Welfare Reform in California

Early Results from the Impact Analysis

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L A B O R A N D P O P U L A T I O N
Preface

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

This RAND report presents early results on the impact of the CalWORKs program. In particular, it presents analyses of national data (administrative data on caseloads and national survey data on household income) and statewide data (on caseloads, employment, and earnings). An executive summary of this report is published separately in Welfare Reform in California: Early Results from the Impact Analysis, Executive Summary (MR-1358/1-CDSS).

This is the first of two reports on the impact of CalWORKs. The second impact analysis report will appear in mid-2002.

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, see http://www.rand.org/CalWORKs or contact:

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Summary

Background

In response to federal welfare reform—the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA)—California enacted the Thompson-Maddy-Ducheny-Ashburn Welfare-to-Work Act of 1997 on August 11, 1997. That legislation replaced the Aid to Families with Dependent Children (AFDC) program and Greater Avenues for Independence (GAIN), the state’s associated welfare-to-work (WTW) program, with the California Work Opportunity and Responsibility to Kids (CalWORKs) program.

CalWORKs is a modified “work-first” program that provides services to help welfare recipients move from welfare to work and toward self-sufficiency. Most recipients have Job Club (a structured job search program) as their first activity, although some go directly to assessment and other activities to improve their job readiness. CalWORKs also imposes lifetime limits on the receipt of cash assistance by adults to further motivate recipients to make these transitions. Finally, CalWORKs devolves to California’s 58 counties increased flexibility and financial accountability in designing their welfare programs. With the enactment of the CalWORKs legislation, the California Department of Social Services (CDSS) and the county welfare departments (CWDs) moved promptly to design and implement the new programs, a process that lasted well into calendar year 1999.1

Objectives and Approach

This report, prepared by RAND under contract from CDSS as part of the Statewide CalWORKs Evaluation, is the first of two reports on the impact of CalWORKs. The report’s structure and analyses are guided by a conceptual model of the pathways through which welfare reform and other factors affect work activity participation rates, welfare caseloads, and outcomes for welfare leavers. These outcomes, as well as the ways they vary through time, between California and the other states, and across California’s 58 counties, are affected

1See Klerman et al., 2001.
by multiple factors. The effects of some of these factors—“policy effects”—flow directly from changes to California statute; the effects of other factors—“program effects”—flow indirectly through policy and funding of the 58 CWDs that provide eligibility operations and WTW services to individual welfare recipients.

The CalWORKs reforms were not the only factors affecting outcomes. These reforms built on earlier reforms in California, in particular, changes to the structure of benefits as part of the 1993 Work Pays Demonstration Project and a more work-first-focused WTW program as part of the 1995 reform of GAIN. Other government policies also affected outcomes, in particular, massive increases in the Earned Income Tax Credit (EITC), federal immigration reform, and increases in California’s minimum wage. Finally, CalWORKs was implemented during a period of strong economic expansion. All of these factors would have been expected to affect the outcomes considered here.

This report describes outcomes under CalWORKs through approximately the summer of 2000 and begins the process of explaining the observed variation in outcomes through time, between California and other states, and among California’s counties.

**Work Activities**

PRWORA mandates that increasing fractions of recipients participate in work or a defined set of work activities for a specified number of hours per month. County WTW programs have the dual goals of helping the state achieve those federal statutory goals and helping recipients develop job search skills, work skills, and work experience that will enable them to achieve self-sufficiency and leave cash assistance.

Significant progress has been made in involving recipients in activities. Even though program start-up was slower than anticipated, and despite the exit of the most employable recipients, work participation rates have risen rapidly between federal fiscal year (FFY) 1997 and FFY 1999, and California’s participation rates are higher than the national average. Finally, most of California’s participants are working, the ideal form of participation, to which nonwork activities are intended to lead.

Despite these relative comparisons, the absolute level of participation in work activities remains low. In FFY 1999, only about one-third of California’s one-parent families were participating in a countable activity for the federally required number of hours in a given month (25 hours per week, 20 for those with a child under six years of age). Applying the CalWORKs statute’s higher hours
requirements (32 hours per week for all recipients with a child over one year old) implies a still lower figure, about one-fourth.

In addition, California’s participation rate appears to be higher than the national average primarily because California has a higher proportion of two-parent families and because of the structure of benefits. Two-parent families are much more likely to participate, so a higher proportion of two-parent cases raises the all-families rate. California’s one-parent-family participation rate is nearly identical to that of the nation as a whole.

California’s high benefit levels, combined with the Work Pays reforms as extended by the CalWORKs legislation, imply that a recipient in a family of three can earn up to the equivalent of full-time work at approximately $8.75 per hour and still be income-eligible for cash assistance. Recomputing the participation rate to include only those individuals with earnings low enough to make them eligible in the other states (actually averaging across the implied caseload for each state) would yield a participation rate below that of the nation as a whole.

Finally, as we noted above, most of the observed participation is in the form of work. However, among those not working, only about one in 10 participates, even when the lower federal hours requirement is applied. Thus, counties are having trouble engaging nonworking recipients in activities for enough hours. Some of these recipients are formally noncompliant (slightly more than 10 percent are in sanction; slightly less than 10 percent are in the formal noncompliance process), but for the balance of mandatory participants, the problem appears to be some combination of cases awaiting an initial meeting with a caseworker, cases between activities, and noncompliant cases that have not yet entered the formal noncompliance process.

**Caseload**

Part of the motivation for federal welfare reform was the rapid increase in the welfare caseload in the late 1980s and early 1990s. That increase was especially large in California, which experienced a deep recession.

California’s welfare caseload peaked in March 1995 and has declined rapidly—about 1 percent per month—since then. The decline is broad-based; it includes almost every county and every racial/ethnic group. It is smallest (and only modest) among child-only cases and largest among two-parent families, with one-parent families—the majority of the cases—also exhibiting a sharp decline. About half the decline has resulted from current recipients’ more rapid exit from welfare, and about half has resulted from lower entry rates into welfare. Finally,
while California’s caseload declined 41 percent from its peak in March 1995 to June 2000, this is not as great as the 56 percent decline in the rest of the nation over the same period.

This report begins the process of considering the causes of this observed variation in California over time, among California’s counties, and between California and the rest of the nation. Not all the caseload decline results from CalWORKs reforms. Some of it occurred before the passage of PRWORA in August 1996; more of it, before the passage of CalWORKs in August 1997; and about half of the decline before the implementation of county CalWORKs programs (depending on the definition of implementation, somewhere between late 1998 and late 1999). The timing of the changes and more formal analyses suggest a major role for the economy (which was responsible for perhaps half of the caseload decline), although the changed CalWORKs policies (i.e., work requirements and time limits) seem likely to have contributed after the CalWORKs legislation was enacted, as well as in anticipation of that legislation.

Through most of the 1997–1998 period, the effect of the county WTW programs on caseloads was probably small. Those programs did not begin to reach large numbers of recipients until late 1998 at the earliest. Furthermore, they would primarily be expected to affect exits from cash assistance, and, as noted earlier, only about half of the caseload decline resulted from higher exit rates. Finally, the evidence from random-assignment studies of work-first programs (e.g., Riverside GAIN) suggests only a modest effect on the welfare caseload.

The slower caseload decline in California in the earlier period appears to be partly the result of California’s deeper and longer recession. The emerging national literature points to other factors in the immediate pre-PRWORA and post-PRWORA periods. The CalWORKs program emphasizes positive inducements to work and leave welfare, e.g., recipients keep half their earnings and receive services from a well-funded and varied WTW program that helps them find jobs. In contrast, under waivers in the immediate pre-PRWORA period and then in their Temporary Assistance for Needy Families (TANF) programs under PRWORA, most other states chose policies that emphasize negative inducements—mandatory pre-application job search, strong individual immediate-participation requirements, full-family sanctions, and short lifetime limits on cash assistance leading to terminating assistance to the entire family. California’s choice to emphasize positive inducements probably explains some of its smaller caseload decline.
After Welfare

By itself, the caseload is an ambiguous measure of welfare program success. If the goal was only to cut the caseload, one approach would be to eliminate the program. Instead, the goal appears to be to have recipients leave welfare for work and a better life. Conversely, if recipients were being pushed off welfare too soon, we would expect low levels of employment and earnings, high rates of return to welfare, and high levels of poverty.

In fact, there is little evidence for the negative outcomes predicted by some opponents of welfare reform. Even with the substantial caseload decline, welfare leavers today have higher levels of employment and higher levels of earnings than did those in the pre-CalWORKs period. On average, earnings grow with time off aid. Welfare leavers today are less likely to return to welfare than they were in the past. Finally, both in California and in the rest of the nation, poverty levels for all children and for single mothers have fallen sharply.

Thus, the trends are positive. Outcomes are improving through time. In many cases, however, the levels remain low. About one-third of leavers appear not to be working at all. About half of those who are working appear to be earning less than the equivalent of full-time work at the minimum wage. Some of this apparent nonwork and low earnings may be the result of earnings that are not recorded in the Employment Development Department’s (EDD) data on which the results are based. RAND’s household survey, the California Health and Social Services Survey (CHSSS)—along with several other analyses currently under way—are exploring this data quality issue.

Some have pointed to these low earnings as evidence of the insufficiency of a work-first approach. They argue that CalWORKs should be reoriented to raise recipients’ skills through additional education and training, which would increase their market wages. Some counties have implemented or are exploring program initiatives to encourage recipients to seek additional education and training.

The role of additional education and training should be considered in the context of the full “work support system” in California. For welfare leavers, that work support system includes the federal EITC, Food Stamps, Medi-Cal, child care, and transportation (at county option). In total, the system’s cash (the federal EITC) and near-cash (Food Stamps) benefits, when added to full-time earnings at California’s recently raised minimum wage ($6.25 per hour as of January 2001), are sufficient to lift a family of three about 25 percent above the federal poverty line. Furthermore, when the value of the in-kind benefits (child care, Medi-Cal,
and transportation assistance) provided without cost and tax free (for a year or more after leaving welfare) are included, the package’s value exceeds the California Budget Project’s estimate of the cost of raising a family in California. Finally, the true package is likely to be even larger. The national evidence and limited evidence for California suggest that average wages of those working while on welfare and welfare leavers are over $7 per hour, and in California a household remains eligible for cash assistance until the equivalent of full-time work at about $8.75 per hour.

Thus, after the CalWORKs reforms, work pays. If leavers worked a full-time job at the minimum wage, they would be out of poverty and above the California Budget Project’s estimate of the cost of raising a family in California. The evidence presented here, however, suggests that only about one-fourth of welfare leavers have earnings equivalent to full-time work at the (pre-2001, $5.75 per hour) minimum wage.

Conclusions

This first report on the results of the Statewide CalWORKs Evaluation’s impact analysis finds almost uniform improvement in outcomes since the implementation of CalWORKs. While the CalWORKs reforms appear to have been responsible for some of that improvement, the robust economy and other policy changes were probably also important.

The rest of the nation has experienced similar improvements in outcomes. Policy choices (the benefit structure, sanction policy, and time-limit policy) appear to be largely responsible for California’s higher participation rate and smaller caseload decline.

Whether the state’s smaller caseload decline as a result of these policy choices is a cause for concern is far from clear. Lower benefit levels would imply fewer monetary resources for the state’s poorest families. Welfare program choices that would cut the caseload—larger and swifter sanctions and shorter time limits—would also be likely to leave some children worse off.

The policy choices in the CalWORKs legislation are broadly consistent with California’s policies in the pre-PRWORA period. Presumably, they reflect the state’s balancing of the higher safety net for children against the resulting larger welfare caseload, including its higher cost and greater dependency. If the perception of the appropriate balance has shifted, cutting the welfare benefit, more strictly imposing the universal participation requirement, streamlining the conciliation process, cutting the time limit, and removing the continuing
payment to the child(ren) would each probably cut the welfare caseload—at the cost of significantly decreasing the financial resources available to children.

Next Steps

Four tasks remain for the coming year and the second report on the impact of CalWORKs. First, the second report will incorporate another year of experience with the CalWORKs program and with the PRWORA programs in other states, which will help to develop a fuller understanding of the outcomes and the causes of those outcomes and which will also help in conducting a cost/benefit analysis of CalWORKs programs.

Second, over the balance of the project, we will consider a wider range of outcomes. In particular, two separate reports will present results from the first and second waves of the CHSSS survey of current and recent welfare recipients. This survey will collect information on experiences in interacting with CWDs and broader measures of household well-being.

Third, this report has begun the task of understanding the causes of the trends in outcomes for California and differential outcomes for California versus the rest of the nation. Over the next year, we will extend and expand these analyses and also draw on the rapidly expanding national literature on these issues.

Fourth, the second report will turn to understanding the differential effects of the welfare programs in each of California’s 58 counties. Those programs have only recently settled down into a post-surge steady state. Furthermore, with more data, we can explore the intermediate-term effects of the programs on caseloads, earnings, and return to welfare. In addition, the analyses in this report consider separately employment and earnings of current welfare recipients and of welfare leavers. In the second report we will also explore employment, earnings, and return to welfare among cohorts of those entering or on welfare, not conditional on exit from, or return to, welfare.
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## Acronyms and Abbreviations

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<thead>
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<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>AB</td>
<td>Assembly Bill</td>
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<tr>
<td>ACF</td>
<td>Administration for Children and Families</td>
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<td>AFDC</td>
<td>Aid to Families with Dependent Children</td>
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<tr>
<td>BRR</td>
<td>benefit reduction rate</td>
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<td>CalWORKs</td>
<td>California Work Opportunity and Responsibility to Kids Act of 1997</td>
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<td>CDHS</td>
<td>California Department of Health Services</td>
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<td>CDSS</td>
<td>California Department of Social Services</td>
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<td>CHIP</td>
<td>Child Health Insurance Program</td>
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<td>CNI</td>
<td>California Needs Index</td>
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<td>COLA</td>
<td>cost-of-living adjustment</td>
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<td>CPI-U</td>
<td>Consumer Price Index–Urban Consumers</td>
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<td>CPS</td>
<td>Current Population Survey</td>
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<td>CS</td>
<td>community service</td>
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<td>CWD</td>
<td>County Welfare Department</td>
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<td>DHHS</td>
<td>U.S. Department of Health and Human Services</td>
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<td>DoL</td>
<td>U.S. Department of Labor</td>
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<tr>
<td>EDD</td>
<td>Employment Development Department</td>
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<tr>
<td>EH</td>
<td>“Edwards Hold”</td>
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<td>EITC</td>
<td>Earned Income Tax Credit</td>
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<tr>
<td>FFY</td>
<td>federal fiscal year (October–September)</td>
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<tr>
<td>FLSA</td>
<td>Fair Labor Standards Act (minimum wage law)</td>
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<td>FSA</td>
<td>Family Support Act of 1988</td>
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<tr>
<td>FY</td>
<td>fiscal year</td>
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<td>GAIN</td>
<td>Greater Avenues for Independence</td>
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<td>JOBS</td>
<td>Job Opportunities and Basic Skills (training program)</td>
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<td>MDRC</td>
<td>Manpower Demonstration Research Corporation</td>
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<td>MEDS</td>
<td>Medi-Cal Eligibility Data System</td>
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<tr>
<td>MOE</td>
<td>Maintenance of Effort (requirement)</td>
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<tr>
<td>OJT</td>
<td>On-the-job training</td>
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<td>PRWORA</td>
<td>Personal Responsibility and Work Opportunity Reconciliation Act of 1996</td>
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<td>Separate State Program</td>
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