPS files.

Figure 8—Poverty Among Single-Mother Households for California and the Rest of the Nation by Year

*All outcomes are
improving . . .*

*. . . but what
causes these
improvements?*

Across the four outcomes analyzed, the picture is generally positive. Since the mid-1990s, participation, employment, and earnings among current recipients have increased; the caseload has fallen; employment and earnings of leavers are rising; and poverty among single mothers has fallen. However, these results are descriptive. While some of the changes probably result from CalWORKs, some are probably the result of other changes over the same period. Section 3 begins to consider the causes of the trends we are seeing in California and the differences in outcomes between California and the rest of the nation. Specifically, it begins the process of trying to identify the causal effect of the CalWORKs reforms.

3. WHAT FACTORS MIGHT EXPLAIN THE OBSERVED VARIATION IN OUTCOMES THROUGH TIME AND ACROSS STATES?

We now turn to what caused the variation in outcomes over time and across states and, in particular, the role of the CalWORKs reforms and parallel reforms in other states.

What Could Cause the Variation in Outcomes?

Timing is a crucial consideration in assessing what might have caused the variation. Welfare reform in California has been a long process. Some of the reforms pre-date CalWORKs, and CalWORKs implementation stretched over several years.

Timing is crucial in understanding the causes of the changes

As shown in Figure 9, there were three major pre-CalWORKs welfare reforms: (1) in 1992 and 1993, respectively, fill-the-gap budgeting and the Work Pays reforms allowed welfare recipients to keep more of their earnings; (2) the 1995 GAIN reforms reoriented welfare programs from an education-and-training orientation toward a work-first focus; and (3) a cumulative 29 percent cut in the real benefit level was implemented from the early 1990s through 1998.

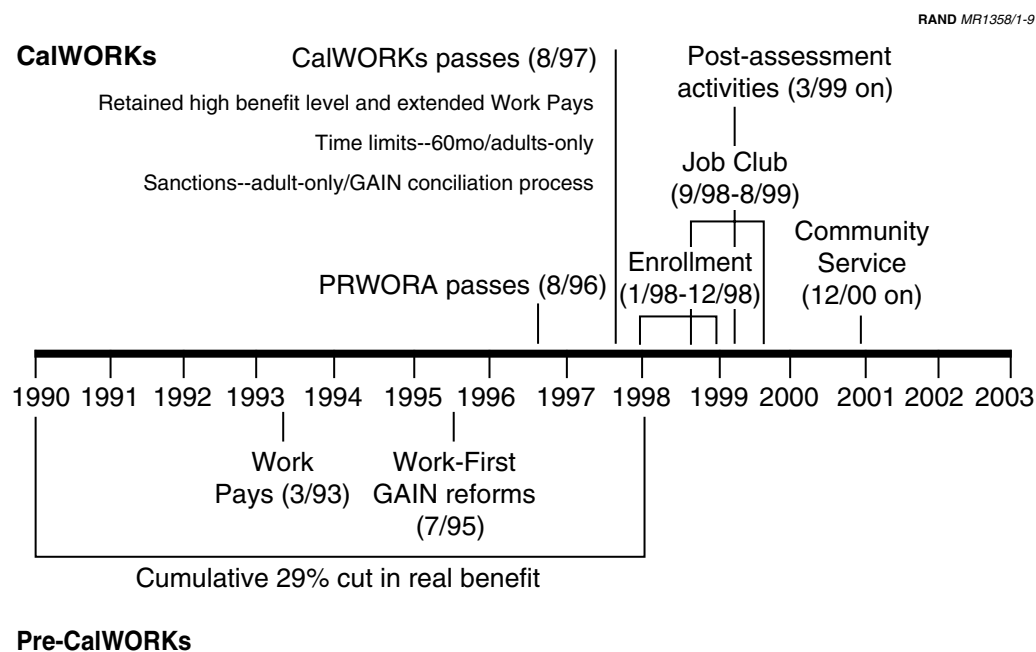


Figure 9—Timeline of CalWORKs and Pre-CalWORKs Causal Effects

Three policies are likely to explain the differences between California and the rest of the nation

The CalWORKs legislation, passed in August 1997, modified many policies. Three of the modifications appear to be of particular importance in understanding outcomes: (1) the CalWORKs legislation expanded the Work Pays reforms, allowing recipients to keep even more of their earnings; (2) the full 60-month time limit was adopted, after which only the adult portion of the benefit would be cut, thus maintaining a safety net for children in time-limited families; and (3) CalWORKs continued the GAIN sanction policy (which included a formal conciliation process to ensure notification and due process) and an adult-only maximum sanction (with payments to children continuing). These legislative changes differ greatly from those in other states, many of which adopted less-generous benefit structures, shorter and full-family time limits, and full-family sanctions with a streamlined conciliation process. While the primary impact of the policy changes in California would be expected to occur after they became effective in early 1998, some effects would be expected to occur earlier as some recipients changed their behavior in anticipation of the widely publicized coming changes.

County WTW programs are likely to have had an effect after 1998

Finally, some CalWORKs changes were mediated through the WTW programs of the county welfare departments. Delayed by the late passage of the CalWORKs legislation, the roll-out over the next three years was slow, as documented in our complementary process analysis reports. In the modal county, the timeline appears to have been approximately as follows: Enrollment continued until the end of 1998, with Job Club (a structured job search program) for those on welfare at the start of CalWORKs extending until about August 1999; post-assessment activities for those who did not find jobs began in March 1999; and there were few recipients in community service by the end of 2000. The timing of county expenditures is consistent with this extended roll-out, with the major surge of spending on programs for recipients (as opposed to spending for training staff) not occurring until the third quarter of 1999.

Beyond the three welfare reforms shown in Figure 9, other factors are likely to have played a role in causing the variation. Changes in other government policies such as the federal Earned Income Tax Credit, the minimum wage, and Medi-Cal would also be expected to affect the outcomes of interest.

The economy is likely to play a crucial role

Last, and perhaps most important, in about 1994, California's economy emerged from a deep recession and entered a long and robust economic expansion. This alone would be expected to increase employment and earnings of welfare recipients, cut the welfare caseload, increase employment and earnings among welfare leavers, and cut poverty.

What Might Explain Work Participation-Rate Outcomes?

The descriptive analysis of participation rates showed that *participation rates in California have risen over time and they are higher than those in the rest of the nation*. We next consider possible reasons for these findings.

The Rise in Participation Rates Was Driven by County Welfare Programs, Pre-CalWORKs Reforms, the Earned Income Tax Credit, and the Economy

The available evidence suggests that some of the increase in participation rates in the post-CalWORKs period results from the implementation of county WTW programs. The CalWORKs program was rolled out in FFY 1998 and FFY 1999, and the existing cases were processed through a new program model that was better funded than the earlier GAIN program. Specifically, large numbers of recipients went through Job Club in late 1998 and early 1999, and nearly immediate Job Club has become almost universal for new entrants. The goal of these county WTW programs was to increase participation and employment. Counties report that a high proportion of those who participate find jobs out of Job Club. This claim is consistent with earlier random-assignment studies of WTW programs in selected California counties that found that such work-first programs raise participation and employment rates.

County WTW programs can explain some of the increase in participation . . .

Nevertheless, it seems unlikely that county welfare department programs explain all the increase in participation or employment. Compared with the post-CalWORKs WTW programs, those in the pre-CalWORKs era were small and funding was relatively stable, yet employment rates rose dramatically starting about 1993. County WTW programs were still ramping up at least through the end of FFY 1998 (i.e., October 1998). Thus, some of the pre-CalWORKs reforms (e.g., the Work Pays reforms) and other government policies (e.g., the expansion of the Earned Income Tax Credit) are likely to explain some of this increase.

. . . but not all of it

Finally, it also seems likely that some of the increase in employment resulted from the improving economy, which made jobs easier to find, thus raising employment rates. The timing of the start of increases in employment is consistent with a role for the economy.

The economy is likely to explain some increase in employment rates

The Composition of the Caseload and the Structure of Benefits Inflates California's Participation Rate Relative to the Rest of the Nation

As we saw in Figure 1, California's all-families participation rate is higher than the rate for the nation as a whole—42 percent versus 38 percent. The higher rate appears to result in part from California's caseload composition and benefit structure.

The California caseload has a much larger percentage of two-parent cases than does that of the nation as a whole—18 percent versus only 7 percent; two-parent cases, in turn, have higher participation rates than one-parent cases. This raises California's all-families rate relative to that in other states. Table 1 shows the results of a simulation comparing California's pure one-parent rate to the one-parent rate for the nation as a whole. Based on this approximation, the participation rate in California

California's higher fraction of two-parent cases raises participation rates

Table 1
ADJUSTING CALIFORNIA'S PARTICIPATION RATES FOR CASELOAD
COMPOSITION

| | FFY 1999 Participation Rate (percent) | | |
|----------------------------------|---------------------------------------|--------|------------|
| | California | Nation | Difference |
| All families ^a | 42 | 38 | 4 |
| One-parent families ^b | 37 | 36 | 1 |

^aU.S. Department of Health and Human Services data.

^bRAND tabulations from California Q5 data.

The structure of welfare benefits in California also pushes up participation rates

drops from 4 percentage points above that of the nation to only 1 percentage point.

The full report also includes simulation results suggesting that an additional 6 percentage points of California's participation rate can be attributed to the structure of California's welfare benefit. A woman with two children can work full time at about \$8.75 per hour and still be income-eligible for CalWORKs. In many other states, it is not possible to combine work and welfare. Full-time work at or slightly above the federal minimum wage (\$5.45 per hour) is enough to make a family income-ineligible. In California, families are often both on welfare and participating, yielding a higher participation rate.

After these adjustments, California's participation rates are lower than those of the nation as a whole

Thus, while California's unadjusted participation rate is higher than that of the nation as a whole, when caseload composition (i.e., the large share of two-parent cases) and benefit structure (i.e., allowing those working enough to be income-ineligible in other states to remain eligible) are considered, the state's adjusted participation rate is lower than that of the rest of the nation.

What Might Explain Outcomes for Welfare Caseload?

The descriptive analysis of welfare caseload showed that *the welfare caseload in California declined sharply over time but not as much as that in the rest of the nation*. Why is that so?

The Decline in Caseload Is Driven Partly by the Economy, Partly by Pre-CalWORKs Reforms, Partly by Other Policies, and Partly by County Welfare Programs

The economy is a likely explanation for caseload decline

The economy is a likely candidate for the cause of the caseload decline. Figure 10 illustrates this by showing the co-movement of California's unemployment rate (as a proxy for the economy) and caseload in California. It also shows that the peak of the unemployment rate preceded the peak in the caseload by about two years, a point we return to below. Econometric analyses exploiting between-county variations in economic

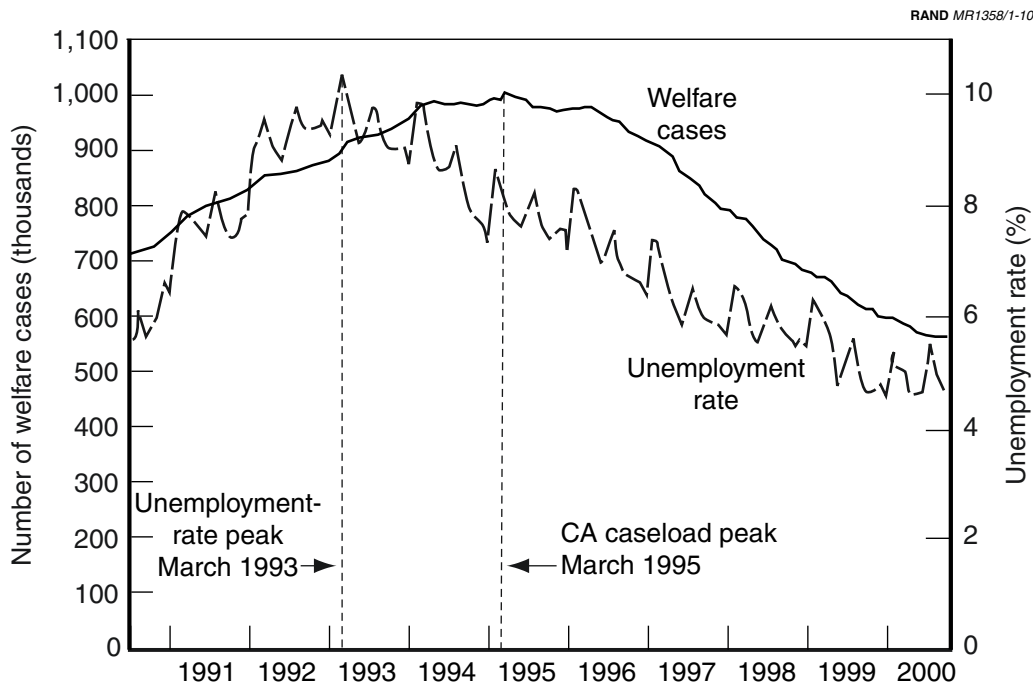


Figure 10—California's Unemployment Rate and Welfare Caseload

conditions support these informal inferences, suggesting that the economy explains about half of the caseload's decline from its peak.

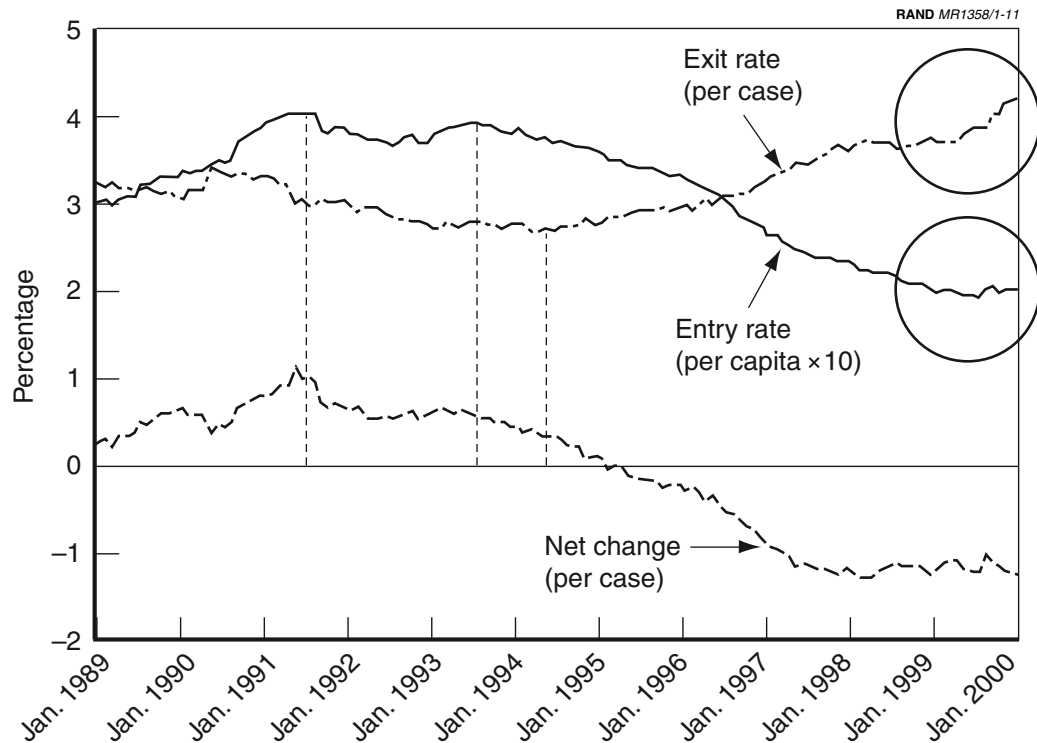
Pre-CalWORKs reforms may have also had an effect on the earlier part of the decline in the caseload. In response to a fiscal crisis in California in the early 1990s, the nominal aid payment was cut several times, and the cost-of-living allowance was suspended, resulting in a 29 percent cut in the real welfare payment between 1991 and 1997. Conventional estimates suggest that this decline in the real benefit would have been expected to lower the caseload by between 6 and 20 percent.

Pre-CalWORKs reforms may have also played a role

Figure 10 shows that the peak of the unemployment rate preceded the peak in the caseload by about two years. This differential can be explained by examining entry rates onto welfare and exit rates from welfare. Figure 11 shows that entry rates and exit rates adjust relatively quickly to changes in the economy, but it takes approximately two years for these entry- and exit-rate changes to change the aggregate trend in the caseload.

Disaggregating the caseload into entry rates and exit rates also highlights the possibility that county WTW programs have become more important in the caseload decline in the most recent period for which data are available. Toward the end of that period (indicated by circles in Figure

County WTW programs may have contributed to recent declines



SOURCE: RAND tabulations from MEDS file.

Figure 11—Changes in Flows Onto and Off Welfare

11), the entrance rate per capita had stopped falling, and if the economy were the main factor at work, we would have expected the exit rate to stop rising as well. In fact, however, the exit rate has continued to rise—as would be expected as WTW programs begin to serve large numbers of recipients.

The Economy and Different Statewide Policies Account for Lower Caseload Decline in California Versus That in the Rest of the Nation

Differences in unemployment-rate growth and peak help explain California/U.S. variation

As noted above, while California's caseload has declined sharply, it has declined less than that of the rest of the nation. Part of the reason appears to be the economy. California's unemployment rate rose more and peaked later than that in the rest of the nation. This pattern is similar to the relative paths of the California and national caseloads. However, since California's unemployment peak, the decline has been greater than that in the rest of the nation. This larger decline in the unemployment rate would be expected (with a lag of about two years) to lead to a larger decline in California's caseload relative to the decline in the rest of the nation.

One reason for the smaller caseload declines in California appears to be differences in the policies chosen by the states in their implementation of PRWORA, in particular, policies concerning time limits and sanctions. Table 2 summarizes those differences. The *California* column summarizes the key policies California implemented. The *nation* column describes the less-generous policies of most of the other states. Based primarily on the limited national literature, the final column summarizes our estimates of the potential impact the differences between California and the rest of the nation could have on the caseload.

Differences in policies also explain interstate variation

Our simulations suggest that the state's time-limit policies have increased the caseload relative to what it would have been if California had adopted the time-limit policies of other states. California's time-limit clock started later than those in other states, so no individual in California will lose assistance until January 2003. Even then, only adults will be dropped from the caseload in California, while children will continue on welfare.

Time-limit policies can explain some of the difference . . .

As for sanctions, a rough estimate would be that if California were to adopt an immediate full-family sanction, its caseload would decline by about 20 percent. Because only about a quarter of the states have adopted full-family sanctions, California's sanction policies explain perhaps five percentage points (a quarter of the full 20 percent effect) of the difference in the caseload decline relative to that of the nation as a whole.

. . . and sanction policies explain even more

Table 2

DIFFERENCES IN POLICIES BETWEEN CALIFORNIA AND THE NATION AND THEIR POTENTIAL IMPACT ON CALIFORNIA'S CASELOAD

| Policy | California | Nation | Potential Impact on California Caseload |
|-------------|------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Time Limits | <ul style="list-style-type: none"> 60 months starting 1/98 Payments to children continue (\$520 vs. \$645) | <ul style="list-style-type: none"> 20 states have limits shorter than 60 months; almost all started earlier than California 41 states do not continue payments to children | <ul style="list-style-type: none"> About 40 percent of adult recipients have been on welfare since 1/98 Perhaps a 5 percentage point difference, but this will grow rapidly |
| Sanctions | <ul style="list-style-type: none"> Adults-only sanction Strong due-process protections | <ul style="list-style-type: none"> 37 states have full-family sanctions Streamlined conciliation process | <ul style="list-style-type: none"> For immediate full-family sanction, perhaps 10 percent Perhaps a 5 percentage point difference |

What Might Explain Outcomes for Welfare Leavers?

The descriptive analysis of welfare leavers showed that *outcomes for leavers have improved and are similar to those in the nation as a whole. As*

noted earlier, the outcomes we examined fall into two groups: those that affect the economic well-being of leavers and those that affect their Medi-Cal coverage. Here, we examine the reasons behind the increases in both groups of outcomes.

The Economy Is the Key Driver for Economic Outcomes

Similar factors explain improvements for leavers . . .

Many of the factors that cause declines in the welfare caseload—in particular, stronger work requirements, time limits, and the improving economy—would also be expected to cause a decline in returns to cash assistance. Similarly, many of the factors that might cause an increase in employment and earnings among current recipients—in particular, a work-first approach to WTW services and an improving economy—would also be expected to cause improvement in employment and earnings for leavers.

. . . as do Work Pays reforms

In addition, fill-the-gap budgeting and the Work Pays reforms and their extensions in the CalWORKs reforms have the indirect effect of raising earnings among welfare leavers. For example, they raise the earnings level at which a case becomes income-ineligible for cash assistance. Thus, on average, leavers might be expected to have higher earnings when they leave welfare.

The Increases in the Medi-Cal Take-up Rates Stem from Two Factors: Edwards Hold and Medi-Cal Outreach Programs

Early on, Edwards Hold processing accounts for take-up

Beyond the increase in employment and earnings for leavers, take-up of Medi-Cal has also increased. Two factors account for this increase: The early months after leaving welfare, like the first 12 to 18 months after CalWORKs was enacted, are dominated by slow county processing of the Edwards Hold (a Medi-Cal coverage category for welfare leavers pending redetermination of their Medi-Cal eligibility), while the increase in later months and the most recent year appears to result from changes in county welfare department policies and the work of individual caseworkers. The only apparent explanation for the rise in take-up rates at these later stages is the multilevel effort to increase Medi-Cal take-up among leavers. This effort includes new programs provided by federal and California legislation, strong policies to encourage take-up, and strong efforts on the part of county welfare departments to enroll leavers initially and to keep them enrolled through time.

Later on, the multilevel county outreach effort explains rise

Prompt processing of Edwards Hold cases will drive down rates . . .

How these efforts will affect take-up rates in the near future is less clear. The processing of the remaining Edwards Hold backlog and prompt processing of new Edwards Hold cases (within one to two months, as occurred in the pre-PRWORA period) will decrease Medi-Cal coverage

rates, especially in months three to six after welfare exit. However, expanded outreach efforts and streamlined processes for maintaining Medi-Cal eligibility (in particular, increasing the time between mandatory recertifications) should increase both Medi-Cal take-up immediately after Edwards coverage ceases and also the probability of remaining on Medi-Cal as time since welfare exit increases. We will reexplore the net effect of these two offsetting changes in the second impact analysis report.

... but expanded county efforts should increase take-up rates and the likelihood of remaining on Medi-Cal over time

4. CONCLUDING THOUGHTS

In summary, we have found almost uniform improvement in outcomes since the early 1990s. Those improvements continued, and in some cases accelerated, with the passage and implementation of CalWORKs.

Given timing, not all the changes result from CalWORKs reforms over time

Not all of the changes are the result of the CalWORKs reforms. The key insight concerns timing. The main effect of the CalWORKs reforms would have been expected to occur after the new policies were enacted (i.e., early 1998) and, even more so, after the new programs were implemented (i.e., late 1998 through mid-1999). However, the improvements appear to have begun in the early 1990s. Thus, while the CalWORKs reforms appear to have been responsible for some of the improvement at the end of the time period considered here, the improving economy and other policy changes probably explain much of the improvement in the earlier part of the decade. Since the economy continued to improve after the CalWORKs legislation passed and the counties implemented their new WTW programs, it seems likely that some of the improvement in the post-CalWORKs period also results from the economy.

State policy choices explain much of the variation among states

The rest of the nation has experienced similar improvements in outcomes. Thus, it appears that state policy choices—in particular, those concerning the benefit structure, sanction policy, and time-limit policy—explain much of the reason for California's higher participation rate and smaller caseload decline.

Whether the state's smaller caseload decline resulting from these policy choices is a cause for concern is far from clear. The policy choices in the CalWORKs legislation are broadly consistent with California's pre-PRWORA policies. Presumably, they reflect the state's balancing of a higher safety net for children against the resulting larger welfare caseload.