

# WORKING P A P E R

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## Program Take-Up Among CalWORKs Leavers

Medi-Cal, Food Stamps, and the  
EITC

## An Evaluation of Participation in Work-Support Programs by CalWORKs Leavers

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## **EXECUTIVE SUMMARY**

### **INTRODUCTION**

Welfare reform at both the federal level (the Personal Responsibility and Work Opportunities Reconciliation Act of 1996, “PRWORA”) and the state level (the California Work Opportunities and Responsibility to Kids Act of 1997, “CalWORKs”) had dual goals: reduce the number of poor families with children relying on cash welfare assistance, but maintain support for poor children. Ron Haskins, the leading Republican staffer on the House Ways and Means Committee at PRWORA’s passage, has described the reforms as attempting to replace a system that discouraged work and encouraged dependency with a “work support system.”

To cut dependency, states were required to engage able-bodied adult recipients in paid work or activities likely to lead to paid work. In addition, both to signal the end of long-term welfare use and to reduce dependency, PRWORA placed strict limits on the use of federal funds for adults who had received federally subsidized cash assistance for more than five years.

Towards the goal of maintaining support for poor children, Congress expressly preserved or expanded several other non-time-limited public assistance programs. This project has considered participation of welfare leavers in three of these programs: Medi-Cal (California’s Medicaid program, providing health insurance), Food Stamps (providing vouchers for the purchase of food), and the Earned Income Tax Credit (EITC; providing a refundable federal tax credit on qualified earnings). The rate at which former CalWORKs recipients participate in, or “take up,” these non-time-limited programs has important consequences for both recipients and the state. For recipients, take-up of these programs potentially provide important household resources. For the state, take-up of these programs may further reduce the CalWORKs caseload as families learn that they will remain eligible for these programs even after leaving cash aid.

### **MEDI-CAL AND PRIVATE HEALTH INSURANCE**

Medicaid (Medi-Cal in California) provides health insurance to families receiving cash assistance and to some other families. County welfare departments determine eligibility under the supervision of the California Department of Health Services. The state and the federal governments share administrative and benefit costs. Some pre-reform research evidence suggested that fear of losing their health insurance through Medicaid was trapping families on cash assistance.

Under PRWORA’s Section 1931(b) provisions, states were required to offer Medicaid to all families who would have qualified for cash assistance under the pre-PRWORA rules, and states were offered federal matching funds to expand eligibility beyond that level. With these matching funds, California expanded eligibility for the 1931(b) program

significantly. In addition, the state's SB 87 legislation, enacted into law in 2000, significantly streamlined the process of qualifying welfare leavers for Medi-Cal. Neither reform was implemented swiftly, but once in place, the net effect is that almost all persons are eligible for Medi-Cal when they leave cash assistance.

Our analyses of Medi-Cal take-up, and more broadly, of health insurance coverage, draw on official administrative data and on survey data. The administrative data come from the Medi-Cal Eligibility Data System (MEDS), matched to earnings information from the Unemployment Insurance program. The survey data come from the California Health and Social Services Survey (CHSSS), which interviewed current and recent welfare recipients in six counties as part of the RAND Statewide CalWORKs Evaluation.

By early 2002, about 72 percent of those off cash aid for six months were enrolled in Medi-Cal. This figure represents a sharp increase over the pre-CalWORKs period, when 33 percent were enrolled (1996) and even a sharp increase over pre-SB 87 levels. Although the initial increase appears to have been related to administrative issues in the implementation of the 1931(b) program, the results reported here reflect a continued increase in enrollment after implementation was complete. In particular, subsequent program changes expanded eligibility and simplified take-up procedures for recipients. Rates are similar for children and adults.

The increase in Medi-Cal enrollment occurs at all durations after leaving cash aid. Although enrollment declines as time off cash aid grows, the decline is less steep since welfare reform. For example, among those who left CalWORKs near the end of 1999, 68 percent were still enrolled in Medi-Cal six months later, but only 37 percent were still enrolled 30 months later (i.e., in early 2002). In comparison, among those who left cash aid in early 1995, 31 percent were still enrolled in Medi-Cal six months later, while only 16 percent were still enrolled 30 months later (i.e., in late 1997, on the eve of CalWORKs).

Despite these increases, many CalWORKs leavers do not take up Medi-Cal, leading to the question: If Medi-Cal is free and almost all welfare leavers are eligible, why isn't everyone enrolled? Part of the answer is private health insurance. Survey evidence suggests that about a quarter of adult welfare leavers have health insurance through their employers and a few more have private health insurance through some other source. Thus, while in the survey sample 52 percent of all adult female CalWORKs leavers do not have Medi-Cal, only 20 percent are uninsured. Again, rates for children are similar to those for adults – 47 percent do not have Medi-Cal, but 18 percent are uninsured.

Nearly half of those working full-time (35 or more hours a week) have employer-sponsored health insurance. Furthermore, a third of those who do not have employer-sponsored health insurance were offered it and declined, reporting cost as a primary reason. In net, only 16 percent of those working full time are uninsured. Private health insurance levels are much lower for those working less than full-time, but Medi-Cal rates are higher for this group, so their insurance rates are similar to those working full-time.

In summary, contrary to the fears of some observers but consistent with the goals of federal and California welfare reforms, Medi-Cal coverage rates among welfare leavers have risen sharply since CalWORKs was implemented and those with Medi-Cal are more likely to stay on Medi-Cal for a long time. Medi-Cal is not the only possible source of health insurance for welfare leavers. For a survey sample in six of the larger counties in 2003, we have additional information on other sources of health insurance and can therefore infer lack of insurance. In as much as that survey evidence generalizes to the state as a whole and to other time periods, it suggests that despite this improvement over time, about one in five CalWORKs leavers is uninsured. When asked why they were uninsured, about half of uninsured leavers reported that private health insurance was too expensive or gave other responses suggesting that they were unaware of their eligibility for free (no share of cost) Medi-Cal. The administrative burden of applying for Medi-Cal appears to be less of an issue than lack of understanding; it is cited by about a quarter of the uninsured. Thus, there seems to be room for some improvement in reaching out to CalWORKs leavers and informing them of their continued eligibility for Medi-Cal.

## **FOOD STAMPS**

The Food Stamp Program (FSP) provides coupons (or increasingly an Electronic Benefits Card) for the purchase of food. County welfare departments determine eligibility under the supervision of the California Department of Social Services (CDSS). The federal government pays all of the benefit costs and half of the administrative costs. For a family of three with no other income, the Food Stamp benefit in early 2004 was worth about \$366 per month. The benefit declines with income, so a mother with two children, working full time at the minimum wage (\$6.75 per hour) earning \$1,170 monthly and no longer receiving cash aid would have seen her monthly benefit decline to \$224. The benefit would have dropped to zero for a family of three with monthly earnings above \$1,563 (full-time work at a wage of about \$9.40 per hour).

To encourage enrollment of welfare leavers, the 2002 federal Farm Bill offered the states several options—permitting recipients to report their incomes less frequently than monthly, raising vehicle valuation limits, and/or providing transitional Food Stamp benefits. As of mid-2003, the period covered by our fieldwork, administrative data, and survey data, California had adopted none of these new options. In October 2003, state Assembly Bill 231 adopted the Transitional Food Stamp Benefit, raised vehicle valuation limits, and encouraged waiving the requirement for an in-person recertification interview.

Our analyses of Food Stamp take-up draw on the official administrative data used for federal quality control standards, the Food Stamp Universe File, matched to the MEDS and earnings information from Unemployment Insurance records. They also draw on the survey of current and recent welfare recipients conducted as part of the RAND Statewide CalWORKs Evaluation.

After leaving CalWORKs, many fewer people continue their Food Stamp benefits than continue Medi-Cal. Six months after leaving CalWORKs, 16 percent of leavers retained Food Stamps in early 2002, compared to the 72 percent that retained Medi-Cal. Also

unlike Medi-Cal, Food Stamp enrollment has remained relatively stable since CalWORKs began in 1998.

Why are take-up rates so low? Eligibility is only part of the reason. We estimate that about half (44 percent) of the former CalWORKs recipients in the survey remain eligible for Food Stamps, and the vast majority appear to remain eligible for sizeable amounts of Food Stamps.

Two other explanations have some support from the household survey. First, many CalWORKs leavers do not even realize they are eligible (38 percent of all leavers—whether or not they were eligible; nearly 60 percent of those who did not apply for Food Stamps). Second, during the period covered by our survey and administrative data, the Food Stamp program continued to require a burdensome and intrusive Monthly Status Report. Nearly a third of all leavers reported that applying for (and presumably remaining eligible for) Food Stamps is “too much hassle.” Even with these low rates, there is variation across different groups of recipients. By race/ethnicity, Anglo whites participated at the lowest rates, those in the “other” racial-ethnic group participated at the highest rates, and African Americans experienced a steep decline in participation. In addition, adults and those in two-parent cases are more likely to receive Food Stamps than children and those in single-parent cases. Finally, as with Medi-Cal, there are large variations across the counties in the percentage of people who have Food Stamps after they leave CalWORKs.

## **EARNED INCOME TAX CREDIT**

Finally, the Earned Income Tax Credit (EITC) operates like a negative income tax or wage subsidy. For tax year 2002, a family of three could have received a wage subsidy of \$40 for every \$100 earned (exact amounts are indexed for inflation and therefore vary from year to year) up to annual earnings of \$10,350. The maximum credit (\$4,140 per year) would have remained constant until earnings exceeded \$13,500 (roughly the equivalent of full-time work at the California minimum wage of \$6.75 per hour) and then declined at about \$20 per \$100 earned, reaching zero when annual earnings reached \$33,150. The program is purely federal and is administered by the Internal Revenue Service. The CDSS and local governments have programs of varying intensity to inform poor families (including current and recent CalWORKs leavers) about the program’s value and to offer assistance in filling out the appropriate tax forms.

Our analyses of EITC take-up draw on aggregate tabulations of tax return data from California’s Franchise Tax Board (matched to the MEDS and to earnings information from Unemployment Insurance records). They also draw on the survey of current and recent welfare recipients conducted as part of the RAND Statewide CalWORKs Evaluation.

Federal legislation sharply increased EITC benefits in the early 1990s. Welfare recipients’ and leavers’ employment and earnings rose sharply, both because of welfare reforms and the improving economy. Together these changes appear to have induced a sharp increase

in the fraction of people receiving the EITC and the amount received. Since the mid-990s, however, these rates have been relatively stable.

To be eligible for the EITC, a family must have earned income that does not exceed a specified threshold, and the head of household must file a tax return on which he or she claims the credit. About two-thirds of those receiving cash aid have earnings. Rates for filing tax returns for those without earnings are nearly identical to rates for those with earnings. If a household appears to be eligible for the EITC but the filer does not claim it, the Internal Revenue Service sends a notice encouraging him or her to file an amended return. About half of those who file tax returns, whether they are cash aid recipients or recent leavers, receive the EITC. Among those with earnings, 81 percent of CalWORKs recipients receive the credit. The rate declines to 78 percent for those off aid one year, 69 percent for those off two years, and 61 percent for those off three years.

As expected, CalWORKs leavers have much higher earnings than current recipients. On average, those off aid one year earn \$15,204 annually, with higher earnings in subsequent years, while current recipients average annual earnings of only \$6,793. Nevertheless, among those who receive any earned income tax credit, the average credit is similar whether or not the family received cash assistance: Cash aid recipients receive an average credit of about \$2,307. This is 33 percent of earnings and near the maximum credit of 40 percent. Leavers receive a credit that is slightly smaller (about \$2,000), but since their earnings are much higher, the credit represents only 11 to 6 percent of earnings, declining with time off cash assistance.

We conclude that the EITC is a major component of household income for current and recent CalWORKs recipients. Take-up rates are the highest of the three programs we discuss here, but are not universal. Some additional outreach—encouraging eligible parents to file tax returns and helping them to fill out the forms—might be useful.

## **SUMMARY**

We have analyzed the rate at which apparently eligible CalWORKs leavers enroll in, or “take-up,” benefits from three non-time-limited income support programs. In none of the programs is take-up universal.

About half of CalWORKs leavers are covered by Medi-Cal, and about half of the rest have private health insurance. Medi-Cal enrollment rose sharply after the state adopted federally permitted policy changes that broadened eligibility and streamlined the enrollment process. Nevertheless, about one in five former CalWORKs recipients remains uninsured, often due to lack of understanding of their eligibility for Medi-Cal.

Food Stamp take-up rates among CalWORKs leavers are much lower, ten to 17 percent. There appear to be two key reasons. Many who appear to be eligible for food stamps do not know that these benefits are available to them, and many are deterred by the burden of filing monthly status reports. During the period covered by this analysis, continued enrollment for CalWORKs leavers was burdensome. In October 2003, California adopted

policy changes that should ease the burden (waiving in-person interviews) and broadened eligibility (increasing the asset limitations on the value of recipients' automobiles, and providing Transitional Food Stamps).

In the 1990s, Congress greatly expanded the value of the EITC, and about four-fifths of those CalWORKs leavers with earnings receive the intended tax credit; and the credit is large for most families. However, the longer they are off cash aid, the less likely CalWORKs leavers are to receive the credit (78 percent, 69 percent, and 61 percent one, two, or three years after leaving CalWORKs, respectively).

Taken together, these findings suggest that public policies do, indeed, influence the use of these safety-net programs. When federal and/or state policymakers expanded eligibility, streamlined program enrollment procedures, or increased benefits, the intended beneficiaries responded by "taking up" the benefits in greater numbers (Medi-Cal and the EITC). In contrast, when qualifying for program benefits remained largely unchanged and required more extensive reporting requirements (the Food Stamp Program), enrollment remained steady, but much lower. This is noteworthy, given that the effects of social policies are often difficult to discern or are not intended.