2. Program Participation

Counties use their CalWORKs funds to provide services that are intended to help recipients find jobs, make them self-sufficient, and enable them to leave cash assistance. The services are also intended to engage enough recipients for the state to meet two goals: aggregate federal participation requirements and the CalWORKs legislation’s individual participation-rate requirement.¹

This section considers the evidence of the counties’ success in engaging current recipients of cash assistance in WTW activities. We begin with an overview of the descriptive findings on participation rates and California’s creation of a separate state program (SSP) for two-parent families in October 1999. We then present a more detailed discussion of the components of participation. Finally, we examine some possible explanations of what might account for the descriptive findings.

Overview of Descriptive Findings

The first goal—meeting federal participation rates—has been satisfied. Despite some concern in federal fiscal year (FFY) 1997 about the two-parent rate, California has met both the all-families and the two-parent participation-rate requirements every year. As a result, the state has borne no federal penalties and has been subject to a lower maintenance of effort (MOE) requirement (75 percent instead of 80 percent of pre-PRWORA spending). Furthermore, California’s participation rates are rising and are higher than those of the nation as a whole. With the establishment of the SSP for two-parent families² (and probably even without it), the caseload decline and the resulting caseload reduction credit imply that as long as the requirements and the method of computing them remain unchanged and there is not a major recession, California should have no trouble meeting the adjusted targets. However, because the participation rates are similarly not binding in most other states, there is serious discussion about

¹The CalWORKs statute (11320.3) states: “Except as provided in subdivision (b) or if otherwise exempt, every individual, as a condition of eligibility for aid under this chapter, shall participate in welfare-to-work activities under this article.”

²The establishment of an SSP is likely to decrease the all-families participation rate. Two-parent families have higher participation rates than one-parent families. Thus, the all-families rate is a weighted average of the two groups. Since California has a high proportion of two-parent cases, pulling them out will leave the one-parent families, who have lower participation rates.
toughening the participation-rate requirements as part of TANF renewal (for FFY 2003, beginning October 2002).

The second goal—near-universal, immediate participation in CalWORKs WTW activities (work as well as other activities) for 32 hours per week—has not been met. High participation rates are known to be difficult to achieve (Hamilton and Scrivener, 1999). Some recipients are statutorily exempt; others are in the formal noncompliance process or are sanctioned; and some are between activities. No one expected literally universal participation, but the reported levels appear to be lower than many anticipated. However, most of the participation appears to be work—the most desired form of participation. Among those not working, participation rates are much lower.

Meeting Federal Participation Rates

To understand how California is meeting federal participation rates, we first discuss the components used to determine the rates. Then, we look at how California has fared in terms of “all-families” participation rates and how it has fared in terms of the more complicated “two-parent” rates. Finally, we examine how California compares with the nation as a whole in terms of participation rates for both all families and two-parent families.

Components Used to Determine Participation Rates

PRWORA imposes penalties on states for failure to meet required work activity participation rates both for all families and for two-parent families. For both groups, these have three components, as shown in Table 2.1. First, PRWORA establishes a nominal percentage of the caseload that must be engaged in a work activity. The required percentage rises from 25 percent in FFY 1997 to 50 percent in FFY 2002.

Second, participation is defined using a minimum number of hours per week. The required number of hours also rises, from 20 hours in FFY 1997, to 25 hours in FFY 1999, and to 30 hours in FFY 2000 and following (45CFR261.31).

Third, the work activity participation rates are compared against an “adjusted target.” One of PRWORA’s stated goals is to reduce dependency, and declines in the caseload are viewed as a direct indicator of progress toward this goal.

3The MOE requirement is reduced from 80 percent to 75 percent for states meeting the participation-rate requirement.
Table 2.1
Federal Work Activity Participation-Rate Requirements

<table>
<thead>
<tr>
<th></th>
<th>Federal Fiscal Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>All families</td>
<td></td>
</tr>
<tr>
<td>Participation rate (percentage of caseloads)</td>
<td>25</td>
</tr>
<tr>
<td>Hours participated per week</td>
<td>20</td>
</tr>
<tr>
<td>Hours participated, child under 6</td>
<td>20</td>
</tr>
<tr>
<td>Two-parent families</td>
<td></td>
</tr>
<tr>
<td>Participation rate (percentage of caseloads)</td>
<td>75</td>
</tr>
<tr>
<td>Hours primary adult participated</td>
<td>35</td>
</tr>
<tr>
<td>Hours spouse participated</td>
<td>20</td>
</tr>
</tbody>
</table>

NOTE: The FFY begins on October 1 and ends September 30 of the following year. The requirement for two-parent families is 55 hours per week if they receive federally funded child care.

Consistent with this perspective, PRWORA’s caseload reduction credit reduces the participation rate required to avoid federal penalties by the percentage decline in the caseload. Along with several other smaller adjustments, this produces the adjusted target.

**How California Has Fared in Meeting All-Families Work Activity Participation Rates**

Given the sharp drop in the caseload, both in California and in the nation as a whole, the adjusted targets are much lower than the nominal required participation rates, as shown in Table 2.2. In the first year (FFY 1997), California’s adjusted target for all families was 19.5 percent, well below the nominal required participation rate of 25 percent. By the third year (FFY 1999), California’s adjusted target was 8.5 percent.

For the purposes of assessing penalties, achieved work activity participation rates are compared against these adjusted targets. For all families, California’s participation rates have been high enough to satisfy the statutory requirement in each year, even without the caseload reduction credit. Furthermore (as shown in Table 2.2), participation rates increased from the baseline (FFY 1997) to FFY 1999, at which point 42.2 percent of all families were participating, according to the federal definition.

Since the caseload continued to decline at about 1 percent per month through FFY 2000 (ending September 2000), despite the 5 percentage point rise in the nominal target, the adjusted target falls to only 6.4 percent for 2000. With an adjusted target in single digits, unless a deep recession occurs, causing a sharp
Table 2.2
How California Fared in Meeting Federal Work Activity Participation-Rate Requirements (percentage of caseloads)

<table>
<thead>
<tr>
<th></th>
<th>All Families</th>
<th>Two-Parent Families</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal statutory participation rate</td>
<td>25.0</td>
<td>30.0</td>
</tr>
<tr>
<td>Caseload reduction credit</td>
<td>5.5</td>
<td>12.2</td>
</tr>
<tr>
<td>Adjusted target</td>
<td>19.5</td>
<td>17.8</td>
</tr>
<tr>
<td>Participation rate</td>
<td>29.7</td>
<td>36.6</td>
</tr>
</tbody>
</table>

NOTES: The adjusted target is the statutorily required participation rate less the caseload reduction credit and other adjustments (not shown in the table).
SOURCE: U.S. Department of Health and Human Services, Administration for Children and Families (DHHS-ACF), at http://www.acf.dhhs.gov/programs/opre/particip/index.htm#participation. The table presents the official federal figures as of early 2001, which reflect significant revisions to official participation rates (for California and for other states) since the initial reports.

increase in the caseload, California should have little trouble satisfying the federal statutory requirement through TANF renewal (i.e., September 2002).

**How California Has Fared in Meeting Two-Parent Work Activity Participation Rates**

In addition to the work activities participation-rate requirements for all families, PRWORA includes separate work activities participation-rate requirements for two-parent families. Furthermore, these rates are much higher than those for all families: For FY 1999, the rate was 90.0 percent for two-parent cases but 35.0 percent for all-families cases, as shown in Table 2.2. However, the two-parent caseload has declined faster than the all-families caseload. Combined with some other sizable adjustments, the caseload reduction credit for two-parent families is much larger than that for all families. The resulting adjusted target (36.9 percent for FFY 1999), while well above that for all families (8.5 percent), is far below the nominal 90 percent level required by the federal statute.

It initially appeared that California (along with 18 other states) had failed to satisfy the federal requirement for two-parent families for the first TANF year (FFY 1997), and the U.S. Department of Health and Human Services (DHHS) issued a penalty notice. California “disputed” the federal computation.\(^4\) The

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\(^4\) The President’s “Temporary Assistance for Needy Families Program: Third Annual Report to Congress” (August 2000) reports that in FY 1998, California was one of two states that “disputed our participation rate calculation and upon retransmission the State’s data showed it met the two-parent
underlying Q5 data were reedited, and the federal government allowed the use
of EDD data to impute labor earnings. On recomputation, California was found
to have satisfied the statutory requirement (by 1.5 percentage points).

Since FFY 1997, the declining caseload has lowered the two-parent adjusted
target. The two-parent participation rate fell from 42.3 percent in FFY 1997 to
36.2 percent in FFY 1998 (as shown in Table 2.2), but the caseload reduction
credit was large enough to enable the state to meet the federal requirement (by
3.5 percentage points).

Between FFY 1998 and FFY 1999, the statutorily required participation rate
increased from 75 percent to 90 percent; however, the continuing caseload
decline offset one-third of that increase (4.2 percentage points). In addition, a
sharp increase in the participation rate (from 36.2 percent to 54.3 percent, as
shown in Table 2.2) meant that California easily (by 17.4 percentage points)
satisfied the federal requirement.

Partly in response to concerns about a possible penalty, California changed its
welfare program. All of the two-parent cases were moved into an SSP. The SSP
could be funded with MOE dollars, but cases in an SSP are not considered to be
federal TANF cases and are thus not subject to any federal participation-rate
requirement. This change, also adopted by many other states, essentially
removes the possibility of a penalty because of two-parent cases. Furthermore,
given the current participation rates for one-parent cases and the caseload
reduction credit, it probably also makes any penalty due to the federal
participation-rate requirement very unlikely.

While California’s caseload decline is large, it is below the national average.
Thus, California’s caseload reduction credit for all families (26.5 percent for FFY
1999) is smaller than the national average (35.3 percent for FFY 1999). Subtracting
the caseload reduction credit from the required participation rate would yield a
negative national adjusted target. Indeed, for FFY 1999, nearly half (23) of the
states have a caseload reduction credit large enough to make their adjusted target
negative. Because of concern that the adjusted target is no longer serving its
intended role of requiring states to impose participation rates on recipients, there
is serious discussion about adjusting the caseload reduction credit (perhaps with
a new baseline) or raising the required participation rate as part of the renewal of
the federal legislation authorizing TANF (i.e., by September 2002) for FFY 2003
and beyond.\(^5\)

\(^5\) Haskins, Sawhill, and Weaver (2001).
How California Compares with the Rest of the Nation in Meeting Federal Work Activity Participation Rate Requirements

Table 2.3, which presents the data from Table 2.2 and adds in the national participation rate for comparison, shows that California’s participation rates for all families are above the corresponding rates for the nation as a whole; California’s FFY 1999 rate is 42.2 percent, and the national rate is 38.3 percent. California’s two-parent participation rates are below the national average in FFY 1997 and FFY 1998, but the rates in FFY 1999 are basically the same.

Table 2.3

<table>
<thead>
<tr>
<th></th>
<th>All Families</th>
<th></th>
<th>Two-Parent Families</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal statutory participation rate</td>
<td>25.0</td>
<td>30.0</td>
<td>35.0</td>
<td>75.0</td>
</tr>
<tr>
<td>California</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Caseload reduction credit</td>
<td>5.5</td>
<td>12.2</td>
<td>26.5</td>
<td>34.2</td>
</tr>
<tr>
<td>Adjusted target</td>
<td>19.5</td>
<td>17.8</td>
<td>8.5</td>
<td>40.8</td>
</tr>
<tr>
<td>Participation rate</td>
<td>29.7</td>
<td>36.6</td>
<td>42.2</td>
<td>42.3</td>
</tr>
<tr>
<td>Rest of the nation</td>
<td>30.7</td>
<td>35.3</td>
<td>38.3</td>
<td>44.5</td>
</tr>
</tbody>
</table>

**NOTES:** The adjusted target is the statutorily required participation rate less caseload reduction credit and other adjustments (not shown in the table).

**SOURCE:** DHHS-ACF, at http://www.acf.dhhs.gov/programs/opre/particip/index.htm#participation. The table presents the official federal figures as of early 2001, which reflect significant revisions to official participation rates (for California and for other states) since the initial reports.

Near-Universal, Immediate Participation in CALWORKS WTW Activities for 32 Hours per Week

While California’s all-families participation rate (42.2 percent in FFY 1999) is above the rate required by PRWORA, it is far from the goal of universal participation set out in the CalWORKs legislation. This far-from-universal participation rate appears to have several causes. First, about 13 percent of adult welfare recipients are mandatory participants according to the federal definition, but exempt according to California statute.\(^6\) They include disabled CalWORKs recipients (not receiving federal Supplemental Security Income, SSI).

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\(^6\) This estimate is computed for FFY 2000 (October 1999 to September 2000) CA 237 and WTW 25 forms. It is the ratio of the sum of those with exemptions (44,740, from WTW 25) and those with good cause (7,072, from WTW 25) to the sum of adults in all other families (304,681, from CA 237) and adults in sanction who are no longer aided and are therefore not included in the CA 237 counts of...
Second, about 17.0 percent of adult welfare recipients are formally noncompliant. Furthermore, our fieldwork and caseworker responses to our CalWORKs Staff Survey suggest that recipients, often with the strong encouragement of management, are given multiple chances to comply before they are deemed formally noncompliant and thus counted in the above statistics.

Third, some otherwise compliant participants spend sufficient time waiting for Job Club or between activities that they do not meet the standard for participation in a given month.

Fourth, some activities (e.g., treatment for substance abuse and mental health and domestic violence services; some education and training) count toward participation according to California statute, but not according to the federal regulations. Currently, the prevalence of these activities appears to be low, but it is rising, so such activities could become important in later years. Only about 3 percent of adult welfare recipients are receiving services for mental health, substance abuse, and domestic violence. Furthermore, some of these adults are also participating in other activities, and some are not participating enough hours to satisfy the federal definition of participation.

Beyond the issue of participation-rate levels are separate issues about what welfare recipients are actually participating in, how many hours they are participating (in relation to both federal and state requirements), and, for those working, employment and earnings. We discuss each of these below.

**What Activities Are Welfare Recipients Participating In?**

A variety of activities qualify for inclusion in the federal participation requirements. Federal statute defines participation to include work (subsidized or unsubsidized; in the public sector or the private sector; or in self-employment), as well as other activities leading to work, such as job search (but for only a limited amount of time), near-work activities (e.g., work experience, on-the-job training (OJT), CS, providing childcare for those in CS), and some forms of education. The hours requirements shown in Table 2.1 apply to hours in all adults (31,165, from WTW 25). It should be noted, however, that many people—including senior officials in several counties—have expressed serious concerns about the quality of these WTW 25 data.

7This estimate is the ratio of the sum of those in sanction (31,165, from WTW 25) and those who are noncompliant (21,707, from WTW 25) to the sum of adults in all other families and those who are noncompliant.

activities, although federal regulations limit the allowable hours in some activities—job skills training directly related to employment, education directly related to employment, and satisfactory attendance at secondary school or in a course of study leading to a certificate of general equivalence may be counted only after the first 20 hours. Thus, one could, for example, meet the 25-hour all-families requirement for FY 1999 with 20 hours of work and 5 hours of training (45CFR261.31).

Both the federal and California statutes (PRWORA and CalWORKs, respectively) imply that work is the preferred activity, and Table 2.4 shows that work is overwhelmingly the most common activity. For California in FFY 1999, 84.2 percent of those participating according to the federal definition were working. This figure, however, is below the levels in earlier years. The corresponding

Table 2.4
Qualifying Participation Activities (percentage)

<table>
<thead>
<tr>
<th></th>
<th>All Families</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FFY 1997</td>
</tr>
<tr>
<td>California</td>
<td></td>
</tr>
<tr>
<td>Those participating</td>
<td></td>
</tr>
<tr>
<td>Work</td>
<td>94.7</td>
</tr>
<tr>
<td>Job search</td>
<td>1.9</td>
</tr>
<tr>
<td>Work experience</td>
<td>0.9</td>
</tr>
<tr>
<td>Education and training</td>
<td>2.6</td>
</tr>
<tr>
<td>Those not participating</td>
<td>79.5</td>
</tr>
<tr>
<td>Nation</td>
<td></td>
</tr>
<tr>
<td>Those participating</td>
<td></td>
</tr>
<tr>
<td>Work</td>
<td>68.0</td>
</tr>
<tr>
<td>Job search</td>
<td>13.7</td>
</tr>
<tr>
<td>Work experience</td>
<td>86.7</td>
</tr>
<tr>
<td>Education and training</td>
<td>10.5</td>
</tr>
<tr>
<td>Those not participating</td>
<td>74.6</td>
</tr>
</tbody>
</table>

NOTES: Percentages for work, job search, work experience, and education and training are for those participating the required number of hours according to the federal definition of participation. Since individuals can participate in multiple activities, these percentages can sum to more than 100 percent.

SOURCE: http://www.acf.dhhs.gov/programs/opre/particip/index.htm#participation. This table presents the overall percentages as reported in the original source. Especially in the earlier years and for two-parent cases, they do not agree with the official participation rates given on the same website. Some states (including California) submitted revised Q5 files. It appears that these revised files were used to compute the revised official participation rates but that these components of participation tables were not (always) updated.
figure for the nation as a whole is still lower, only about 70 percent.\textsuperscript{9} Put
differently, among those not working, the participation rate in California is about
10 percent. Nationally, the participation rate is 14 percent.

\textit{How Many Hours Are Welfare Recipients Participating in the
Activities?}

The estimates above consider whether individuals participate for the number of
hours required by federal statute (shown in Table 2.1): 25 hours per week, 20
hours per week for those with a child under six years of age in FFY 1999. The
CalWORKs statute requires even more hours than the federal statute, 32 hours as
of July 1, 1999,\textsuperscript{10} and counties had the option of requiring 32 hours even earlier.\textsuperscript{11} Most counties took advantage of this option. With a higher number of required
hours, the corresponding participation rates will be lower.

Figure 2.1 plots hours of participation as reported in the Q5 data among one-
parent and two-parent families in FFY 1999.\textsuperscript{12} About 55 percent of one-parent
families and 80 percent of two-parent families participate at least one hour in a
given month. This percentage is roughly consistent with the county WTW 25
filings.\textsuperscript{13}

The number of cases participating enough hours to meet statutory guidelines is
smaller than the number participating at all. Federal statute requires 25 hours
per week (fewer hours for women with children under six). At a 25-hours-per-
week cutoff, participation rates are lower, about 28 percent and 57 percent for
one-parent and two-parent cases in California, 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.

\footnotesize{\textsuperscript{9}These estimates are computed as the ratio of those participating according to the federal
requirement and reporting any work to the complement of people not participating.

\textsuperscript{10}See AB 1542 11322.8. Starting January 1, 1998, 20 hours per week; July 1, 1998, 26 hours per
week; and July 1, 1999, 32 hours per week; and “a county retains the option to require all recipients or
individual recipients to participate in welfare-to-work activities in excess of the minimum number of
hours specified in this subdivision, up to 32 hours per week.” See LAO (1/23/98), which
recommends aligning the CalWORKs hourly participation requirement with the lower TANF
requirement.

\textsuperscript{11}See Table 5.1 in Klerman et al. (2001) for a depiction of how the 24 study counties in the
evaluation made their choices about when to implement the 32-hour requirement.

\textsuperscript{12}Corresponding to the definition of hours for a two-parent case, the two-parent estimates
include hours for both adults. Figures for the last quarter of FFY 1999 (after the state 32-hour
requirement was in place in every county) are similar; in fact, they are slightly lower.

\textsuperscript{13}The earliest WTW 25 that has been publicly released is for October 1999 (the month after the
end of the period covered by this figure). It shows a 51 percent participation rate (262,072 enrollees
and 134,562 participants).}
Figure 2.1—Hours of Participation, One-Parent and Two-Parent Cases

Of Those Current Welfare Recipients Who Are Working, How Much Are They Working?

A longer historical perspective would help in understanding the determinants of these participation rates. Unfortunately, consistently defined participation-rate data do not appear to be available for the pre-PRWORA period. However, as shown in Table 2.4, the overwhelming share of participation is work, and consistently defined information on employment and earnings is available from employer filings to the Unemployment Insurance (UI) system.¹⁴

Figure 2.2 shows the percentage of one-parent-family welfare recipients with any earnings reported to the UI system. The UI reports include total earnings, so we can use them to construct a proxy for hours worked. We derive our proxy by dividing total quarterly earnings into the then-current California minimum wage.

¹⁴These data are also known as the MEDS-EDD match. See Appendix B and Klerman et al. (2000) for a more complete description of these data.
Recipients with reported UI earnings (percentage)

Year, quarter

- Working
- 20+ hours
- 25+ hours
- 30+ hours
- 40+ hours

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

NOTE: Hours worked are imputed by dividing quarterly earnings by 260 or 416 hours at the then-minimum wage of $5.75 (as of late 2000). We use this wage even in all years (even for the period before September 1997 when the applicable statutory minimum wage was lower). This estimate is likely to be too high. (See the discussion in text.)

Figure 2.2—Employment and Earnings per Quarter for Current One-Parent-Family Welfare Recipients

of $5.75 an hour (and dividing by 13 weeks per quarter). We then plot the percentage of current welfare recipients with earnings consistent with hours greater than cutoff values of 20, 25, 30, and 40 hours per week. Since some (and probably a growing fraction) earn more than the minimum wage, this proxy is an overestimate (and any increase is probably overestimated).

The results for one-parent families are striking. In the early 1990s (when required hours were lower and exemptions were broader), only about 15 percent of welfare recipients had any UI earnings; less than 5 percent had earnings.

15See Appendix C for a discussion of the potential errors in the proxy. Note that $5.75 was the minimum wage through the end of calendar year 2000. As of January 1, 2001, the California minimum wage rose to $6.25.
consistent with even 20 hours per week. Then, beginning in early 1993, total employment and employment above each of the hours-worked cutoffs exploded. Total employment increased nearly linearly from about 15 percent in 1993 to over 40 percent in late 1999; employment above the 25-hour-per-week equivalent increased from less than 5 percent in 1993 to nearly 20 percent in late 1999; and full-time employment (40 hours per week) increased from about 2 percent in 1993 to about 12 percent. The dip at the very end of the data is probably due to technical considerations.

Figure 2.3 presents equivalent results for two-parent families. The levels are higher, but the trends are similar: steady and low rates of employment through about 1993 and an explosion of work thereafter.

Possible Explanations for Descriptive Findings

Having described the levels of participation and employment, we next consider their determinants. How do welfare policies and other factors affect the differences in participation and employment across states? What role have welfare policies and other factors played in the increase in participation and employment through time?

In this section, we review the evidence on the role of the factors shown in Figure 1.1 and discussed in Section 1. We first discuss the impact of county CalWORKs programs, then examine the effect of caseload composition, pre-CalWORKs reforms and CalWORKs legislation changes to the benefit structure, other CalWORKs legislative changes, and the economy. The second impact analysis report will include additional analyses.

The Effects of County Welfare Programs

The available evidence suggests that some of the increase in participation rates in the post-CalWORKs period resulted from county WTW programs. We review
Recipients with reported UI earnings (percentage)

<table>
<thead>
<tr>
<th>Year, quarter</th>
<th>Working</th>
<th>20+ hours</th>
<th>25+ hours</th>
<th>30+ hours</th>
<th>40+ hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990 Q3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1991 Q1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1991 Q3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1992 Q1</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>1992 Q3</td>
<td></td>
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<tr>
<td>1993 Q1</td>
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<tr>
<td>1993 Q3</td>
<td></td>
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</tr>
<tr>
<td>1994 Q1</td>
<td></td>
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<tr>
<td>1994 Q3</td>
<td></td>
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<tr>
<td>1995 Q1</td>
<td></td>
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<tr>
<td>1995 Q3</td>
<td></td>
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<td>1996 Q1</td>
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<td>1996 Q3</td>
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<tr>
<td>1997 Q1</td>
<td></td>
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<tr>
<td>1997 Q3</td>
<td></td>
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</tr>
<tr>
<td>1998 Q1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1998 Q3</td>
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**SOURCE:** RAND tabulations from the 5 percent MEDS-EDD match file.

**NOTE:** Hours worked are imputed by dividing quarterly earnings for the case (i.e., both husband and wife) by 260 or 416 hours at the California minimum wage for 2000, $5.75 per hour (as of late 2000). We use this wage even in all years (even for the period before September 1997 when the applicable statutory minimum wage was lower). This estimate is likely to be too high (see the discussion in Appendix C). The underlying numbers and separate calculations for most counties are available at http://www.rand.org/CalWORKs/IA-1.

**Figure 2.3—Total Employment and Earnings per Quarter for Current Two-Parent-Family Welfare Recipients**

the timing of program roll-out in more detail at the beginning of Section 3 (on caseloads). Here, we note that in FFY 1997, California’s WTW program was underfunded, and—despite the 1995 GAIN legislation’s reorientation of the program toward a more work-first approach—most counties still had education- and training-focused GAIN programs. In FFY 1998 and FFY 1999, the CalWORKs program was rolled out and the existing cases were processed through the new and better-funded program model. 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 programs such as Job Club is to increase participation and employment. Counties report that among those who participate, a high proportion find jobs while enrolled in or shortly after Job Club. This claim is consistent with MDRC’s
random-assignment studies of WTW programs in selected California counties (Freedman et al., 2000) and elsewhere (Riccio, Friedlander, and Freedman, 1994) that find that such work-first WTW programs raise participation rates and employment rates.

Nevertheless, it seems unlikely that all of the increase in participation or employment is attributable to program effects. Compared to programs in the post-CalWORKs period, WTW programs in the pre-CalWORKs era were small and funding was relatively stable, yet employment rates rose dramatically. Furthermore, county WTW programs were still ramping up at least through the end of FFY 1998 (i.e., October 1998).

The Effects of the Composition of California’s Welfare Caseload

Although it is not one of the causal factors called out in Section 1, the composition of California’s welfare caseload plays a role in explaining why California’s all-families participation rate is higher than that of the nation as a whole. The size of California’s two-parent caseload makes that comparison an imperfect measure of California’s relative success in involving recipients in work activities. California has a very large two-parent program,17 and two-parent cases have higher participation rates than one-parent cases.18 This raises California’s all-families rate relative to that in other states (which have a smaller fraction of two-parent cases).

A comparison of California’s pure one-parent work activities participation rate to that of the nation as a whole provides further insights. Unfortunately, DHHS does not publish one-parent rates. However, working from the Q5 data for California, we estimate a one-parent rate of 37.2 percent for FFY 1999, considerably lower than the 42.2 percent rate for all families shown in Table 2.2.19 For the nation as a whole, we estimate a one-parent rate of 36.2 percent in FFY 1999, also lower than the 38.3 percent rate shown in Table 2.2.20 Thus, while California’s all-families participation rate is 3.9 percentage points higher than

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17In FFY 1998, over half (54 percent) of all two-parent cases in the nation were in California, although California has only 18 percent of the nation’s total cases. Put differently, 16 percent of California’s cases were two-parent cases; in the rest of the nation, these cases make up only 3 percent of the total.

18Table 2.2 shows higher participation rates among two-parent cases than among all-families cases. Since all-families cases include both two-parent and one-parent cases, two-parent cases must have higher participation rates than one-parent cases. Furthermore, the higher participation rates are achieved subject to a higher hours requirement. Participation rates for two-parent families are even higher when measured against the lower one-parent/all-families hours requirement.

19See Appendix C for details.

20See Appendix C for details.
that of the nation as a whole, our estimated pure one-parent participation rates differ by only 1.0 percentage point. Although California’s all-families rate is higher than the national average, it appears that most of that difference results from the higher fraction of two-parent families in California’s caseload (which are therefore included in the computation of California’s all-families participation rate).

The Effects of Pre-CalWORKs Reforms and CalWORKs Legislative Changes to the Benefit Structure

It seems likely that the pre-CalWORKs and CalWORKs changes to the benefit structure explain some of the increase in employment (and thus participation over time) and also cause California’s employment rates to be higher than they would be if California adopted the benefit structure of other states. Some of these changes are likely to be behavioral—people on aid work more—and some are likely to be compositional—some working families can remain on welfare because of the changes to the benefit structure.

Prior to 1993, the structure of welfare benefits implied that welfare recipients kept little of their earnings. Not surprisingly, given the small financial rewards of working, few worked. As noted in Section 1, fill-the-gap budgeting adopted in 1992 and the Work Pays reforms initiated in 1993 changed the benefit structure, allowing recipients to keep more of their earnings. These changes were augmented in the CalWORKs legislation, so that today a recipient keeps the first $225 of her earnings and half of her earnings above that level up to the point where the household is income-ineligible for aid. The federal EITC further increases current welfare recipients’ incentive to work. Evidence from national random-assignment evaluations of similar changes to the benefit structure (e.g., Berlin, 2000; Blank, Card, and Robbins, 2000) and econometric evaluations of the federal EITC are consistent with the idea that these policies play a major role (e.g., Hotz and Scholz, 2000; Meyer and Rosenbaum, 1999, 2000). We note, however, that CDSS’s random-assignment evaluation of the Work Pays reforms found few statistically significant effects and suggested that part of the problem was that recipients were not being informed of the changes (Meyers, Glaser, and MacDonald, 1998).

Changes to the benefit structure affect employment among current recipients and participation rates in two different ways. First, there is a behavioral effect: Because a recipient can take home more of her earnings, she works more. Second, there is a mechanical effect. A higher earned-income disregard and a lower BRR imply that a recipient remains eligible for cash assistance at a higher
level of total earnings. The structure of benefits in California implies that a woman with two children must work full time at about $8.75 an hour to be income-ineligible for CalWORKs. In many other states, full-time or even half-time work at the minimum wage makes a family income-ineligible for cash assistance. Thus, recipients who in another state would be income-ineligible for cash assistance remain eligible for, and often remain on, welfare in California.

Using the Q5 data, we can simulate the magnitude of the effect of benefit structure on the participation rate. Our analysis focuses on those working sufficient hours to be income-ineligible in other states (half-time to full-time at the federal minimum wage, $5.15 per hour). Because these recipients are working more than 25 hours per week, they appear in both the numerator and the denominator of the federal participation rate, raising the rate over what it would be in a state with a lower level of maximum earnings. We can tabulate the fraction of California welfare cases with earnings high enough to make them income-ineligible in other states. Assuming that every such person was participating according to the federal definition, we can then compute the effect on the participation rate.

The full results of the simulation are presented in Appendix D. Here, we summarize the results. If, as an example, California were to adopt Alabama’s benefit structure, the mechanical model implies that approximately 24.9 percent of its caseload would be income-ineligible and the participation rate would fall from 42.2 percent to 23.0 percent. This simple simulation ignores the behavioral response to the benefit structure. We can use conventional labor-supply models and estimates to make a rough correction for such behavioral effects (Ashenfelter, 1983; Blank, Card, and Robbins, 2000). Those behavioral responses will, in general, lead to a caseload decline somewhat larger than that resulting from the mechanical response. The behavioral response magnifies the effect, so

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21This calculation implicitly ignores interstate differences in the cost of living and in the level of wages.

22The analysis is similar to the conventional analysis of the EITC in reverse. Cases in California with earnings just above the cutoff in the other state would certainly not collect welfare in the other state, where the benefit level is lower, causing them to work more; and the BRR is lower (on welfare in California, they face a 50 percent BRR; off welfare in the other state, they face a 0 BRR). For these people, the mechanical simulation is exactly correct.

Cases in California with earnings just below the cutoff in the other state would choose either to continue to collect welfare or to work more and stop collecting welfare. The lower benefit induces them to work more, possibly making them income-ineligible; the higher BRR (California’s 50 percent rate compared to BRRs of 67 percent or higher) causes them to want to work less. For these cases, the mechanical effect may be too small (in absolute value); the net behavioral effect is a small increase in work, causing some of these recipients (who remained eligible according to the mechanical simulation) to become income-ineligible. Therefore, the behavioral model yields a decrease in the caseload and in the participation rate that is larger than that of the mechanical model, but not much larger.
that, for the example of Alabama, the caseload declines slightly more (26.5 percent) and the participation rate also declines slightly more (to 21.4 percent).

Alabama has one of the lowest benefit levels. Therefore, the estimated impact of Alabama’s benefit structure on California’s caseload and participation rate are among the largest for any single state. Estimates weighting all 50 states, where the weights are the caseloads, indicate that if California were to adopt the “average” benefit structure of other states, its participation rate would be about 8.3 percentage points lower.

**The Effects of Other CalWORKs Legislative Changes**

Other features of the CalWORKs legislation may also lead to lower participation rates. Some states (e.g., Wisconsin and Wyoming) have achieved much higher participation rates, apparently (at least in part) by mandating some specific activity (e.g., CS) immediately and continuously while adults remain on aid and by making participation a condition of receipt of cash assistance. By contrast, California does not require a specific activity (CS) until 24 months after signing a WTW plan, and in practice, this often means 30 or more months after first receipt of cash assistance. Furthermore, California’s sanction for failure to participate is smaller than that of many other states ($125 out of $645 for a family of three), because it applies only to adults.\(^{23}\) The conciliation process and a reluctance to sanction in some counties and on the part of some caseworkers also makes the penalty less sure and thus the incentive to participate smaller.

**The Effects of the Economy**

Improvements in employment among welfare recipients pre-date CalWORKs, stretching back to 1993. We have already noted that the Work Pays reforms and the expansion of the EITC appear to explain some of the increase. It also seems likely that some of the increase in employment results from the fact that the improving economy makes jobs easier to find, thus raising employment rates. The timing is consistent with that explanation. The evaluation for the coming year will explore the extent to which the improving economy explains higher employment rates.

\(^{23}\)Nonexempt, Region 1, as of July 2000.