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The Indiana Welfare Reform Evaluation:

Five-Year Impacts, Implementation, Costs and Benefits

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Executive Summary

Nearly a decade has passed since Indiana began planning its approach to welfare reform. In January 1994 Governor Evan Bayh announced an initial plan, called the "Partnership for Personal Responsibility." The U.S. Department of Health and Human Services approved a revised plan in December 1994 and, in May 1995, Indiana randomly assigned its entire welfare caseload (more than 60,000 families) to one of two groups for purposes of evaluation. The first was subject to the State's new welfare reform rules and the other to its previous welfare policies. The goals of the program, as specified in 1995, were to increase clients' employment and decrease their reliance on welfare, to make work more financially rewarding than public assistance, and to encourage responsible parenting.

Since 1995, Indiana's welfare reform goals and approach have been consistent. Under Governor Frank O'Bannon, the Family and Social Services Administration (FSSA) made policy changes in 1997 and 2000 intended to strengthen welfare reform, but these changes were consistent with the program's original goals and most of the original policies remain in place. Relatively minor changes were required as a result of enactment of welfare reform at the federal level, in the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA).

Despite the consistency over time in goals and approach, both Indiana's welfare caseload and the State's economy have fluctuated substantially since 1995. Indiana's welfare caseload dropped precipitously in the early phase of welfare reform and continued falling until mid-2000, when it began to increase sharply. The economy has gone from very low levels of unemployment in the early years of welfare reform to a current recession and State budget difficulties.

In the face of these changes, and given the time that has passed, it is important to assess Indiana's approach to welfare reform. The key question is: How has Indiana's welfare reform program affected participating families, and have those effects changed over time? Especially relevant given the current budget situation is a second, related question: Has the program been cost-effective?

The answer, provided in this report, is that the program has had real effects on participants, increasing employment and decreasing their use of welfare. The size of these effects is generally in the middle range of impacts found for welfare reform programs in other states. Indiana's program also has been cost-effective, with the savings in welfare payments outweighing the costs of providing additional child care and employment services. The observed impacts, however, have not on average resulted in increased income for families. By that measure, therefore, the program has not made families substantially better off financially.

Evaluation Design, Sample, and Data Sources

Indiana's welfare reform was evaluated through a classic experimental design in which each family was assigned randomly to one of two groups: the Welfare Reform group, which was subject to the new welfare reform policies, and the Traditional Welfare group, which faced the policies of the pre-reform AFDC program in Indiana. These two groups correspond to the "treatment" and "control" groups, respectively, as those terms are commonly used in experiments. Randomly assigning families in this way provides the strongest known method for establishing a valid comparison group.

This report presents impact estimates for two samples of welfare reform families. The primary sample is all single-parent families statewide who received welfare at some point during the first year of Indiana's program, between May 1995 and April 1996. This first-year cohort includes 66,440 families: 63,223 in the Welfare Reform group and 3,217 in the Traditional Welfare group. Chapter 4 presents program impacts for the first five years after each family was randomly assigned.

Chapter 5 presents two-year impacts for a later and smaller cohort of welfare families, made up of all single-parent families in twelve counties (rather than statewide) who received welfare at some point between March 1998 and February 1999. The later cohort includes 4,954 families: 3,863 in the Welfare Reform group and 1,091 in the Traditional Welfare group. Results for the later cohort are of interest primarily because of differences in the policy environment, and improvements in the random assignment process designed to better insulate the Traditional Welfare group from exposure to welfare reform messages.

Different data sources were used for different components of the evaluation. Implementation findings are based on several rounds of site visits to local offices and the central office, telephone interviews and mail surveys of administrators and case workers, and focus groups with participants in IMPACT (the work component of Indiana's welfare program). Analyses of clients' experiences and impacts and the benefit estimates for the benefit-cost analysis are based on administrative records from FSSA's TANF eligibility computer system, quarterly earnings records from the State Unemployment Insurance system, and a five-year client follow-up survey. Cost estimates for the benefit-cost analysis are based on detailed expenditure data from FSSA's financial management office.

Findings on Implementation

Indiana implemented a strong work first program. The Central Office's clear articulation of welfare reform goals relating to employment, coupled with strong emphasis on meeting county-level job placement goals, greatly contributed to the widespread acceptance and implementation of the work first approach. The program's emphasis on unsubsidized employment marked a significant departure from the education and training model that characterized Indiana's welfare-to-work program prior to welfare reform.

The switch to an integrated worker model posed challenges. When welfare reform was initially implemented, the Division of Family and Children continued to use a front-line staffing model common to most welfare offices prior to welfare reform. Under this model, one type of specialized worker handled eligibility for public assistance and another type handled work requirements. Taking a more employment-oriented, individualized, and holistic case management approach, Indiana in 1998 began to consolidate responsibilities for TANF eligibility and IMPACT under a single type of worker. Although staff generally agreed that the integrated worker model was likely to benefit clients, case workers found that balancing eligibility and welfare-to-work functions presented significant challenges and that eligibility work typically took precedence over other case management activities.

Welfare reform led to increased local control over service delivery and reliance on contracting for services. The service delivery system under welfare reform was marked by the introduction of performance-based contracts, heavy reliance on a range of contracted providers, and local-level control over IMPACT contracting decisions. Local offices ultimately assumed responsibility for most decisions on the IMPACT contracting process, including determining the types of IMPACT services that would best meet the needs of a changing client population, shaping the performance payment structure and schedule, selecting and negotiating with contractors, and monitoring and overseeing contracts. The Central Office continued to influence the types of services and activities that received the greatest emphasis and resources.

Indiana made ongoing changes to its performance-based contracting process. Over time, in a continuing effort to meet clients' needs and provide incentives to contractors, FSSA changed the types of services and outcomes for which IMPACT contractors were eligible for payment. FSSA initially based contractors' payments mainly on the number of job placements made by service providers. However, basing payment on job placements failed to give providers any flexibility or incentive to provide up-front assistance to hard-to-serve clients and job retention services to others. Consequently, starting in 1998, FSSA encouraged local offices to contract for a larger variety of services and pay for job retention and up-front services, such as more intensive assessments of barriers to employment.

Findings on Clients' Experiences

For both the first-year and later cohorts, Indiana's program produced positive and statistically significant impacts on overall IMPACT participation rates and on rates of participation in each of the three IMPACT activity types: unsubsidized employment, job search or job readiness, and education. The largest impact was for job search or job readiness. Unsubsidized employment was by far the most frequent activity.

Only about 7 percent of Welfare Reform group members reached the 24-month adult time limit within five years of follow-up. The percentage is low because most individuals subject to the time limit left welfare before reaching the 24-month limit and because prior to June 1997, the time limit applied to less than one-fifth of the Welfare Reform group.

Compared to their likelihood of reaching the time limit, Welfare Reform group members were twice as likely to have had a family cap birth. This impact understates the relative effect of the family cap somewhat because close to 25 percent of families with a family cap birth had more than one such birth.

For the first-year cohort, Personal Responsibility Agreement (PRA) sanctions were more likely to be applied than the family cap or the 24-month time limit. For the later cohort, families were as likely to have a PRA sanction as a family cap birth.

Impact Findings for the First-Year Cohort

Indiana's program reduced receipt of TANF and food stamps. Indiana's program reduced TANF payments and TANF receipt for all single-parent families in the first-year cohort and for every subgroup examined. Impacts grew in size over the five-year follow-up period. The program also reduced food stamp payment and receipt, but the impacts were smaller and did not grow over time. The TANF payment and receipt impacts are probably due mainly to higher earnings among Welfare Reform group members and the two-year time limit on adults' receipt of TANF. The family cap likely also contributed to the impact on TANF payments.

Indiana's welfare reform program increased earnings and employment rates in each of the follow-up years. In percentage terms, earnings impacts were smaller than TANF payment impacts, and roughly in the middle of the range of earnings impacts found in welfare reform random assignment studies in other states. Impacts grew slightly over the five-year follow-up period. The results demonstrate that it is possible for work first programs to increase earnings and employment even under the traditional AFDC disregard and with relatively lenient sanction and time limit policies.

Welfare reform did not affect total income. Over the five-year follow up, Indiana's program did not produce a statistically significant increase in participants' income, measured either by administrative records or from a client survey. (For two-parent families, however, the program did increase income; see Appendix A.) The reason for the absence of impacts on income was that earnings gains were not large enough to offset reductions in TANF and food stamp payments.

Welfare reform did not affect health insurance coverage rates for adults or children. The Welfare Reform and Traditional Welfare groups did not differ significantly either in the proportion with any insurance or in the proportion with each type of insurance (Medicaid versus other). Adults were much less likely than children to be covered by Medicaid, a consequence of Indiana's low-income ceiling for adult Medicaid eligibility.

Indiana's program did not affect reported child maltreatment. Over the full follow-up period, Welfare Reform and Traditional Welfare groups in the first-year cohort did not differ significantly in rates of substantiated maltreatment reported to child protective services, or in out of home placements resulting from such maltreatment (Appendix B).

Impact Findings for the Later Cohort

TANF payment impacts were larger for the later cohort than for the first-year cohort in years 1 and 2. TANF *receipt* impacts for the later cohort were larger than those of the first-year cohort in year 1 but faded by the end of year 2, perhaps because of the enhanced disregard that took effect in July 2000.

Indiana's program increased the average employment rate across the eight follow-up quarters but did not significantly increase earnings. Compared to impacts for the first-year cohort, the later cohort's earnings and employment impacts were similar in year 1 and smaller in year 2.

Indiana's program did not produce impacts on income (measured as the sum of earnings, TANF payments, and food stamp benefits). This finding is similar to the result for the first-year cohort.

Welfare reform may have decreased substantiated child maltreatment reports. For the later cohort, a smaller proportion of Welfare Reform group families than Traditional Welfare families had substantiated reports of child maltreatment (Appendix B).

Findings on Costs and Benefits for the First-Year Cohort

The economic benefits of welfare reform to families—resulting mainly from increased employment—slightly outweighed the losses in welfare payments and other income. While changes in income varied across families, the typical family's economic position was very modestly improved.

Welfare reform benefited taxpayers because savings more than offset welfare reform expenditures. Savings occurred primarily because clients spent less time on cash assistance, reducing benefit payments for the TANF, Food Stamp, and Medicaid programs. These reductions more than offset increased spending on employment and training services and child care subsidies. The budget savings were shared by Indiana and the federal government.

Implications

Consistent with its goals, Indiana's welfare reform program increased recipients' employment and decreased their reliance on welfare. And contrary to concerns expressed by some welfare reform critics, welfare reform in Indiana appears not to have made families worse off financially, or harmed children. (The impacts of Indiana's program on children's wellbeing are presented in Beecroft, Cahill and Goodson 2002.)

At the same time, however, welfare reform has not made families significantly *better* off financially, or *improved* children's wellbeing. The 2000 client survey shows that, five years after being exposed to welfare reform, most families were still struggling. Although average income increased substantially over time, 60 percent of families in the Welfare Reform group were still below the poverty line at the five-year point. About 40 percent of families met the U.S. Department of Agriculture's definition of being food insecure, and 20 percent of respondents reported using food banks in the 12 months prior to the survey. Nearly 40 percent of mothers were at risk of clinical depression, and more than 25 percent reported being abused by their partner in the 12 months prior to the survey. Our study of children's wellbeing also showed evidence of problems for children, especially adolescents.

This situation is not unique to low-income families in Indiana, and is not caused by welfare reform. Our evaluation found little evidence that Indiana's program affected any of the aforementioned outcomes. Evidence from other states suggests similar levels of disadvantage among single-parent families on welfare. Welfare reform by itself is not a cure-all for families receiving welfare. The resources expended on a per family basis are not sufficient to lift most families out of poverty, let alone to an adequate living standard. Instead, welfare reform is designed to get welfare recipients into work. The presumption is that increasing labor force attachment will lead over time to higher earnings and income and reduced need for public assistance.

Given the primary short-term goal of increasing labor force attachment for welfare recipients, it may be possible for Indiana to strengthen its welfare reform program by improving the ability of front-line staff to work with clients. Case workers report being unable to spend adequate time on case management, in part because much of their time is spent on eligibility-related functions. (To some extent local offices have responded by contracting out some case management functions, but budget cutbacks may put more case management responsibility back in the hands of caseworkers.) If feasible, further streamlining of administrative processes would help.

It may also be desirable to test whether alternatives to the current integrated case worker model would enable more case management. For example, a specialist model might have clerks to handle eligibility determination, trained employment counselors to focus only on job placement, and a separate category of counselors to focus on earnings advancement and job retention for clients who have achieved stable employment at entry-level wages. Such specialization would eliminate the tension between time spent on eligibility determination and case management, and would provide clearer goals for each category of staff. Clearer articulation of staff goals would make it easier for managers to measure staff performance, and would allow managers to further empower case workers, which could improve both client outcomes and staff morale.

Given the longer-term goal of helping clients increase income, it is worth considering policy changes that would encourage further education and training. At least for some clients, additional investment in human capital is likely to increase earnings. It is possible to encourage education and training in a way that is consistent with a work first approach, for example by requiring clients to meet a threshold level of employment before referring them to an education provider.

Chapter 1

Introduction

Nearly a decade has passed since Indiana began planning its approach to welfare reform. The early planning resulted in Governor Evan Bayh's January 1994 announcement of the "Partnership for Personal Responsibility," a plan designed to "build a way for welfare recipients to work with business to build self-sufficiency and leave the public assistance rolls" (press release from Governor Bayh's office, January 13, 1994). The plan changed somewhat following negotiations with the U.S. Department of Health and Human Services, which approved a revised plan in December 1994. Six months after that, in May 1995, Indiana randomly assigned its entire welfare caseload (more than 60,000 families) to one of two groups for purposes of evaluation. The first was subject to the State's new welfare reform rules and the other to its previous welfare policies.

Although Indiana's approach to welfare reform has remained unchanged since 1995—in terms of its primary emphasis on work and relatively lenient approach to sanctions and time limits—much has changed in the State over the past decade. Indiana's welfare caseload dropped precipitously in the early phase of welfare reform and continued falling until mid-2000, when it began to increase sharply. The economy has gone from very low levels of unemployment in the early years of welfare reform to a current recession and State budget difficulties. The intervening decade has also seen a new governor, Frank O'Bannon, and policy changes intended to strengthen the State's welfare program. Another major change was the enactment of welfare reform at the federal level, in the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA).

In the face of these changes, and given the time that has passed, it is important to assess Indiana's approach to welfare reform. The key question is: How has Indiana's welfare reform program affected participating families, and have those effects changed over time? A related question, which is especially relevant given the current budget situation, is whether the program has been cost-effective.

The answer, provided in this report, is that the program has had real effects on participants, increasing employment and decreasing their use of welfare. The size of these effects is generally in the middle range of impacts found for welfare reform programs in other states. Indiana's program also has been cost-effective, with the savings in welfare payments outweighing the costs of providing additional child care and employment services. The observed impacts, however, have not on average resulted in increased income for families. By that measure, therefore, the program has not made families substantially better off financially. (It is possible that the increased earnings disregard adopted in July 2000, too late to be accounted for in this report, will enable families to increase their income.)

The next section of this chapter describes the specific policies that applied to welfare reform participants, compared to pre-reform policies. Section 1.2 explains our approach to the evaluation, including the random assignment research design, data sources, and the research samples. Section 1.3 provides a broader context for this report by briefly summarizing caseload trends and economic conditions in Indiana over the past dozen years. This chapter's final section provides an overview of the remainder of the report.

1.1 Policy Differences Captured by the Random Assignment Design

Throughout the period examined in this report (1995 to 2001), Indiana's welfare reform program can be characterized as taking an aggressive "work first" approach, but without either strong carrots or sticks. Indiana's Family and Social Services Administration (FSSA) re-oriented its public assistance local offices and staff toward an overriding focus on job placement and job search, and the agency monitored performance against job placement goals. To ensure clients' compliance with work requirements, FSSA had a two-year time limit and sanctions. But the time limit and sanction policies were less stringent than in most other states, because they applied only to case heads. In other words, even after a parent reached the time limit, her children continued to be eligible for cash assistance. Also, unlike most states, Indiana retained the traditional AFDC earnings disregard rather than providing stronger financial incentives to work. Consequently, the results in this report may reveal what a strongly managed work first program can accomplish, in the absence of powerful incentives or penalties.

Although consistent in its work first approach since 1995, Indiana's welfare reform policies have evolved in three major stages. Beginning July 1997, FSSA approximately doubled the proportion of the caseload (from about 25 percent to slightly more than 50 percent) subject to the time limit and work requirements (without changing the policies themselves). In July 2000, FSSA substantially increased its earnings disregard, to provide a stronger work incentive and make it easier for welfare recipients to increase their income. Finally, in mid-2002, when its federal waiver expired, Indiana began applying the federal five-year time limit (which, unlike the state's two-year limit, applies to the entire family), and scaled back the disregard somewhat in response to a budget shortfall (although the reduced disregard is still more generous than the traditional AFDC disregard). These policy changes mean that different clients have experienced somewhat different rules, depending on when they received welfare.

This section describes the policies experienced by clients on welfare during the first year of Indiana's program (May 1995 through April 1996), the cohort of primary interest for this report. For this first-year cohort, we contrast the rules applying to clients randomly assigned to the Welfare Reform and Traditional Welfare groups. We then discuss how the policy environment differed for a later cohort, which began receiving welfare between March 1998 and February 1999. The section then briefly describes Indiana's current welfare policy.

The Policy Environment for the First-Year Cohort

The impacts presented in this report are the differences in outcomes for the Welfare Reform group and the Traditional Welfare group. Because random assignment ensures that the two groups are, on average, alike in all respects, any significant differences in outcomes can be attributed to the different policies applied to the two groups.

Exhibit 1.1 lists the specific policy differences that together are responsible for the impacts presented in this report. For each policy area, the exhibit shows the policy that applied to the Welfare Reform group and the policy that applied to the Traditional Welfare group.

For families that enrolled in Indiana's welfare reform program during its first year (the subject of this report), the policy environment changed somewhat over time. Initially, between May 1995 and May 1997, most of the program's welfare reform policies applied only to the most job-ready clients, who were identified through the use of a standardized assessment. These clients were assigned to a "Placement Track," comprising about one-fourth of the adults in the Welfare Reform group. Effective June 1997, Indiana made all work-mandatory clients in the Welfare Reform group subject to Placement Track policies

Exhibit 1.1
Indiana Welfare Reform Policies, Compared With AFDC Policies

Policy Area	Welfare Reform Group Policy	Traditional Welfare Group Policy
Amount of earned income disregarded in calculating cash grant	Traditional AFDC disregard, as at right. "Fixed grant" for Placement Track clients: after reducing the TANF grant based on initial earnings, the TANF grant was fixed at that level.	Traditional AFDC disregard: $120 and one-third of the remainder for 4 months. $120 for the next 8 months. $90 in subsequent months.
Income eligibility ceiling for recipients	"Zero grant" policy: retain TANF (and thereby Medicaid) eligibility as long as income is below the federal poverty level. Cash grant goes to zero, however, when countable income exceeds the maximum cash grant (e.g., the cash grant for a one-parent family of three goes to zero when earnings are greater than or equal to $378 per month). Zero grant policy applied only to Placement Track clients until June 1997, when it was extended to all clients.	Retain eligibility only if countable income (gross income minus certain deductions) is less than the maximum cash grant (e.g., a one-parent family of three retains eligibility only if earnings are less than $378 per month).
Exemptions from work requirements for parents with young children	Until June 1997, parents were exempt if caring for a child under age 3. Lowered to age 2 in June 1997, and to age 1 in December 1997.	Parent exempt if caring for a child under age 3.
Work participation: rates, activities, and required hours	Work requirement increased from 20 to 25 hours per week in June 1997. Primary activities are unsubsidized employment and job search.	Low work participation rates. For unemployed adults, the main employment and training activities before welfare reform were vocational training and education. Hours of participation were not strictly monitored.
Sanctions for noncompliance with work requirements	Grant is reduced by adult's portion ($90 per month) for 2, 12, or 36 months, depending on whether first, second, or third sanction. No full-family sanctions.	Rarely enforced.
Time limit	24-month lifetime limit for eligible adults; benefits continue indefinitely for children. Time limit applied only to Placement Track clients until June 1997, when it was extended to all clients. Federal 5-year time limit not in effect (due to waiver inconsistency).	None
Family cap	No increase in grant for a child born 10 months or more after family begins receiving TANF (if child is conceived while mother is receiving TANF).	None
Personal Responsibility Agreement (PRA)	Parents must ensure that preschool children are immunized and that school-age children attend school regularly. PRAs also include several other provisions.	None
Sanctions for noncompliance with PRA	Sanction is generally $90 per month until compliance.	None

and narrowed the exemption from work requirements.[1] These changes more than doubled the proportion of the caseload subject to the full set of welfare reform policies. However, the policies applying to clients randomly assigned to the Traditional Welfare group have not changed since the program began in May 1995.

Following is a description of individual policies as they applied to the first-year cohort.

Treatment of earnings. For the Welfare Reform group, Indiana retained the traditional AFDC earnings disregard, which imposed an effective marginal tax rate on earnings of 100 percent. In other words, above a low minimum threshold, every dollar of additional earnings reduced the cash assistance grant by one dollar. Because Indiana is a low welfare benefit state, a single mother with two children would have her cash grant reduced to zero when her earnings reached $378 per month.[2]

FSSA, however, provided some earnings incentives to the Welfare Reform group in the form of "fixed grant" and "zero grant" policies. Under the fixed grant, a client's cash grant was reduced based on her earnings when she began working, but the grant was then fixed at that amount. Subsequent increases in earnings did not further reduce the grant.[3] Under the zero grant policy, clients with earnings sufficient to reduce their grant to zero nevertheless could retain their TANF eligibility. The key benefit of this policy was that it enabled clients to remain categorically eligible for Medicaid. (A drawback of the policy, however, was that clients continued to accumulate months on their 24-month time limit clock, even though they were not receiving a cash grant.)

The Traditional Welfare group was subject to the same earnings disregard as the Welfare Reform group but was not subject to the fixed grant or zero grant policies.

Work requirements and sanctions. The majority of adults on TANF are required to participate in work activities. Most clients met the work participation requirements by working. For those not working, the main work activity was job search. An exemption from work requirements to care for a young child initially applied to parents with children under age three

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[1] Indiana narrowed the exemption for work requirements for parents with young children from children under three to children under two, effective June 1997, and to children under one, effective December 1997.

[2] As described later in this chapter, FSSA substantially changed the TANF earnings disregard in July 2000, long after the vast majority of clients in the first-year cohort had left TANF.

[3] Indiana eliminated the fixed grant policy in June 1997.

and was narrowed in December 1997 to apply only to parents with children younger than age one.

Compared to most states, Indiana has a mild sanction policy for noncompliance with work requirements. For the first violation, the TANF grant is reduced by the adult's portion ($90 per month) for two months; for the second and third violations, it is reduced (by the same amount) for twelve and 36 months, respectively.[4] Indiana's sanction policy is milder than most states' in two respects: it includes no full-family sanction, and the sanction amount never exceeds $90 per month.

Adults randomly assigned to the Traditional Welfare group initially were required to participate in work activities but were less likely to be referred to IMPACT (the Indiana Manpower Placement and Comprehensive Training program, the work component of Indiana's welfare program). Beginning in the fall of 1997, the State stopped referring Traditional Welfare group clients to IMPACT.

Time limit. Indiana had a 24-month lifetime limit on TANF receipt for adults who were required to participate in work activities. The time limit affected only the adult's portion of the grant; children continued to be eligible for assistance.

Initially, Indiana defined the number of months an adult was receiving TANF as the number of calendar months that elapsed after an individual was assigned to the Placement Track. That is, the "clock" started running immediately upon assignment to the Placement Track and did not stop, regardless of the number of months the client was on welfare during the 24-month period. Upon reaching the time limit, the adult's portion of the grant was eliminated for 36 months (although the adult retained eligibility for Medicaid).

In June 1997, Indiana expanded the time limit to apply to all mandatory clients in the Welfare Reform group, not just those assigned to the Placement Track, and changed the calculation of the time limit by counting only months in which a client *received* TANF benefits. In addition, the time limit became a *lifetime* limit, so adults could no longer resume TANF eligibility after 36 months.

[4] A separate $90-per-month sanction is imposed for 6 months on adults who quit their jobs.

Indiana chose not to implement the federal five-year time limit until its federal waiver expired in April 2002.[5]

Clients in the Traditional Welfare group were not subject to a time limit.

Family cap and personal responsibility requirements. Like many states, Indiana required all eligible adult TANF recipients to sign a Personal Responsibility Agreement (PRA) with a number of provisions. The most important provision, in terms of the number of families affected, was the family cap policy: no additional TANF benefits were paid for children who were born more than 10 months after a family began receiving TANF. Other PRA policies required that:

- Preschool children be immunized;
- School-age children attend school regularly;
- Parents raise children in a safe and secure home; and
- Parents not use illegal drugs.

The sanction for noncompliance with a PRA requirement was a $90 per month reduction in TANF benefits until compliance.

Traditional Welfare group members were subject to neither the family cap policy nor other PRA requirements.

How The Policy Environment Differed for the Later Cohort

Although this report focuses primarily on clients enrolled during the first year of Indiana's welfare reform program, it also presents (in Chapter 5) impacts for clients who first received cash assistance between March 1998 and February 1999, roughly three to four years after welfare reform began. Because of their later enrollment, only two years of follow-up results are available for this cohort.

[5] Prior to the 1996 federal welfare reform law, states could implement welfare reform policies if they received a waiver of the AFDC law from the U.S. Department of Health and Human Services. Under the federal welfare reform law, states are allowed to continue preexisting waivers, even if they are inconsistent with the federal law. Such "waiver inconsistencies" are limited to the duration of the waiver.

Compared to the first-year cohort, the later cohort experienced a somewhat different policy environment, because a larger proportion of the Welfare Reform group was immediately subject to the full set of welfare reform policies, and because the Traditional Welfare group was not required to participate in IMPACT (the work component of Indiana's welfare program). Sample members in the later cohort began receiving welfare after the July 1997 policy changes, which made all work-mandatory clients subject to Placement Track policies. Because of this, and because in 1997 Indiana narrowed the exemption for age of the youngest child to one, most of the later cohort was immediately subject to the full set of welfare reform policies. In addition, in late 1997, Indiana stopped referring mandatory Traditional Welfare group members to the IMPACT program.[6]

Prior to enrollment of the later cohort, FSSA made several changes to the random assignment process to strengthen distinctions between Welfare Reform and Traditional Welfare group experiences. Random assignment of new applicants shifted from statewide to twelve of Indiana's 92 counties, and FSSA simultaneously increased the ratio of Traditional Welfare to Welfare Reform group assignment in the twelve counties from about five percent to about 20 percent. Specialized case workers were designated in each of the twelve counties to deal only with clients in the Traditional Welfare group, to ensure that those clients were not informed of welfare reform policies. Finally, the point of random assignment was moved up from approval for cash assistance to application for cash assistance, so that applicants assigned to the Traditional Welfare group could be sent immediately to a specialized case worker. The result of these changes was to strengthen the distinction between the welfare reform and traditional welfare environments.

More Recent Policy Changes

Although the general work first approach of Indiana's welfare reform program has been consistent since 1995, the program has continued to evolve. In response to early evaluation results showing that welfare reform did not increase clients' income—because higher earnings were offset by reductions in welfare and food stamp benefits—Indiana substantially increased the TANF earnings disregard effective July 2000. Prior to that date, both Welfare Reform and Traditional Welfare group clients were subject to the traditional AFDC disregard, under which clients' TANF grants are reduced by $1 for each additional dollar of earnings. Under the AFDC

[6] As shown in Chapter 3, the effect of the IMPACT "embargo" was to produce larger impacts on participation in employment and training activities for the later cohort than the first-year cohort, with the exception of unsubsidized employment.

disregard, the welfare cash grant for a single mother with two children reached zero when her earnings reached $378. In contrast, the revised disregard enabled Welfare Reform clients to have earnings up to the federal poverty level with no effect on their TANF grant. Therefore, most clients received the maximum TANF grant for their family size and continued to receive this grant until their monthly earnings reached, for example, about $1,180 for a single mother with two children. The revised disregard strengthened work incentives and increased the likelihood that working would enable clients to increase their income.[7,8]

Partly because the revised disregard enabled clients to stay on TANF longer as their earnings increased, Indiana's welfare caseload began to increase in 2000. Since then, a weakening economy has contributed to continuing caseload increases (through 2002), and created a fiscal crisis in Indiana (and many other states). In response to budget shortfalls, FSSA scaled back the disregard in late 2002 and introduced other policy changes intended to cut costs. Instead of disregarding all earnings up to the poverty line, FSSA now counts 25 percent of earnings in determining TANF benefits. Although reduced, the disregard is still substantially more generous than the policy in effect before July 2000. Other changes implemented in late 2002 include lowering the income eligibility ceiling for subsidized child care (and increasing co-payments), reducing the availability of employment and training services through the IMPACT program by decreasing the value of contracts with service providers, and implementing a full-family sanction for continued non-compliance with employment and child support rules.

Beginning in May 2002, when its federal waiver expired, Indiana began counting months of cash assistance against a five-year full-family time limit, consistent with PRWORA. Given this relatively late start, the first families would not reach the time limit until April 2007.

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[7] However, the ability of the disregard to increase income is somewhat limited by the fact that Indiana is a low-grant state (the maximum monthly payment for a family of three is $288), and because the disregard does not apply to food stamp benefits. A $3 increase in earnings leaves the TANF grant unchanged, causing a $3 increase in income that triggers a $1 reduction in food stamps. Higher earnings, therefore, are partly offset by reductions in food stamps.

[8] The disregard change occurred during follow-up year 5 for the first-year cohort, and during follow-up year 2 for the later cohort. However, the impacts observed in these years likely capture only a portion of the effects of the disregard, because 80 percent of the first-year cohort and 60 percent of the later cohort left welfare before the disregard took effect.

1.2 Research Design and Approach for this Evaluation

This section describes how the evaluation was conducted, including the evaluation's components, the experimental design, the samples and time frame, data sources, and how we estimated impacts.

Components of the Evaluation

The Indiana Welfare Reform Evaluation has four main components: a process study, an analysis of impacts on adults, a benefit-cost analysis, and a study of welfare reform's impacts on children's well-being. This report presents findings for the first three components; impacts on children are presented in Beecroft, Cahill, and Goodson (2002).

The process study. The process study assesses how welfare reform policies are carried out over time. It describes principal features of the program's planning, design, and operation with an eye towards identifying places where intended and actual operations may differ. To this end, the process study documents both decisions and management at the state level and the way the reform is structured, organized, and managed at the local level. It contrasts new program structures, operations, and services with those of the traditional AFDC program, through "before-after" comparisons and by contrasting experiences of members of the Welfare Reform and Traditional Welfare groups.

The central research questions for the process study are the following:

- What are the major components of the demonstration design, and what were they intended to accomplish?
- How were the major components of the welfare reform plan implemented at the local level? How different are the experiences of the Welfare Reform and Traditional Welfare groups in terms of services and program requirements?
- How did the welfare reform demonstration evolve over time? What implementation problems arose, and how were these problems addressed? How fully were the major components implemented? What are the implications for program impacts?

Chapters 2 and 3 of this report present findings from the process study.

Analysis of adult impacts. The impact study assesses the effects of Indiana's welfare reform on the economic well-being of families receiving assistance, focusing primarily on adults. Among the principal questions it addresses are the following:

- Did welfare reform affect welfare and food stamp receipt?
- Did welfare reform affect employment and earnings?
- What impact did the program have on household income?
- Did impacts differ for particular subgroups of clients?

The impact study measures impacts for various outcomes, follow-up intervals, and client subgroups. Comparing impacts for clients with different characteristics helps in inferring where and why the program may or may not have had its intended effects.

Chapter 4 presents five-year impact results for clients who were randomly assigned during the program's first year, and Chapter 5 presents two-year impacts for a later cohort.

Benefit-cost analysis. The benefit-cost study looks at welfare reform's effects from a financial standpoint. It asks whether the benefits of the reform outweigh the costs. Benefits and costs can vary depending on key actors' relationships to the welfare system. The analysis measures and contrasts benefits and costs from the perspectives of welfare families, state and federal government, and society in general.

The Experimental Design for the Impact Analysis

Indiana's welfare reform was evaluated through a classic experimental design in which each family was assigned randomly to one of two groups: the Welfare Reform group, which was subject to the new welfare reform policies, and the Traditional Welfare group, which faced the policies of the pre-reform AFDC program in Indiana. These two groups correspond to the "treatment" and "control" groups, respectively, as those terms are commonly used in experiments. Randomly assigning families in this way provides the strongest known method for establishing a valid comparison group.

Most families receiving welfare in Indiana were assigned to the Welfare Reform group, with the remainder randomly assigned to the Traditional Welfare group. When the first reform policies took effect in May 1995, slightly less than five percent of all ongoing cases statewide—in all 92 counties—were selected for the Traditional Welfare group. A similar fraction of new applicant cases were randomly assigned to the Traditional Welfare group from May 1995 through February 1998.[9] Beginning in March 1998, only new applicant cases in 12 selected counties (rather than all 92 counties) were randomly assigned, and approximately 20 percent of the cases were assigned to the Traditional Welfare group, a higher proportion than previously.[10] Once a case was randomly assigned, it retained its assignment status through the follow-up period.

Although random assignment is the most reliable way to measure program impacts, the impacts presented in Chapters 4 and 5 may underestimate the full effects of Indiana's program, for two reasons. First, by design, impacts measured in this study do not include effects of the program on decisions to apply for welfare; the more rigorous program rules might have deterred some families from applying for welfare. Second, evidence from the process study and client surveys suggests that some Traditional Welfare group members mistakenly believed they were subject to some of the same requirements as Welfare Reform group members. To the extent that this belief affected the behavior of Traditional Welfare group members, estimated impacts will be smaller than if all Traditional Welfare group members understood they were not subject to welfare reform policies.[11]

The Sample and Time Frame

This report presents impact estimates for two samples of welfare reform families. The primary sample is all single-parent families statewide who received welfare at some point during the first year of Indiana's program, between May 1995 and April 1996. This first-year cohort

[9] From May 1995 until June 1996, approximately 2.5 percent of new cases were randomly assigned to the Traditional Welfare group; FSSA increased this percentage to five percent beginning in June 1996.

[10] The 12 counties were chosen to be a representative set of small, medium, and large counties, in terms of the number of families receiving welfare. The counties are: Marion, St. Joseph, Vanderburgh, Madison, Allen, Vigo, Clark, Henry, Miami, Cass, Jefferson, and Gibson.

[11] It is important not to exaggerate the significance of any such "contamination." The experiment achieved clear distinctions between the Welfare Reform and Traditional Welfare groups in the policies likely to matter most—employment and training requirements, sanctions for noncompliance, and the treatment of earnings. In addition, the "hard-wiring" of most policies in the Indiana Client Eligibility System (ICES), such as time limits and sanctions for noncompliance with the Personal Responsibility Agreement, ensured that case workers did not apply these policies to Traditional Welfare group members.

includes 66,440 families: 63,223 in the Welfare Reform group and 3,217 families in the Traditional Welfare group. Chapter 4 presents program impacts for the first five years after each family was randomly assigned. The calendar period covered by these impacts is May 1995 through June 2001.[12]

Chapter 5 briefly presents impacts for a later and smaller cohort of welfare families. The later cohort comprises all single-parent families in twelve counties (rather than statewide) who received welfare at some point between March 1998 and February 1999.[13] The later cohort includes 4,954 families: 3,863 in the Welfare Reform group and 1,091 families in the Traditional Welfare group. Because this cohort began receiving welfare approximately three years later than the early cohort, only two years of post-random assignment outcomes are available. The calendar period covered is March 1998 through June 2001.

Compared to the first-year cohort, results for the later cohort are of interest because of differences in the policy environment, differences in characteristics between the cohorts, and the strengthened experimental distinction for the later cohort. Because the later cohort began welfare after Indiana's July 1997 policy changes, a larger proportion of Welfare Reform group families in the later cohort (compared to the first-year cohort) experienced the full set of Indiana's welfare reform policies and experienced those policies after any initial implementation difficulties had been addressed. In addition, the later cohort is made up entirely of new applicants to welfare, while the first-year cohort is made up mostly of clients who were already on welfare when Indiana's welfare reform program began. For both of these reasons, impacts for the later cohort may better represent the "steady-state" effects of Indiana's program. Finally, prior to the later cohort's entry, FSSA made changes to the random assignment process to strengthen distinctions between Welfare Reform and Traditional Welfare group experiences (as described above in section 1.1). Other things equal, the strengthened experimental distinction and the application of the full set of welfare reform policies to a larger proportion of Welfare Reform clients would lead us to expect larger impacts for the later cohort than the first-year cohort.

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[12] For purposes of measuring impacts, the first calendar month for each family is the month after they were randomly assigned. Families in the first-year cohort were randomly assigned between May 1995 and April 1996.

[13] Both the first-year and later cohort samples exclude cases that were "child only" at the time of random assignment; that is, cases with no welfare-eligible adult, because such families were not subject to any significant welfare reform provisions. Child only cases accounted for 19 percent of the single-parent (AFDC Regular) caseload as of May 1995.

Data Sources

The implementation findings in Chapter 2 are based on a number of data sources, including local office and state-level site visits (in fall 2001, fall 1998, and spring 1996); telephone interviews with local FSSA administrators and case worker supervisors; mail surveys of local FSSA administrators and case workers; focus groups with IMPACT participants; and a large number of State documents relating to welfare reform.

Chapter 3's analyses of employment and training experiences are based on administrative records from FSSA's TANF eligibility computer system, the Indiana Client Eligibility System (ICES). ICES was also the data source for Chapter 3's analyses of sanctions, the time limit, and baseline characteristics. Data from the five-year client follow-up survey were used in Chapter 3 to estimate impacts on alternative measures of participation in education and training, and receipt of education credentials.[14]

The impacts presented in Chapters 4 and 5 are based on administrative records and the five-year client survey. ICES provided data on AFDC/TANF receipt, food stamp receipt, and Medicaid eligibility. To estimate impacts on employment and earnings, we used quarterly earnings records from the State Unemployment Insurance system. The five-year client survey provided information on clients' job characteristics and for estimating impacts on income and health insurance coverage.

The cost estimates for the benefit-cost analysis in Chapter 6 are based on detailed expenditure data from FSSA's financial management office. The benefit estimates are based on the impact results in Chapter 4.

Approach to Estimating Impacts

Impacts are calculated as the difference between average outcomes for the Welfare Reform and Traditional Welfare groups at various points after they entered the experiment. At the time of random assignment, except for small chance differences, the Welfare Reform and Traditional Welfare groups resembled each other in every way (on average). Subsequently, the

[14] The client survey was administered between March and November 2000 to a representative statewide sample of single-parent families. A total of 2,359 interviews were completed, mostly in person with the remainder completed by telephone. The survey achieved a 70-percent response rate. The survey data also were the primary data source for the report on children's wellbeing (Beecroft, Cahill, and Goodson 2002).

two groups experienced the same social and economic conditions, except for exposure to Indiana's welfare reform program. Consequently, any post-random assignment significant differences in outcomes between the two groups can confidently be attributed to welfare reform.

In estimating program impacts, we used regression models to adjust for small chance differences in baseline characteristics, providing more accurate impact estimates. Outcomes were adjusted using the following baseline characteristics: age; gender; ethnicity; education; county of residence (Lake, Marion, or other); number and age of children; family size; marital status; employment status and earnings prior to random assignment; begin date of respondents' most recent welfare spell; and whether respondents were required to participate in work activities.

Impact estimates are obtained by including a dichotomous indicator for assignment to the Welfare Reform group in the multivariate model described above. In this framework, the relationships between the covariates and the outcome measure are set to be identical for the Welfare Reform and the Traditional Welfare groups, and the impact measure is given by the coefficient on the dichotomous indicator. Differences across subgroups of the main sample, such as previous participation in the welfare program or employment status prior to random assignment, are computed similarly, using interactions between indicators for subgroup status prior to random assignment and indicators for Welfare Reform and Traditional Welfare group status.

Sample members in both groups were weighted to account for changes over time to the Welfare Reform: Traditional Welfare assignment ratio. The impact estimates also take into account stratification of the sample between ongoing clients and new applicants.

Impact estimates at the 10-percent level are considered statistically significant, and significance levels are indicated at the 1-, 5-, and 10-percent levels. The statistical analyses were based on two-tailed tests, because for most outcomes positive or negative impacts were possible.

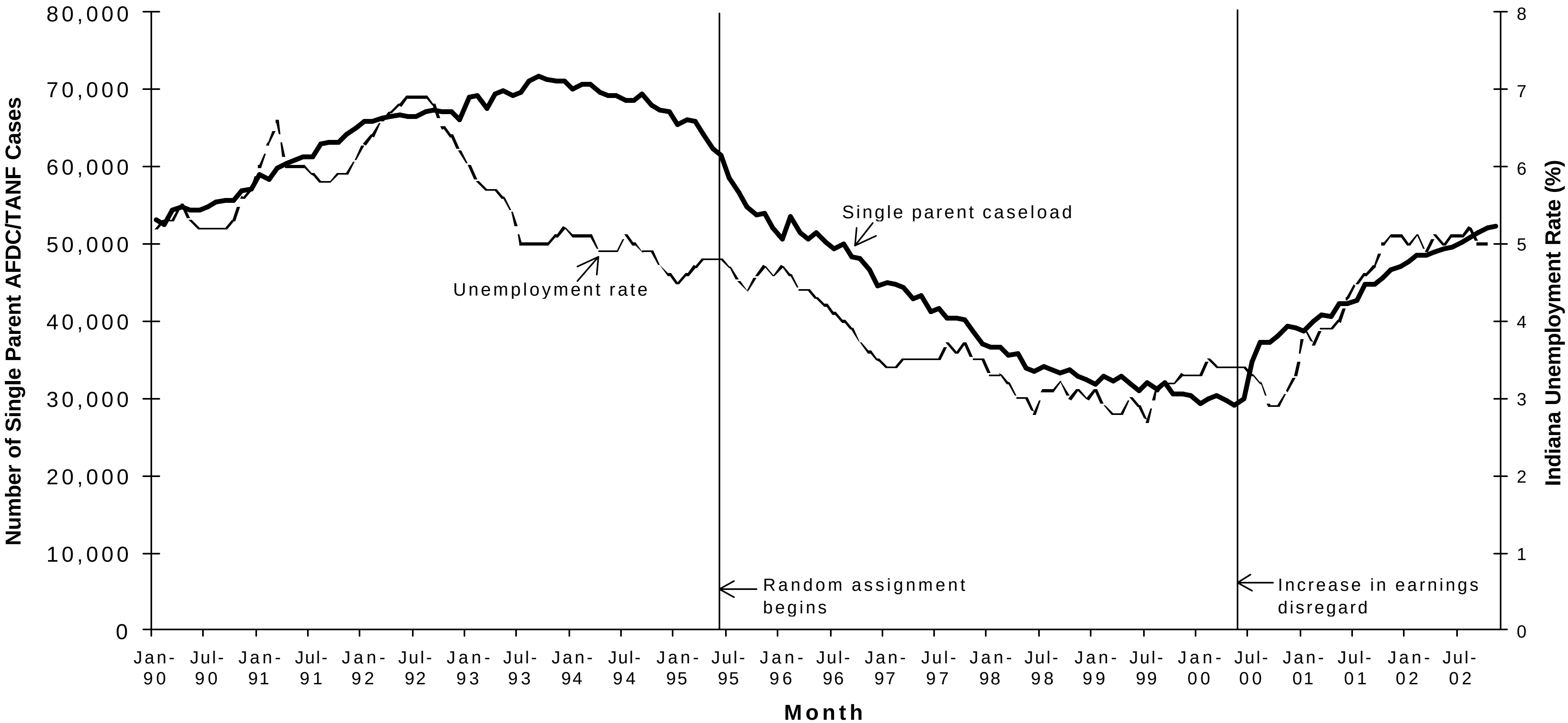
1.3 Indiana's Welfare Caseload and the Economic Environment

During most of the time period covered in this report, 1995 through mid-2001, Indiana's economy was strong, a favorable environment for a program intended to move welfare recipients into the workforce. After peaking at 6.9 percent in the summer of 1992, the State unemployment rate fell fairly steadily for seven years, reaching its lowest point at 2.7 percent in July 1999 (Exhibit 1.2). During the first four years of the evaluation period, therefore, Indiana's welfare reform program operated in a very strong economic environment, with low and falling unemployment rates that should have eased the difficulty of finding a job. For most of the first-year cohort, the entire five-year follow-up period was strong economically.[15] For the later cohort, the first year and part of the second follow-up year occurred in a strong economic environment.

Indiana's single-family welfare caseload peaked in September 1993 (at 71,800 families) and then fell fairly steadily for almost seven years. The caseload decline began in earnest in late 1994. The steepest decline coincided with the first six months of welfare reform, in the latter part of 1995. In fact, over the 1994 to 1996 period, Indiana had the fastest caseload decline of any state. The caseload again dropped sharply (though not *as* sharply) in the six to nine months following the June 1997 policy changes. However, the caseload increased quickly starting in July 2000, when the higher earnings disregard took effect. The initial immediate increase in July 2000 was not a "real" increase but a consequence of the way Indiana counted cases. Specifically, Indiana's counts excluded cases that were technically open on welfare but that were not receiving a cash grant. The July 2000 disregard change caused these cases to receive a cash grant again, and therefore be counted. In other words, the immediate increase in July 2000 was not due to new cases, but to existing cases changing from zero grant to cash grant status. The continuing increase in Indiana's caseload since July 2000 likely resulted, at least in part, from the sharp increase in the State unemployment rate. Similar trends in the welfare caseload and the unemployment rate over the entire period suggest that economic conditions may have played an important role in caseload fluctuations.

[15] Close to two-thirds of the first-year cohort was randomly assigned in May 1995, so the five-year follow-up period for these sample members ended in June 2000.

Exhibit 1.2
Indiana Single-Parent AFDC/TANF Caseload and Unemployment Rate, 1990-2002



Sources: Indiana FSSA; U.S. Department of Labor, Bureau of Labor Statistics.

1.4 Organization of This Report

This final report examines the implementation of Indiana's welfare reform program over its first five years, both the initial challenges it faced and how and why the program evolved. Chapter 2 describes the organizational structure of welfare reform in Indiana, how clients flowed through the program, how individual policies were implemented, and how the employment and training component of Indiana's welfare program (called IMPACT), operated.

Just as important as the institutional perspective presented in Chapter 2 is the perspective of the clients who actually experienced welfare reform in Indiana. Chapter 3 provides a sense of who the clients were by examining their demographic characteristics and work history at the time of random assignment. The chapter also considers the extent to which clients participated in IMPACT program activities and the types of activities they engaged in. Finally, Chapter 3 shows the "bite" of other welfare reform policies; namely, the rate at which clients reached the time limit, had a family cap birth, or were sanctioned for noncompliance with program rules.

Chapters 4 and 5 turn to impacts and show the economic effects of Indiana's program on single-parent families. Chapter 4 covers five years after random assignment for families who received welfare during the first year of the program, and Chapter 5 shows results over two years for families who began receiving welfare later. Effects discussed in Chapter 5 include impacts on welfare and food stamp receipt, employment and earnings, and total income. Chapter 4 also provides information on health insurance coverage rates for adults and children.

For policy makers, impacts on participants are only part of the equation for determining whether welfare reform "worked" in an economic sense. From their perspective, the benefits to clients must be balanced against the cost of the program. Chapter 6 presents evidence on the cost-effectiveness of Indiana's program—for clients, government, and society as a whole.

Chapter 2

The Implementation of Indiana's Welfare Reform Program

Indiana's Family and Social Services Administration (FSSA) dedicated a substantial amount of energy and effort to making its welfare reform program effective. The central office provided strong leadership to local offices, and when working with clients, case workers consistently emphasized the importance of work. FSSA also recognized the central role of supportive services and shifted substantial funding into child care. However, the changes produced by Indiana's welfare reform were untested and required modification over time. Not all challenges were easily solved. This chapter describes how Indiana implemented welfare reform, how the program evolved, and what major challenges the program faced.

Indiana's program had a strong focus on unsubsidized work for clients, with relatively little emphasis on education and training (E&T). FSSA supported work by providing clients with child care and other supportive services. Although Indiana intended to enable case workers to provide intensive case management, for the most part this did not occur. Indiana's program relied heavily on contractors to provide services and, in the later part of the study period, case management. Compared to other states' programs, Indiana's program was also fairly lenient, relying more on cajoling clients than on punitive policies.

More recently, deterioration in the State budget poses risks for maintaining an effective IMPACT program and continuing to provide the support and services clients need. It remains to be seen how this will be resolved.

Summary of Key Findings

The specific policies tested by the random assignment design evaluation took place within a larger programmatic and organizational context that has evolved over time. Key highlights from the process study are as follows:

The major waiver provisions were implemented as intended. Indiana implemented the key work and personal responsibility provisions of its welfare reform waiver package. Some non-waiver changes, such as applicant job search and enhanced intake, were implemented in a more limited way than originally envisioned. Most start-up problems were resolved within one year of implementation, after which the program operated in a steady state, with fairly minor subsequent changes. Overall, the work-related aspects of Indiana's welfare reform initiative required larger changes than the non-work-related personal responsibility provisions.

Indiana implemented a strong work first program. The central office's clear articulation of welfare reform goals relating to employment, coupled with strong emphasis on meeting county-level job placement goals, greatly contributed to the widespread acceptance and implementation of the work first approach. Relying on short-term job readiness services and job search as the primary activities available to IMPACT clients, this approach marked a significant departure from the education and training model that characterized Indiana's welfare-to-work program prior to welfare reform.

The work first model was adjusted over time. Steep caseload declines during the first two years of welfare increased awareness of and concern for remaining recipients who were less job ready and had more difficulty leaving welfare. Additionally, despite the program's high rate of job placements, the State was concerned about clients who lost jobs and subsequently returned to welfare. These concerns prompted refinement of and enhancements to the basic work first model, including: increasing priority for addressing IMPACT clients' personal and family barriers to employment, helping clients retain jobs, conducting individualized and intensive case management, and using sanctions only as a last resort. The extent to which these enhancements became operational realities varied.

The switch to an integrated worker model posed challenges. When welfare reform was initially implemented, DFC continued to use a front-line staffing model common to most welfare offices prior to welfare reform. Under this model, one type of specialized worker handled eligibility for public assistance and another type handled work requirements. Taking a more employment-oriented, individualized, and holistic case management approach, Indiana in 1998 began to consolidate responsibilities for TANF eligibility and IMPACT under a single type of worker. This new integrated approach was phased in by local offices over the next year and a half. Although staff had generally agreed that the integrated worker model was likely to benefit clients, case workers found that balancing eligibility and welfare-to-work functions presented significant challenges and that eligibility work typically took precedence over other case management activities.

Welfare reform led to increased local control over service delivery and reliance on contracting for services. The service delivery system under welfare reform was marked by the introduction of performance-based contracts, heavy reliance on a range of contracted providers, and local-level control over IMPACT contracting decisions. Local offices ultimately assumed responsibility for most decisions on the IMPACT contracting process, including determining the types of IMPACT services that would best meet the needs of a changing client population, shaping the performance payment structure and schedule, selecting and negotiating with contractors, and monitoring and overseeing contracts. The central office continued to influence the types of services and activities that received the greatest emphasis and resources.

Indiana made ongoing changes to its performance-based contracting process. The types of services and outcomes for which IMPACT contractors received payment changed over time, reflecting an ongoing effort to respond to clients' needs and provide appropriate incentives to contractors. Consistent with the work first philosophy, FSSA initially based contractors' payments mainly on the number of job placements they made. However, basing payment points on job placements failed to give providers any flexibility or incentive to provide up-front assistance to hard-to-serve clients and job retention services to others. Consequently, starting in 1998, FSSA encouraged local offices to contract for a larger variety of services and provide payment points for job retention services and up-front services, such as more intensive assessments of barriers to employment.

Organization of this chapter. Section 2.1 of this chapter discusses the organizational structure of Indiana's welfare reform program: how the program is administered and staffed and how it provides services. Section 2.2 analyzes how welfare reform clients move through the program and how client flow has changed over time. Section 2.3 focuses on the implementation of non-work policies (primarily sanctions and the time limit) and discusses their relative importance. Section 2.4 examines the implementation of the employment and training program and accompanying supportive services. Section 2.5 briefly discusses challenges facing the continuing evolution of welfare reform in Indiana.

2.1 The Organizational Structure of Welfare Reform in Indiana

Organizational structure in large part shapes the implementation and operation of welfare reform. This section describes the structure of Indiana's welfare system at both the state and local levels, focusing on the reliance on contracted providers for IMPACT program services, the shift to a front-line staffing model a few years into the reform effort, and the implementation challenges of trying to incorporate a more intensive case management approach within a work-oriented welfare program.

In Indiana, the Division of Family and Children (DFC), a branch of FSSA, administers the cash and work (i.e., IMPACT) components of the TANF program as well as other programs relevant to welfare reform (e.g., Food Stamps, Medicaid eligibility, child care, child support, and child welfare). Local DFC offices, staffed by State employees and located in each of the State's 92 counties, deliver TANF benefits and IMPACT program services and contract with providers to deliver a variety of IMPACT services.[1] IMPACT service providers are generally not co-located with local DFC offices, although they may be in close proximity.

Front-Line Worker Roles and Responsibilities: Two Staffing Models

Welfare reform significantly changed the roles and responsibilities of local DFC front-line staff. These staffing changes, particularly those occurring after 1998, were an important part of the State's effort to create a work-oriented welfare system that was responsive to clients' service needs and helped address barriers to employment.

During the first three years of welfare reform, Indiana relied on a common welfare office staffing arrangement under which separate workers administered eligibility and work requirements. Public Assistance Caseworkers (PACs) served as eligibility workers, and IMPACT Family Case Coordinators (FCCs) were responsible for helping IMPACT-mandatory clients transition from welfare to work. In mid-1998, the State integrated responsibility for eligibility and IMPACT under a single reclassified FCC. This change significantly redefined staffing roles and responsibilities and created new implementation challenges at the local level.

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[1] The IMPACT program also serves as the State's Food Stamp Employment and Training program. Unless otherwise noted, the term "IMPACT program" refers only to those aspects of the program that affect TANF clients.

This section describes staff responsibilities before and after the duties of eligibility workers and family case coordinators were integrated. It also discusses staff opinions about the integrated worker model and describes the impact of these staffing changes on case management and other client interactions.

The original model: specialized eligibility and IMPACT staff. As eligibility workers, PACs focused almost exclusively on the financial aspects of AFDC/TANF, Medicaid, Food Stamps, and Emergency Assistance. PACs determined eligibility for these programs, established benefits levels, and monitored ongoing eligibility. PACs also served as gatekeepers to the IMPACT program, determining whether clients were exempt or required to participate and referring mandatory participants to IMPACT.

Welfare reform did not significantly alter the eligibility focus of PAC staff beyond slightly expanding their responsibilities to include administering non-work provisions intended to promote responsible behavior. PACs had clients review and sign the personal responsibility agreement (PRA) and carried out sanction and conciliation procedures for those who failed to sign the PRA or comply with the school attendance and immunization requirements.

Unlike the relatively minimal impact on eligibility workers, welfare reform significantly increased FCCs' job responsibilities. FCCs' original duties included explaining the new work first focus and IMPACT program rules, providing information on services and activities available to clients, helping clients develop employability plans, referring clients to activities and monitoring their progress and compliance, identifying barriers to employment and participation in activities, arranging for needed supportive services, and initiating the sanction process when clients failed to comply with work requirements. Under welfare reform, FCCs also assumed responsibility for conducting group IMPACT orientations, administering and scoring the standardized client assessments, assigning clients to the Basic or Placement Track, and making sure policies were applied correctly based on a client's track assignment.

Although the caseloads of PACs and FCCs overlapped—all IMPACT clients were assigned a PAC and an FCC—each performed specialized tasks and the case workers did not work as a team on the cases they shared. PACs and FCCs tended to interact only to exchange specific information affecting a client's status (e.g., when a client's grant needed to be reduced due to an IMPACT sanction or if a client became employed).

The level of interaction between FCCs and PACs depended on both physical and administrative factors. In smaller offices, close physical proximity, coupled with a relatively small number of staff, appeared to promote (although did not guarantee) greater communication and interaction between PACs and FCCs. A significant pay increase for FCCs in 1995, however, caused some PACs to resent FCCs and led to a mutual "us versus them" mentality between the two types of staff.

The switch to integrated caseworkers. Approximately three years after welfare reform began, Indiana, like many states, decided to combine the eligibility and work responsibilities of welfare staff into one position. Indiana consolidated responsibility for *all* aspects of an IMPACT-mandatory case—from initial TANF eligibility determination to participating in IMPACT and transitioning off welfare—under the FCC staff position. PACs retained responsibility for all non-mandatory IMPACT cases (e.g., TANF child-only cases, food stamp-only cases, and Medicaid nursing home cases).[2]

The reallocation of staff responsibilities resulted in an increase in FCC staff positions and a decrease in PAC staffing levels. This was accomplished primarily by promoting some PACs to FCCs. State budgetary and political constraints required that the staffing change occur without an increase in overall DFC staffing levels.[3]

Goals of the switch. A major rationale for adopting the integrated FCC staff position was to reduce the IMPACT caseload size per worker, allowing FCCs to spend more time resolving barriers to employment for hard-to-serve cases through intensive and creative case management. In fact, in the initial training session on welfare reform for IMPACT workers, "dynamic" case management was presented as a top priority, second only to job placements. The staffing change was also an attempt to infuse the work first ethos into all aspects of a client's welfare experience. For the most part, both FCCs and management-level staff thought that the integrated model was, at least in theory, preferable to having separate eligibility workers and IMPACT case workers.

[2] Case assignment procedures varied at the local level. In some counties, PACs continued to perform eligibility determination functions for Food Stamp Program IMPACT cases, while in other counties FCCs handled all TANF cases, not just mandatory TANF IMPACT cases.

[3] At the insistence of the staff union, PACs were promoted to the new FCC position solely on the basis of staff seniority. Many staff interviewed were critical of this decision and felt that promotions should have been based on past performance, skills, and interest.

Initial challenges. The switch to integrated workers became effective July 1998 but was not fully implemented until a year later. Implementing the staffing change required significant redistribution of cases and responsibilities within offices. In addition, all non-mandatory IMPACT cases had to be reassigned to those PACs who had not been promoted.[4] Procedures were needed both to assign new IMPACT cases to FCCs at the time of application and to redistribute existing IMPACT cases across the larger pool of reclassified FCCs. PACs and FCCs needed training on the new aspects of their jobs and increased their "integrated" caseload on a gradual basis.

FCCs spent most of their time on eligibility functions rather than IMPACT, even several years after the switch. In the 2001 staff survey, approximately 91 percent of FCCs reported spending less than half of their time on IMPACT. Fifty-eight percent "strongly disagreed" and another 24 percent "disagreed" with the statement that they had enough time to provide the services that IMPACT clients need. Thirty-seven percent of FCCs thought of themselves equally as IMPACT and eligibility workers, 53 percent considered themselves primarily eligibility workers or leaning in that direction, and just ten percent of FCCs thought of themselves primarily as IMPACT workers or leaning in that direction.

Additional caseload responsibilities and rising caseloads meant less time for case management by FCCs. Many local offices assigned non-IMPACT eligibility responsibilities to FCCs, along with their integrated IMPACT caseload, after determining that staff turnover and the need to reassign staff to meet other agency priorities (e.g., CHIP enrollment) meant there were not enough PACs to cover all of the non-IMPACT cases. However, the more time integrated FCCs devoted to non-IMPACT cases, the less time they could spend on case management and service coordination for their IMPACT cases. The overall increase in assistance cases (both TANF and non-TANF) since 2000 further exacerbated the tension between fulfilling eligibility and case management responsibilities, particularly for those FCCs responsible for other types of cases (e.g., food stamps, Medicaid) in addition to mandatory IMPACT cases.

IMPACT contract providers—rather than FCCs—often carried out intensive case management. Provider staff during the first few years of welfare reform were typically concerned with clients only in relation to the clients' participation in the particular program

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[4] The remaining PACs' caseloads increased as a result of this transfer of case responsibilities. High staff turnover in some counties made the transition even more difficult.

component the contractors were hired to provide (e.g., job search). Contract providers' responsibilities, however, gradually expanded to include taking an active role in helping clients identify and resolve immediate and long-term needs and referring clients to other services. As noted earlier, the extent to which these kinds of activities affected contract payment points varied.

Having FCCs carry out the administrative aspects of case management (i.e., authorizing supportive services, explaining program rules, processing sanctions) and IMPACT service providers carry out the more intensive and individualized aspects of case management appears to have evolved as a matter of practice rather than in response to any official policy. As one provider put it, "my most important job is making contact with other local community resources [for clients] because the FCCs don't have time."

Staff opinions. In the year following implementation of the staffing change, managers and FCCs reported that many reclassified FCCs were overwhelmed by their new responsibilities. Of FCCs surveyed in fall 1999, only 40 percent of those who were FCCs at the time the staffing integration ("old" FCCs) agreed or strongly agreed with the statement "I am comfortable performing eligibility-related tasks." Only 43 percent of FCCs who were PACs before the reclassification ("new" FCCs) agreed or strongly agreed with the statement "I am comfortable performing IMPACT-related tasks."

Given the magnitude of change involved in adopting the integrated staff model, it is not surprising that the model's initial implementation was met with a mixture of anxiety, frustration, and criticism. What is striking, however, is that the vast majority of front-line staff continued to articulate these sentiments in the staff survey and site visits conducted long after counties had moved to the integrated model.

In general, FCCs expressed high levels of frustration over their inability to carry out the level and intensity of case management called for and which many felt should be provided. During site visits in the fall of 2001, many FCCs characterized the case management and service coordination they provided as authorizing supportive services, making referrals to IMPACT providers, and engaging in crisis management or "putting out fires."

Although it is unclear whether FCCs would have actually spent more time on case management if the position had not been integrated with TANF eligibility work, most reclassified FCCs were quite adamant in asserting that their eligibility responsibilities and large caseloads severely diminished their ability to provide case management. The sentiments expressed in the following comment by an integrated FCC were common:

> *The total workload makes it impossible to spend quality time with any client, eligibility or IMPACT, which prevents you from getting to know each other well and forming a bond. There are too many to remember all the details and their particular problems, etc. It is stressed that eligibility and IMPACT are equal priorities but in reality the priority has to be delivering benefits in a timely manner and everything else is put on hold until some free time becomes available (FCC survey, fall 2001).*

In contrast, central office staff and some local-level management staff were much more likely to express the opinion that FCCs did not really have to sacrifice case management to perform the eligibility-related tasks of their existing caseloads.

Job satisfaction. While most "new" FCCs were satisfied with the change in their responsibilities, most "old" FCCs were not. Only 30 percent of new FCCs reported being "dissatisfied" or "very dissatisfied" with their jobs after the reclassification, compared to 65 percent of old FCCs. In addition, 67 percent of new FCCs agreed or strongly agreed that the integrated worker model was preferable to the previous model, compared to only 35 percent of old FCCs.

Service Delivery: Increased Local Authority and Reliance on Contracting

Although welfare reform did not change the state-local administrative framework of Indiana's welfare system (e.g., responsibility for IMPACT was not transferred to the workforce development agency), it did bring about an increase in local-level control over IMPACT contracting decisions and greater reliance on contracted providers to deliver IMPACT services.

Two closely intertwined goals driving this development were to create a service delivery environment that: (1) made greater use of community resources and tailored services to meet client needs at the local level and (2) achieved a high level of accountability and quality through open competition for contracts and by tying contractors' payments to performance-based outcomes. Prior to 1994, IMPACT services were provided through state-level interagency partnerships between FSSA, the Department of Workforce Development, and the Department of Education. These partnerships were dissolved the year before the waiver demonstration provisions were implemented.

During the first year of welfare reform implementation, approximately 70 providers—representing a new and varied mix of public, for-profit, and non-profit organizations—received contracts to provide IMPACT services to TANF clients. The exact number and mix of service providers varied over the following years as a natural result of shifting service priorities and a competitive bidding process.

Implementing a service delivery structure that relied more on contracted service providers was an ongoing process that required adjustments on the part of both service providers and the DFC central and local offices. Over the years, all three parties contended with various implementation challenges, including an uneven and sometimes insufficient number of referrals to contractors; slow execution of contract agreements; monitoring, communication, and reporting issues; and conflicting perceptions about the level and type of services that DFC offices needed from its IMPACT contractors and the level and type of services that contractors provided to DFC clients.

At the same time, the general consensus among central office staff, local DFC staff, and local IMPACT providers was that the administrative and operational workings of this contracted service delivery system were steadily improving over time. Each contract performance period offered useful lessons as providers and local DCF staff became more proficient at handling different aspects of the contracting process and the most difficult implementation hurdles were resolved.

Local offices ultimately assumed responsibility for most decisions affecting the entire IMPACT contracting process, including evaluating the changing needs of the client population and determining what types of IMPACT services would best meet clients' needs; developing, issuing, and administering RFPs to solicit these services; determining the performance payment structure and schedule; establishing internal review teams responsible for selecting and later negotiating with contractors; and monitoring contractors.

The central office continued to play an important role in determining which types of services and activities would receive the greatest emphasis and resources. Counties were required to compile and submit annual IMPACT service plans for state review. Contract agreements could only be executed with central office approval and central office staff also monitored contracts. Finally, decisions regarding local IMPACT funding allocations were determined by the central office and the level of funding affected both the quantity and types of services that could be contracted.

Performance-based contracting. Performance-based, rather than cost reimbursement or fee-for-service, contracts were another key element of the new service delivery environment that developed under welfare reform. Performance-based contracts not only introduced a higher level of accountability into the system, they provided a mechanism the central office could use to set priorities without dictating exactly how services should be delivered at the local level. For example, consistent with the goal of implementing a strong work first model in the early years of welfare reform, payment points during the first two contract performance periods under welfare reform (July 1995–June 1996 and July 1996–June 1997) were based primarily on job search and job placement results. By the end of the second contract year, however, the rationale for this approach was no longer as compelling as it became clear that retaining and advancing in jobs was more difficult than obtaining them. Contract payment points in the next performance period, therefore, moved away from job search and job placement and concentrated more heavily on job retention and, to a lesser extent, career advancement and wage progression.

Local DFC office staff and contract providers, however, found that linking payments so tightly to back-end performance outcomes presented certain challenges. Without payment points to cover up-front services, contractors often lacked the resources (as well as the incentive) to develop up-front services to help identify and resolve barriers to employment experienced by hard-to-serve clients. This problem, in turn, led some counties to build in payment points for up-front services such as assessment and ongoing mentoring for clients referred for substance abuse or mental health treatment (see box for additional examples). Encouraging payment for such activities represented a shift away from the strict adherence to performance-based outcomes that characterized the service delivery system in the early years of welfare reform.

Examples from the Field
Structuring Contracts To Include Up-Front and Back-End Service Needs

As part of the shift away from concentrating payment points almost exclusively on job placements, the DFC office in Vanderburgh County eliminated payments for job placements and added a payment point that focused on job retention and wage progression. The self-sufficiency wage bonus worked as follows: if a contractor helped a client secure a job that paid her enough that she could progress to 100 percent of the federal poverty level (thereby becoming ineligible for TANF) and the client maintained that job for 90 days, the IMPACT contractor would receive the self-sufficiency wage bonus in addition to a job retention payment point.

The DFC office in Madison County similarly created payment points for contractors that performed an up-front family assessment and documented progress or “life changes” that reflected specific outcomes in dealing with a client’s employment barriers. The office created another payment point to encourage clients’ participation in redesigned job readiness classes that sought to promote job retention by educating clients on appropriate workplace behavior and conflict resolution skills.

2.2 Client Flow for Welfare Reform and Traditional Welfare Group Members

This section describes the flow of clients from application for cash assistance to assignment to IMPACT activities. Program flow changed somewhat over time as a result of policy and procedural changes, the most important of which were the elimination of the Basic Track, the switch to an integrated worker model (described in section 2.1), and changes in random assignment procedures. This section begins by describing client flow as experienced by the first-year cohort of enrollees (those who enrolled from 1995 to 1996) and then discusses client flow as experienced by individuals who enrolled from the spring of 1998 and later (the later cohort).

Client Flow as Experienced by the First-Year Cohort

Random assignment for ongoing clients. Most of the sample members who were randomly assigned during the first year of Indiana’s welfare reform program were ongoing clients; that is, they were already receiving welfare when welfare reform began in May 1995. Indiana’s welfare eligibility computer system, ICES, randomly assigned these clients in May 1995, and case workers informed clients of their status—Welfare Reform or Traditional

Welfare—at their next redetermination for cash assistance. At that time, workers discussed welfare reform requirements with members assigned to the Welfare Reform group and had them sign the Personal Responsibility Agreement (PRA).

Intake and random assignment for applicants. For individuals who applied for cash assistance after May 1995, clerks in local offices pre-screened applicants for cash assistance and scheduled an eligibility determination appointment with a Public Assistance Caseworker (PAC). At the eligibility interview, PACs began the formal eligibility determination process, determined whether clients were mandatory for IMPACT, explained welfare reform requirements to applicants, and had applicants sign the PRA. Because individuals were not randomly assigned until they were determined eligible (or authorized) for cash assistance and eligibility often was not determined at the initial interview with a PAC (due to incomplete documentation from applicants), some applicants assigned to the Traditional Welfare group initially believed that they were subject to welfare reform policies.[5]

IMPACT. ICES referred clients who were mandatory for IMPACT to an IMPACT worker or an FCC. FCCs scheduled group orientation sessions to discuss IMPACT program rules, services, and support.

At the initial orientation session, clients in the Welfare Reform group usually completed a standardized client assessment of job readiness, which resulted in their assignment to the Placement Track (for job-ready clients) or the Basic Track (for clients who were less job ready). The detailed assessment collected information on current and past employment, educational history, availability of child care and transportation, other barriers to work, family problems, emotional support from family and friends, and the presence of any debilitating mental or physical condition. However, the assessment gave the most weight to current employment status as an indicator of job readiness.[6]

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[5] Most welfare reform policies, however, were "hard-wired" in ICES so that case workers could not apply them to Traditional Welfare group members.

[6] Clients with scores of 50 or higher were assigned to the Placement Track, and 50 points were given for being currently employed. The only way an employed client would not be assigned to the Placement Track was if she had a debilitating physical or mental condition that was professionally documented. Non-working clients could also be assigned to the Placement Track if they had enough points in other areas of the assessment.

For both Placement Track and Basic Track clients, FCCs developed an employment plan that outlined the IMPACT activities that were required for the client to move toward self-sufficiency.[7] Regardless of track assignment and differing participation rules for Basic Track and Placement Track clients, the vast majority of FCCs interviewed reported referring most IMPACT clients to job search rather than education.[8] FCCs referred most clients who were not already employed to contracted service providers for required activities. FCCs also authorized child care, transportation, or other supportive services that clients needed to participate.

Traditional Welfare group members who were mandatory for IMPACT were not assessed for assignment to the Placement Track or Basic Track. These clients, in general, were less likely to be assigned to IMPACT activities.

Client Flow as Experienced by the Later Cohort

Intake and random assignment. Beginning in mid-1998, FSSA switched from a dual worker approach to an integrated caseworker model (as described in section 2.1). Instead of a PAC determining eligibility and an FCC arranging for IMPACT services, an integrated FCC performed both functions.

To strengthen distinctions between the Welfare Reform and Traditional Welfare groups, DFC changed random assignment in several ways beginning in March 1998. First, DFC narrowed random assignment from statewide to twelve counties. Second, a "control specialist" staff position was created to work exclusively with Traditional Welfare group clients and ensure that the message those clients received was not tainted by welfare reform. Finally, DFC moved up the point of random assignment from benefit authorization to application, so that applicants in the Traditional Welfare group could be routed immediately to control specialists and avoid exposure to the welfare reform message.

IMPACT. Effective July 1997, the Basic Track was abolished, and all mandatory Welfare Reform group members became subject to Placement Track policies. Most local offices, however, continued to use the detailed client assessment to help FCCs develop self-sufficiency plans. FCCs still referred clients to contracted service providers for job search,

[7] Basic Track clients developed an "employability plan," and Placement Track clients used a "self-sufficiency plan," which was a slightly different and newer version of the basic employability plan.

[8] Education was typically reserved for Basic Track clients who had been in an educational activity and could continue to show they were making satisfactory progress.

although more than half of FCCs surveyed in 1999 and 2001 reported that they tended to oversee the job search process themselves. In contrast to the first few years of welfare reform, contractors at this time were more likely to provide additional case management services, including soft-skills training and assistance with job retention.

Control specialists did not refer Traditional Welfare group members to IMPACT. Participation in IMPACT activities was voluntary for this group.

2.3 Implementation of Welfare Reform Policies and Services

This section describes how Indiana implemented its welfare reform policies for sanctions, time limits, and PRA provisions.

Sanctions

When Indiana first implemented welfare reform, sanctions were considered a critical tool for motivating recipients. According to the State's 1995 welfare reform training manual, "one of the cornerstones of Indiana's welfare reform package [is] the more stringent sanction policy…" During the first few years of welfare reform, high sanction rates were viewed positively as a sign that welfare reform had "teeth." Between State fiscal years 1994 and 1995, as the welfare caseload decreased, sanctions increased markedly (from 917 to 7,810).

As caseloads dwindled and remaining clients were thought to have greater barriers to employment, central office staff came to view high sanction rates as a sign of system failure, not system success. In mid-1997, the central office began telling local offices that nonparticipation was a signal that local staff had failed to address clients' barriers and that sanctions should be enforced only as a last resort.

It is unclear, however, whether the change in message from the central office reduced the rate at which FCCs sanctioned clients. Analyses of sanction data for the early Indiana cohort show no decrease in IMPACT sanction rates over time among clients still active on TANF.[9] Further, when FCCs were surveyed in 1999 about their likelihood of sanctioning clients,

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[9] Unfortunately, the recording of sanctions in ICES was discontinued in 1998, as part of an effort to streamline reporting requirements for FCCs.

compared with two years earlier (i.e., before the shift toward a more conciliation-oriented sanction approach), FCCs' responses were distributed evenly across a 1 to 5 scale, with 44 percent answering that they were equally likely to sanction.[10] If FCCs' tendency to sanction did not decrease, it was not because the central office failed to send the message to FCCs; interviews with staff showed that front-line workers were aware of the central office's desire to deemphasize sanctions.[11]

FCCs' use of sanctions was not due to a belief that such sanctions were highly effective in changing clients' behavior. As shown in Exhibit 2.1, FCCs typically did not attribute noncompliance to the existence of barriers that prevented client from participating—close to half (43 percent) indicated that was "rarely" or "never" a reason for clients' noncompliance. Instead, FCCs were much more likely to attribute noncompliance to a client's own personal assessment of the costs and benefits of being sanctioned for noncompliance versus meeting IMPACT participation requirements. Almost three-quarters (72 percent) of FCCs surveyed in 1999 thought that clients "often" or "always" accepted sanctions in order to spend their time as they liked, and 61 percent thought noncompliant clients "often" or "always" viewed IMPACT participation rules as too much of a hassle for the additional cash benefit received.

In addition, FCCs frequently mentioned in interviews that noncompliance was motivated by clients' desire to stay home with their children, remain in school, or avoid putting an SSI benefit application at risk of denial. FCCs also noted that clients often worried more about their loss of Medicaid and other supportive services than about a reduction in their monthly cash benefit.

When asked about alternative sanction policies, most FCCs were supportive of a graduated penalty that would begin with the existing policy of removing of the adult portion of the TANF grant and increase to full-family sanction (i.e., termination of the grant for the entire family). In terms of whether this policy would strengthen Indiana's welfare reform program and help clients get jobs and become self-supporting, 60 percent of FCCs surveyed in 2001 thought

[10] The 2001 FCC staff survey showed continuing variation in sanction practices across workers. For example, 44 percent of FCCs reported that they were "likely" or "very likely" to impose a sanction the first time a client failed to cooperate with IMPACT program rules, while 36 percent reported being "unlikely" or "very unlikely" to do so.

[11] Nevertheless, some local offices undertook special efforts to contact sanctioned clients or give clients additional chances to come into compliance. DFC offices in some study counties added payment points for sanction resolution into contracts with IMPACT service providers. Provider staff tried to re-involve sanctioned clients by sending letters, making phone calls, and conducting home visits. Interviews with front-line staff, office administrators and supervisors, and service providers indicated widespread agreement that efforts to move sanctioned clients back into compliance were typically fruitless.

Exhibit 2.1

FCC Perceptions of Clients' Reasons for Noncompliance With Employment and Training Requirements

Reason for Clients' Noncompliance	"Often" or "Always"	"Sometimes"	"Never" or "Rarely"
Wanting to spend time as they like	72.4%	23.8%	3.7%
Perception that IMPACT participation rules are too much of a hassle to bother with and belief that they can get by without the assistance	61.2	35.0	3.7
Not believing that they will be sanctioned	25.2	50.0	24.7
Having barriers to participation that they could not overcome	9.7	47.7	42.6

Source: FCC Staff Survey, fall 1999.

the policy change would be "helpful" or "very helpful." FCCs were less supportive of an immediate full-family sanction—over half (54 percent) characterized an immediate sanction as "not helpful," while another 20 percent thought it would be "somewhat helpful."

Time Limits

Even though Indiana grants few extensions to its 24-month case head time limit and the time clock is automatic in ICES, only a small proportion of adults have reached the time limit. As shown in the next chapter, by the end of the fifth year after random assignment, only about seven percent of Welfare Reform group members in the first-year cohort (4,300 out of 63,233) had reached the time limit.

The primary reason such a small percentage of adults reach the limit is that a large majority of adults spend less than two years on the rolls. For example, approximately half of the early cohort and 60 percent of the later cohort had left welfare by the end of the first year. (The proportion was higher for the later cohort because it included a smaller percentage of clients at risk of long-term receipt.)

FCCs reported that they discussed the time limit policy with clients at eligibility determination and again at each six-month eligibility redetermination. A little over one-third (36 percent) of FCCs surveyed in 2001 also noted "sometimes" discussing with clients the option of voluntarily closing their TANF case in order to save months on the clock, and about one-fourth (24 percent) reported "rarely" or "never" discussing this option with clients. Some IMPACT providers said they talked about the time limit with clients in hopes of motivating them to take advantage of the services available.

Although DFC intended time limits to be a key element of welfare reform, local-level staff and supervisors interviewed during the first round of site visits (in spring 1996) reported that the time limit did not appear to motivate clients to move off welfare. In subsequent site visit interviews and in a fall 1999 staff survey—at which time more than 1,000 clients had reached the time limit—staff still believed that the time limit neither motivated clients to participate in work activities nor added a sense of urgency for clients or staff. Only 22 percent of FCCs in the 1999 survey "agreed" or "strongly agreed" that the time limit motivated clients to leave welfare.

Several factors may account for the time limit's failure to strongly affect clients' motivation. First, workers indicated that clients were too focused on day-to-day life challenges and the immediacy of participation requirements to seriously consider the time limit. Second, most front-line staff maintained that clients often did not fully understand how the time limit worked. Of FCCs surveyed in 1999, for example, only 36 percent "agreed" or "strongly agreed" that TANF clients fully understood how the time limit affected their grant, and another 30 percent responded neutrally on this issue. In 2001, FCCs reported in site visit interviews and the final staff survey that many clients still did not grasp the significance of the time limit or have a clear sense of how much time remained on their 24-month clock. Levels of understanding also varied among the IMPACT client focus group participants. Some clearly understood the time limit policy rules (e.g., "…you personally lose your benefits after two years, but your children can still receive benefits"). Others were somewhat confused as to the official policy, offering opinions such as "you can stay on cash only one year" or "you can stay on assistance as long as you are doing what [they tell you]" or "I understand you can get benefits as long as you meet the poverty guidelines."

A final reason the time limit may not have strongly affected clients' behavior is that the limit applied to only the adult portion of the grant, making it equivalent to a $90 per month sanction. Staff noted that a sizable proportion of clients reaching the time limit were in sanction status. For sanctioned clients, the time limit has no additional financial effect; the $90 time limit reduction just replaces the $90 sanction.[12]

FCCs felt that a full-family time limit would have been more effective than the case head limit. Sixty-one percent of respondents to the 2001 FCC survey indicated that a time limit that affects the entire grant, not just the adult portion, would be "helpful" or "very helpful." This is the same proportion that favored a gradual sanction policy culminating in a full-family sanction, and higher than the proportion favoring an immediate full-family sanction.

[12] Adults reaching the 24-month time limit continued to be categorically eligible for Medicaid, unless they were in sanction status.

Personal Responsibility Provisions

The Personal Responsibility Agreement (PRA) signed by Welfare Reform group members included school attendance and immunization requirements, a family cap, and rules concerning minor parent living arrangements.[13] Failure to sign or comply with the PRA resulted in a partial sanction of the family grant. Unlike the IMPACT work-related provisions, the "personal responsibility" provisions did not require a significant change in program operations, staff responsibilities, or client flow.

Personal Responsibility Agreement. The PRA is intended to make clients aware that in exchange for receiving assistance they are expected to meet certain responsibilities. The agreement emphasizes self-sufficiency and outlines the welfare reform program requirements. As of June 1997, the terms of the PRA were broadened to include a requirement that parents provide a safe and secure home environment—one free of domestic violence, child abuse or neglect, and use of illegal drugs or other substance abuse. Parents were required to sign the PRA within 30 days of authorization for cash assistance. Because the eligibility determination process involves a significant amount of information and paperwork for clients and staff, the PRA typically received little attention from either staff or clients. Most workers reported spending only a few minutes on the PRA during the eligibility interview.

School attendance. Because of the large number of school districts in the State and the wide variation in school attendance policies across districts, the central office gave local offices considerable flexibility in designing procedures to implement the school attendance requirement. Local offices varied in the extent to which they established procedures to coordinate with schools to exchange information and provide guidance on verification and monitoring practices. In June 1997, the State helped standardize implementation of the school attendance requirement by defining excessive absences as more than three unexcused absences in a grading period and strengthened sanctions for failure to comply.

Immunization requirement. To improve child well-being and promote parental responsibility, the PRA requires adult recipients to submit proof that the standard childhood immunizations of their young children (aged six and under) are up-to-date. Medical

[13] Effective May 1995, to be eligible for cash assistance, minor parents under the age of 18 were required to live with a parent, legal guardian, or other related adult or in an adult-supervised living arrangement Effective May 1997, eligibility was no longer extended to minors living with a non-related adult in a supervised, supportive living arrangement. Unlike the other personal responsibility provisions discussed in this section, eligibility provisions relating to minor parents were not part of the experiment and applied to all minor parents, not just those assigned to the treatment group.

documentation of immunizations is required at the first re-determination after authorization for cash assistance and at each subsequent re-determination.[14] This requirement posed no significant implementation issues.

Family cap. Indiana included a "family cap" on welfare benefits based on concern about out-of-wedlock childbearing and a desire to promote personal responsibility. The family cap eliminates the increase in benefits resulting from the birth of an additional child if the mother is receiving cash assistance.[15] Beyond informing applicants of this requirement, workers had to do little to implement the family cap provision, which was enforced primarily by an automated system.[16]

In general, the work-related aspects of Indiana's welfare reform initiative played a far more prominent role than the personal responsibility provisions. When FCCs were asked in the 2001 staff survey which welfare reform policy they emphasized most when first meeting with a TANF client, almost half (47 percent) said "the importance of getting a job." Between 50 and 75 percent of FCCs reported that they "strongly emphasized" the welfare reform policies related to work, including the importance of getting a job, the work participation requirement, the time limit, and sanctions for noncompliance with IMPACT rules. The personal responsibility provisions received less emphasis, with only 30 to 40 percent of FCCs reporting that they "strongly emphasized" the school attendance requirement, immunization requirement, and family cap.

2.4 IMPACT Program Implementation: Work Activities and Services

The menu of program activities and supportive services for IMPACT participants changed little during the demonstration period. The content and sequencing of program components, however, varied over time, due to shifting service strategies and new contract agreements. The exact mix of work-related services provided in an area also depended in part on

[14] Good cause exemptions to the immunization requirement are allowed based on religious or medical considerations.

[15] The benefit cap does not apply to children conceived as a result of incest or sexual assault or to those conceived in a month the family did not receive cash assistance. Nor does it apply to the first-born children of minor mothers already receiving cash assistance or to children who do not reside with a parent.

[16] Although the automated system prevented FCCs from applying the family cap to parents in the Traditional Welfare group, about 36 percent of Traditional Welfare group members in the first-year cohort reported that case workers told them about the family cap (compared with 56 percent of Welfare Reform group members).

community size and the supply of contractors. This section first describes the major IMPACT work activities and then describes the core supportive services.

Work Program Components

The major IMPACT work activities were unsubsidized employment; job search, job club, and job readiness workshops; and education and training. In addition, from 1998 on, IMPACT providers were increasingly likely to provide job retention and advancement services, case management (sometimes referred to as mentoring), and intensive up-front assessments.

Unsubsidized employment. IMPACT clients may fulfill their work participation requirement by working in an unsubsidized job, and most clients did so. For example, in FY 2000, almost 88 percent of clients participating in work activities were, in fact, engaged in unsubsidized employment (U.S. Department of Health and Human Services 2002 Table 3:6:b).

Although Indiana kept the traditional AFDC disregard until July 2000, its "fixed grant" and "zero grant" policies were work incentives. (See Chapter 1 for a description of these policies.) The State eliminated the fixed grant policy in June 1997 and in July 2000 replaced the zero grant policy with an expanded earned income disregard that enabled recipients to combine employment with case assistance grants (and supportive services) until earnings reached the federal poverty level. In the 2001 staff survey, less than eleven percent of FCCs said they "strongly emphasized" the earned income disregard policy.

Job search and job club activities. Job search and job club activities varied widely in format and content across counties and sometimes even across providers within counties. A typical sequence involved one to two weeks of "job club," with practical job search group sessions, combined with individual job search activities. Contractors often provided two to three weeks of additional job search assistance after the classes. According to focus group participants, individualized and interactive job club and job search sessions were most helpful and were far more motivating than self-directed activities (e.g., requiring clients to sit around a table and review classified ads).

Job readiness and life skills instruction. In addition to providing clients job search assistance, IMPACT service providers typically offered job readiness and life skills instruction. Job readiness and life skills activities varied in length, content, and format. Most ranged from 10 to 20 hours over a period of one to two weeks and often were conducted with job search and job club, assessment, and short-term training (such as keyboarding and computer training).

Some job readiness and life skills classes focused on traditional topics such as completion of job applications, resume writing, interviewing techniques, career exploration, job search, and job retention. As local offices focused more on up-front services, providers modified their job readiness curriculum to address topics such as expectations of employers; group dynamics; appropriate workplace behavior; conflict resolution; goal setting; time, money, and stress management; coping skills; and problem solving (e.g., having a plan if the car won't start or the babysitter is sick).

Intensive assessment. Beginning in July 1998, many counties added an intensive assessment as part of an effort to address the needs of hard-to-serve clients. Some DFC offices felt that the standard assessment administered during IMPACT intake was insufficient for identifying "hidden" barriers hindering clients' efforts to work.

The intensive assessments varied in complexity and content. Most covered standard issues such as work history, medical history, education, family income, living arrangements, but often in greater detail than the initial assessment. Intensive assessments also sometimes included standard educational assessment tools or career interest inventories as well as screening for barriers such as substance abuse, domestic violence, and depression.

Examples From the Field

In-Depth Assessments

- Beginning in State fiscal year 1999, most IMPACT contracts in Marion County included new payment points for an intensive assessment. Providers conducting the assessment were also responsible for recommending subsequent services and activities based on assessment findings. Assessment results and next steps were then discussed at a "three-way case conference" that included the FCC, the client, and the provider. The three-way conference was generally considered very useful, but the county was concerned that providers too often recommended themselves as providers to clients, even when another provider might have been more appropriate. The Marion County DFC office therefore modified the assessment component of IMPACT contracts so that a provider could conduct assessments or provide other IMPACT services, but not both. In addition, the DFC office required that assessments be completed by staff qualified to conduct psychosocial assessments.

- In Madison County, FCCs referred selected clients—generally those who had difficulty keeping jobs or appointments and who might have hidden barriers to employment—to receive a standardized family development assessment (called the Family Assessment Matrix). A service provider administered this specialized assessment during a one- to three-hour home visit. The assessment scaled and scored all components of a client's day-to-day life. A summary was then shared with the FCC to aid in decisions regarding next steps. The case manager responsible for conducting the assessment continued to meet with the client every 30 to 60 days to monitor and record progress. Additional payment points were based on the client's advancement from one level of accomplishment to the next.

Education and training. Although education and training were not the predominant focus under Indiana's work first program, they were never entirely eliminated and, in fact, were expanded toward the end of the study period. For example, more than half of the study counties included short-term vocational training or education (e.g., GED or literacy instruction) in their IMPACT contracts for 2000–2001. In addition, in federal FY 2000, more IMPACT clients participated in education and training than in job search (U.S. Department of Health and Human Services 2002, Table 3:6:a and 3:6:b). In contrast, there were virtually no contracts for education and training during the first two years of welfare reform, when nearly all IMPACT clients were steered into job search and unsubsidized employment.

Under DFC policy, work participation requirements could not be met through education and training alone. Staff opinion was split almost evenly about whether less restrictive education and training rules would help. Of FCCs surveyed in 2001, about half thought fewer restrictions on participation in education or training would be "helpful" or "very helpful," while slightly more than one-fourth believed fewer restrictions would not help.

Job retention, wage progression and career advancement. Indiana's work first approach broadened over time to include a stronger focus on job retention. Local offices structured contracts to include more payment points for job retention and wage advancement, rather than initial job placement. Job retention payment points were also commonly stretched over longer periods of time (i.e., paying more for jobs kept for longer durations). In addition, providers received larger payments for clients who found higher paying jobs and for increases in clients' wage rates.

Ongoing case management served as the primary job retention strategy. Although the intensity and duration of job retention case management efforts varied across providers, many reported attempting to stay in contact with clients who had found jobs and were available to provide post-employment troubleshooting and support. Some providers reported keeping in touch with employed clients who had been off welfare for up to six months or even a year. Such contact was usually frequent at first (at least monthly) but diminished over time.

Job retention became a more common topic in job readiness classes. For example, job readiness classes began to address skills and behavior associated with job retention, such as punctuality and reliability and how to handle difficult job or personnel situations. Some providers offered career advancement workshops with strategies for moving up in the job. Some sites also coordinated with local DOL-funded Welfare to Work grant initiatives or Workforce Investment Act programs as a resource for referrals for additional services and, in some cases, skills training for eligible employed workers to help them progress in their jobs.

Despite the emphasis on job retention and wage advancement, services designed to achieve these outcomes remained relatively undeveloped, and tangible examples of their implementation were uncommon. Service provider staff and FCCs agreed that more needed to be done in the area of job retention. For example, 72 percent of FCCs surveyed in 1999 "agreed" or "strongly agreed" that "more attention and services should be directed toward helping TANF clients retain jobs."

In 2001, 86 percent of surveyed FCCs reported that they thought more emphasis on and services to improve job retention and job advancement would be "helpful" (44 percent) or "very helpful" (42 percent) in strengthening Indiana's welfare reform program and helping clients get jobs and become self-supporting. More FCCs supported an increase in these types of services over any possible policy change identified in the survey, including less restriction on IMPACT rules regarding education or training and stricter sanctions and time limits.

Core Supportive Services: Child Care, Transportation, and Medical Assistance

The IMPACT program offered subsidies for a wide range of services to improve clients' ability to participate in work-related activities and make a successful transition from welfare to work. Program administrators, front-line staff, and client focus group participants all viewed supportive services as both an integral part of the IMPACT program and critical to the program's success. Focus group participants tended to value child care, transportation assistance, and medical assistance above all other IMPACT services. This section reviews major developments and implementation issues relating to the provision of these three core supportive services.

Child care. When first implemented in 1995, Indiana's welfare reform program lowered the age of the youngest child exemption from work participation requirements but made no significant changes in the financing, administration, or delivery of child care subsidies. Child care assistance for welfare recipients (and low-income working families) did, however, change in several important ways in response to the passage of the PRWORA in 1996.

Prior to 1996, FCCs authorized child care payments for current and former recipients through the Guaranteed Child Care (GCC) and Transitional Child Care (TCC) Programs.[17] Separate funding streams—the Child Care and Development Block Grant (CCDBG) and Title IV–A At-Risk—provided child care subsidies to low-income working families through a relatively new voucher system administered by local Step Ahead Councils and their contracted voucher agents.

PRWORA combined the two primary sources of federal child care funding for low-income families (i.e., IV–A At-Risk and CCDBG) with child care funding targeted to TANF recipients and those transitioning off TANF (i.e., GCC and TCC) into a single block grant, the Child Care Development Fund (CCDF). PRWORA also allowed states to transfer up to 30 percent of TANF funds to CCDF. Indiana opted to make the maximum TANF transfer to child care, a sum that ranged from $42 to $56 million between fiscal years 1997 and 2001. Total child care expenditures in Indiana increased by approximately 120 percent.[18]

[17] TCC provided up to one year of child care subsidies for recipients who left TANF due to work.

[18] Calculation using *2001 State Fiscal Year Demographic Trend Report*. Division of Family and Children Selected Assistance Programs. Section G Child Care/First Steps, January 2002.

These funding stream changes prompted DFC to change the delivery structure for child care assistance for welfare recipients at the local level. In the spring of 1997, the local entities then responsible for administering low-income child care (voucher agents chosen by Step Ahead Councils) assumed day-to-day administrative responsibility for the consolidated CCDF, which included TANF child care formerly administered by the local DFC offices. Although there were transitional adjustments, the procedures and systems necessary to operate the consolidated child care system were generally reported to be running smoothly by fall 1998.

DFC staff and voucher agent staff expressed mixed views on the consolidation of the child care subsidy system under local voucher agents, and satisfaction with the performance of local voucher agents varied across offices. Some viewed the consolidation as creating a "one-stop shopping" environment for child care, which ultimately produced a more seamless child care system than the former bifurcated model. Consolidation also freed FCCs from a time-consuming and tedious task to spend more time working with clients on other issues.

What IMPACT clients say about supportive services….

"Child care and transportation – that's the most important [work-related service] because without transportation you can't get to your job and without child care you can't go to your job."

"Transportation assistance under IMPACT used to be $500, but now it's raised to $1500 per year. That's real good. They'll take care of your car repairs but only if you get insurance and plates."

"Child care assistance is great! My child care was paid for the day I signed up and I didn't have to worry about it."

At the same time, obtaining child care subsidies became more cumbersome for IMPACT clients because FCCs were no longer able to directly handle the child care piece of a client's IMPACT package. Instead, clients were required to meet with the child care voucher agent staff in addition to IMPACT staff and to deal with an additional bureaucracy to accomplish what had been part of FCCs' casework responsibilities. Some FCCs also believed that the new arrangement made DFC staff less knowledgeable about child care eligibility issues affecting their clients.

Transportation assistance. The key forms of transportation assistance provided under IMPACT during this period were bus tokens, bus passes, and mileage reimbursement. Such assistance was available to clients actively engaged in an IMPACT activity and continued as a transitional supportive service for the first 90 days after employment. While highly regarded by clients as a valuable form of help, transportation assistance could not make up for a general lack of public transportation. Because so many areas of the State lacked public transportation systems and many areas with public transportation had limited bus routes and hours of service, public transportation simply was not a viable option for many clients. Most local office directors surveyed in 1997 (84 percent) considered lack of transportation a "definite" or "serious" problem for clients attempting to become self-sufficient.

The central office made several efforts to more fully address clients' transportation problems. In SFY 1998, for instance, the State set aside $5 million for special one-time "barrier-busting" contracts to fund local DFC initiatives that addressed barriers to employment through services not covered under standard IMPACT contracts. Local offices had considerable latitude in deciding which barriers to address, but most targeted transportation issues. For example, many initiatives focused on helping clients buy and maintain automobiles or on developing reduced-cost auto insurance programs, auto loan programs, and auto donation and refurbishment programs.[19]

After exhausting the one-time barrier-busting grants, some counties continued working on their own "best practices" in transportation. Cass County, for instance, used the Cass Area Transit (CAT), a local van service available to clients through vouchers provided by DFC, while an IMPACT contractor in Vanderburgh County referred clients to a local community agency that provided transportation assistance when the city bus system was unavailable. As part of its job search assistance, one Marion County IMPACT contractor provided van service to transport clients to potential employers.

Medicaid. Welfare reform in Indiana did not change the medical assistance benefits available to welfare recipients through Medicaid. All families eligible to receive TANF were also eligible for Medicaid, and families who left TANF due to earnings were eligible (subject to income eligibility guidelines) for an additional year of transitional Medicaid coverage. Employed IMPACT participants who took part in focus groups in 1999 and 2000 emphasized the value of the medical assistance they received, both for themselves and for their children. Such participants described the importance of their own transitional Medicaid and expressed

[19] The primary vehicle asset limit of $1,000 meant that most automobiles owned by clients were old and unreliable.

appreciation that their children remained eligible for Medicaid even if the adult head of household was sanctioned for noncompliance.

Although not part of the State's formal welfare reform program, the extension of health coverage to uninsured, low-income children— through Medicaid expansions and implementation of the State Children's Health Insurance Program (SCHIP), enacted as part of the Balanced Budget Act of 1997—was an important development. For welfare families making the transition to work, this extension of health coverage made it possible for children to retain medical assistance coverage even after the transitional Medicaid period ended.

The Medicaid expansions and Hoosier Healthwise—Indiana's combined SCHIP and Medicaid program—were implemented in phases. In May 1997, Medicaid eligibility was extended to include all children up to age 18. Effective October 1998, Medicaid was expanded to children below age 19 with family incomes of up to 150 percent of the Federal Poverty Level (FPL). Beginning in January 2000, SCHIP coverage was expanded to include children with family incomes between 150 and 200 percent of the FPL.

Additional supportive services. Contractors could use IMPACT funds to provide a variety of other supportive services—such as help paying for work clothing, union dues, occupational licenses, equipment, and tools. These kinds of supportive services were made available on a case-by-case basis. The annual allowable payment for specific categories of supportive services varied over time. Such amounts were generally considered adequate to meet client needs, other than car expenses.[20]

2.5 Conclusion: Addressing Current Challenges

Indiana's strict work first approach during the first few years of welfare reform was viewed as an effective model for helping job-ready clients find employment. Over time, however, several issues have arisen:

- How can the work first approach be broadened effectively to include additional supports and strategies for recipients who are hard-to-employ?

[20] Both the types of support services allowed and payment maximums were reduced in December 2001.

- What methods effectively increase job retention and promote career advancement?
- How should staffing, types of services provided, and service delivery contracts be improved to best meet the needs of current and former welfare recipients?

Welfare agencies in many states are grappling with these same issues.

Case management. Consolidating TANF eligibility and welfare-to-work responsibilities was a major undertaking for DFC. Despite consensus that the integrated case management model is superior in theory, front-line workers reported that taking over eligibility responsibilities had severely limited their ability to provide intensive case management and service coordination. Integrated FCCs who also have non-TANF eligibility responsibilities appear to face even greater pressures in this regard. A small-scale time allocation study could help determine the validity of staff perceptions on this matter. Additional training on identifying barriers, relationship building, case planning skills, and service coordination with outside providers might also be useful. DFC might consider a more formalized team approach, involving closer coordination between FCCs and contract provider staff to ensure that intensive case management services are being provided in a coordinated manner.

Contract service providers. Indiana has relied heavily on outside providers for its welfare-to-work services, an arrangement that gives in-house staff access to services and expertise not found within their own agency. At the same time, reliance on outside providers complicates the welfare service delivery system, heightening the importance of coordination and ongoing monitoring of providers' performance to ensure that clients do not fall through the cracks. Performance-based contracts that include employment-related performance measures have played an important part in the service delivery system. However, given the challenges of serving clients with multiple barriers to employment, contracts may need to include an even greater mix of outcome measures, including non-employment criteria.

Fiscal constraints. The immediate future of Indiana's welfare reform heavily depends on how long the current adverse fiscal situation in Indiana continues and how serious that situation becomes. Significant reductions in public services already have led to difficult decisions regarding what aspects of TANF (as well as the Child Care Development Fund) should change in order to achieve budget savings. Unfortunately, the most significant current challenge to welfare reform in Indiana is not how best to expand the mix of welfare reform-related services being provided but how to preserve the progress made to date during a period of budget retrenchment.

STEP: Up Front Crisis Intervention

Implemented in October 2000, the Short-Term Empowerment Process (STEP) was designed as an up-front crisis intervention strategy to address the short-term needs of job-ready or employed families with dependent children. The central office created the program's basic guidelines but left specific design decisions and implementation up to local DFC offices. After soliciting input from community partners, each county developed a STEP Plan detailing eligibility requirements, service delivery, and planned collaboration and coordination with other service agencies in the community.

The central office required every county to include certain elements and follow specific requirements in their STEP Plan: financial eligibility requirements could range from 100 to 250 percent of the Federal Poverty Guidelines; the basic service maximum was limited to $1,500 per family per year; benefits could be paid for no more than a 30-day period from the date of application; and a family could receive services only once in a twelve-month period. Eligible families could receive non-medical services or products (not cash) that would enable them to directly address or avert a crisis that would result in the loss of the individual's ability to keep or accept employment. Counties also had to document coordination of service delivery with other community partners to ensure that there would be no duplication of services, and all other possible community resources had to be exhausted prior to the use of STEP services.

Most local DFC offices kept responsibility for STEP in-house. A few counties created payment points to allow IMPACT service providers to work with STEP clients on their employment situation while FCCs handled financial assistance. All counties included payments for auto repair; transportation-related expenses; clothing, uniforms, and shoes; shelter-related expenses; tools and equipment; utility and telephone expenses; books and manuals; health, beauty, and personal needs (non-medical); and union dues and professional license fees.

Initially, families receiving STEP were also permitted to receive any other assistance (e.g., TANF, Food Stamps) for which they were eligible. Consequently, in some counties, the majority of STEP recipients were also TANF clients. In March 2001, the central office decided that TANF recipients should not be eligible to receive STEP assistance, in part due to the perception that STEP funds were being used to supplement IMPACT supportive services. With the change in eligibility requirements, many counties found it increasingly difficult to locate individuals who were eligible for STEP.

STEP received mixed reviews from DFC staff in the study counties. Some felt they were providing valuable services to clients in need, while others felt constrained by program guidelines that dictated what expenses were allowable and what services could be provided. Many staff also found it difficult to establish the link between the provision of services and the client's ability to accept or retain employment. As a result, significant portions of STEP funds went unused in some counties.

After much deliberation, the STEP program was terminated effective November 15, 2001.

Chapter 3

Characteristics and Program Experiences of Participants

This chapter addresses the experiences of welfare recipients from the beginning of welfare reform in Indiana, in May 1995, through June 2001. We examine impacts on participation in employment and training activities and receipt of educational credentials. We also present information on the proportion of sample members in the Welfare Reform group who reached the time limit, were sanctioned, or had a family cap birth. Together, the results in this chapter are an attempt to characterize the differences in the experiences of the Welfare Reform and Traditional Welfare groups. These differences in experiences are posited to be the source of the impacts presented in Chapter 4. In other words, Chapter 3 presents evidence on the *net treatment* received by the Welfare Reform group as a result of the demonstration.

Most of the analyses presented focus on the first-year cohort of enrollees, the group for which we have the most follow-up information. Early enrollees include all 66,440 single-parent families statewide (63,223 in the Welfare Reform group and 3,217 in the Traditional Welfare group) who received TANF during the first year of the program (May 1995 through April 1996). Later enrollees include 4,954 single-parent families (3,863 in the Welfare Reform group and 1,091 in the Traditional Welfare group) most of whom were approved for TANF during the fourth year of the program (March 1998 through February 1999). Unlike the first-year cohort, the later enrollees experienced only the policies that followed changes Indiana introduced in June 1997.

The analyses in this chapter are based primarily on data from the Indiana Client Eligibility System (ICES), supplemented by data from the five-year client follow-up survey.

Summary of Key Findings

On average, the adults in both the early and later cohorts were overwhelmingly female, in their mid-20s, with fewer than two children, the youngest of whom was pre-school age. A majority of sample members had never been married, were white, had a high school credential, and were employed at some time during the five calendar quarters preceding random assignment but had very low earnings.

More than 70 percent of Welfare Reform group members in the first-year cohort participated in an employment or training activity at some time while receiving cash assistance. Unsubsidized employment was by far the most frequent activity.

For both the first-year and later cohorts, Indiana's program produced positive and statistically significant impacts on overall IMPACT participation rates and on rates of participation in each of the three IMPACT activity types: unsubsidized employment, job search or job readiness, and education. The largest impact was for job search or job readiness.

Participation impacts were larger for the later cohort than the first-year cohort for all activity types except unsubsidized employment. Impacts were larger for the later cohort because participation rates in job search and education for Traditional Welfare group members in the later cohort were almost zero, as a result of a 1997 decision to discontinue referring Traditional Welfare group clients to the IMPACT program.

Only about seven percent of Welfare Reform group members reached the 24-month time limit within five years of follow-up. The percentage is low because most individuals subject to the time limit left welfare before reaching the 24-month limit and because prior to June 1997, the time limit applied to less than one-fifth of the Welfare Reform group.

Compared to the their likelihood of reaching the time limit, Welfare Reform group members were twice as likely to have had a family cap birth. This impact understates the relative effect of the family cap somewhat because close to 25 percent of families with a family cap birth had more than one such birth.

For the first-year cohort, Personal Responsibility Agreement (PRA) sanctions were more likely to be applied than the family cap or the 24-month time limit. For the later cohort, families were as likely to have a PRA sanction as a family cap birth.

The next section of this chapter examines the baseline characteristics of sample members in the two cohorts studied in this report. Next, we look at impacts on rates of participation in employment and training activities, based on administrative records and survey data. Section 3.3

examines the proportion of Welfare Reform group members who reached the time limit, were sanctioned, or had a family cap birth during the study period.

3.1 Characteristics of Participants at Demonstration Enrollment

A snapshot of the sample at the time of their enrollment—that is, the month of random assignment, which is the evaluation's "baseline"—provides a useful context for understanding both who was subject to welfare reform and what the impacts of welfare reform were (such impacts are presented in the next chapter). We can examine baseline characteristics for the entire population, without regard to Welfare Reform versus Traditional Reform group status, because random assignment guarantees that only small chance differences exist at baseline.

On average, adults in both the early and later cohorts were overwhelmingly female, in their mid-20s, with fewer than two children, the youngest of whom was pre-school age (Exhibit 3.1). A majority of sample members had never been married, were white, had a high school credential, and had worked at some time during the five calendar quarters preceding random assignment. However, earnings in the year before random assignment were low: median earnings were about $1,000 for the entire year.

As expected, the first-year and later cohorts differed substantially in the length of time they were on cash assistance prior to random assignment. The later cohort, comprised solely of applicants, had almost no recent prior spells of welfare receipt.[1] In contrast, about 70 percent of the first-year cohort had spells of welfare receipt prior to random assignment. Clients in the first-year cohort were also more likely than later cohort clients to be classified as "mandatory" for IMPACT participation at enrollment (57 percent versus 44 percent). The differences may exist because early enrollees had somewhat older children, making them less likely than later enrollees to be initially exempt from IMPACT in order to care for a very young child.[2,3]

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1 The sample for the later cohort was defined to include only those who had not received cash assistance since May 1995, when Indiana's welfare reform began.

2 Prior to July 1997, single parents were generally exempt from IMPACT if their youngest child was under age 3; effective July 1997, the exemption was restricted to those with children under age 1.

3 Before June 1997, mandatory clients underwent a further assessment. The service emphasis for job-ready clients assigned to a "Placement Track" was on activities leading to rapid job placement, and these clients also were subject to a 24-month time limit on the adult portion of cash assistance. The remaining mandatory clients, assigned to a "Basic Track," were to receive more help with remedial education and employment preparation and were not subject to time limits. As of June 1997, Indiana ended the two-track approach and extended work first and time limits to all mandatory clients.

Exhibit 3.1
Characteristics of Indiana Single-Parent Families in the Month of Demonstration Enrollment

Characteristic at Baseline	Early Cohort	Later Cohort
Gender		
Female (%)	97	95
Male (%)	3	6
Client's Age		
<19 (%)	6	12
19-22 (%)	16	23
23-29 (%)	36	30
30-35 (%)	22	17
35+ (%)	20	18
Average	28.6	27.2
Median	27.2	25.1
Number of Children		
1 (%)	49	63
2 (%)	30	24
3 (%)	14	9
4 or more (%)	7	5
Average	1.8	1.6
Median	2.0	1.0
Age of Youngest Child		
<1 (%)	20	36
1-2 (%)	27	22
3-6 (%)	22	16
6-12 (%)	22	20
13-17 (%)	9	6
Average	4.8	3.9
Median	3.2	2.0
Marital Status		
Never married (%)	59	64
Ever married (%)	41	36
Race		
White (%)	58	53
African American (%)	38	41
Other (%)	5	6
Years of Education		
Less than12 (%)	41	44
12 or more (%)	59	57
Quarters Worked of Five Preceding Random Assignment		
0 (%)	38	42
1-3 (%)	35	30
4-5 (%)	26	28

Exhibit 3.1 (continued)

Characteristic at Baseline	Early Cohort	Later Cohort
Earnings in Year Prior to Random Assignment		
Average	$2,799	$3,753
Median	$992	$1,032
Length of Previous AFDC or TANF Spell in Months		
0 (%)	32	95
1-3 (%)	16	2
4-12 (%)	16	2
12+ (%)	36	1
Average	8.4	0.7
Median	5.0	0.0
Ongoing or Applicant status		
Ongoing (%)	64	0
Applicant (%)	36	100
County		
Lake (%)	20	0
Marion (%)	22	43
Other (%)	59	57
Mandatory or Exempt Status		
Mandatory (%)	57	44
Exempt (%)	43	56
Placement or Basic Status[a]		
Placement Track (%)	27	NA
Basic Track (%)	28	NA
Mandatory, not assigned (%)	45	NA
Sample size	66,640	4,954

Sources: Administrative records from the Indiana Client Eligibility System and Indiana Unemployment Insurance earnings records.

Note: Percentages may not sum to 100 due to rounding.
[a] Percentages apply only to mandatory Welfare Reform group members

The geographic distribution of sample members differed across cohorts because the first-year cohort was statewide and the later cohort was restricted to twelve counties. Indianapolis (in Marion County) was included in the later cohort, but Gary (in Lake County) was not.

3.2 Participation in Employment and Training Activities

As described in Chapter 2, the IMPACT program was the primary vehicle for Indiana's implementation of the work first approach. With the advent of welfare reform, Indiana increased client participation in IMPACT, strengthened sanctions, emphasized unsubsidized employment and job search over education and training activities, and more closely monitored the performance of contractors delivering services. This section presents IMPACT participation rates—overall and by activity type—for Welfare Reform and Traditional Welfare group members in both cohorts.

Overall, more than 70 percent of Welfare Reform group members in the first-year cohort participated in an employment or training activity at some time while receiving cash assistance (Exhibit 3.2).[4] Unsubsidized employment—shown in the lower left graph in Exhibit 3.2—was by far the most common activity.[5] Eighty-five percent of Welfare Reform group clients who participated in an IMPACT activity worked in an unsubsidized job.[6] To a greater extent than most states, Indiana has emphasized unsubsidized employment over other work activities and education and training.[7] This emphasis has existed since the beginning of Indiana's welfare reform. Initially, each of the State's 92 counties had job placement quotas, and the DFC central office closely monitored performance against these quotas. Indiana's strong economy also made it easier for clients to find entry-level jobs during the early years of welfare reform.

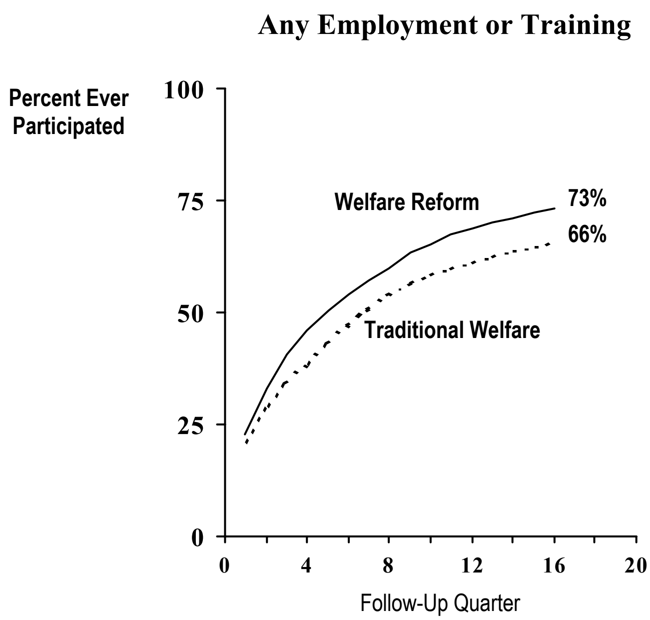
4 The rates shown in Exhibits 3.2 and 3.3 are for the full sample, not just initially mandatory clients but also those who were initially exempt. Participation rates were higher for mandatory than for initially exempt clients during the early follow-up period, but rates for the two groups converged somewhat over time.

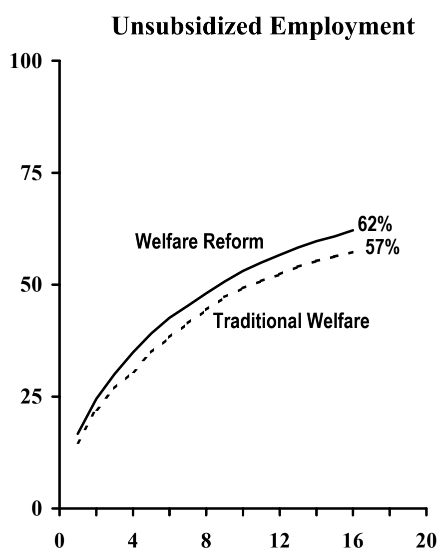
5 Even though clients may have found unsubsidized employment without help from the IMPACT program, we define unsubsidized employment as an IMPACT activity for purposes of this analysis because it was the goal of the IMPACT program and because clients could meet the IMPACT participation requirement by working.

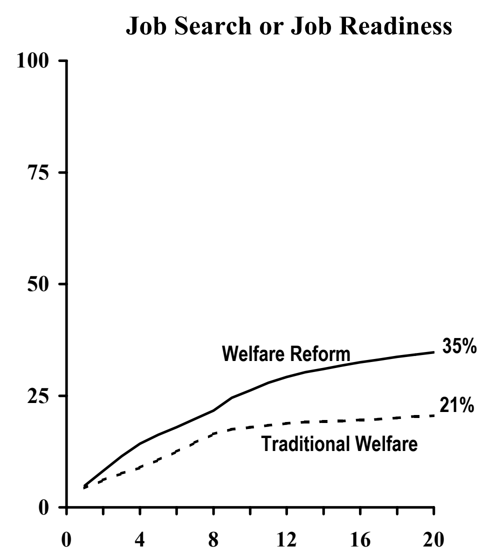
6 This figure is calculated by dividing the percent who worked while on welfare (62) by the percent who participated in any employment or training activity (73).

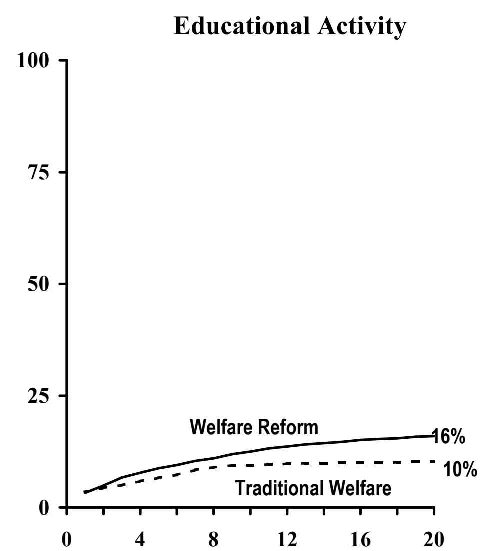
7 For example, according to HHS's most recent annual report to Congress on the TANF program, only three other states (Delaware, Iowa, and Michigan) had comparably high proportions of clients in unsubsidized employment (among all clients participating in a work activity; see US DHHS 2002, Table 3:4:b).

Exhibit 3.2
Cumulative Participation in IMPACT (E&T) Activities for Welfare Reform and Traditional Welfare Group Members
First Year Cohort









Source: Indiana Client Eligibility System administrative records
Notes: a. Sample size is 66,440 (63,233 Welfare Reform and 3,217 Traditional Welfare Group members).
b. "Any employment or training activity" includes unsubsidized employment, job search or job readiness, and educational activities.
c. Unsubsidized employment data are available only through quarter 16.
d. A 2-tailed t-test was applied to differences between the treatment and control groups. Statistical significance levels are indicated as: ***=1 percent; **=5 percent; and *=10 percent.

Job search or job readiness was the next most common IMPACT activity, and education was the third most common. About one-third of Welfare Reform group members in the first-year cohort participated in job search or job readiness at some time during the five-year follow-up period, and only one in six was involved in an education activity.[8] The mix of activities clearly reflects Indiana's work first emphasis.

Indiana's program produced positive and statistically significant impacts on IMPACT participation rates overall and for each of the three activity types shown in Exhibit 3.2.[9] The largest impact was for job search or job readiness, for which the Welfare Reform group's participation rate was 14 percentage points higher than the rate for the Traditional Welfare group (35 compared to 21 percent). The impact on unsubsidized employment while on welfare was smaller (five percentage points), which explains the narrower overall impact (that is, the impact on "any employment or training activity"). The positive effects on IMPACT participation lead us to expect positive impacts on employment and earnings; Chapter 4 presents results for these outcomes.

Employment and training sanction rates. Indiana's program also increased sanction rates for noncompliance with IMPACT participation requirements. After two and a half years, ten percent of Welfare Reform group members had been sanctioned, compared to five percent of Traditional Welfare group members (not shown in an exhibit). Sanction impacts were statistically significant in each follow-up quarter.[10]

Impacts for the later cohort. Results for the later cohort, shown in Exhibit 3.3, are similar. Welfare reform generated statistically significant effects on IMPACT participation in every follow-up quarter, overall and for each of the three activity types. Unsubsidized employment was the predominant activity, with job search or job readiness second and education third. The largest impact was on job search or job readiness.

Participation impacts were larger for the later cohort than for the first-year cohort—overall and for each activity type except unsubsidized employment. The impacts were larger for the later cohort because participation rates in job search and education for Traditional Welfare group members were almost zero, as the result of a 1997 DFC decision to discontinue referring

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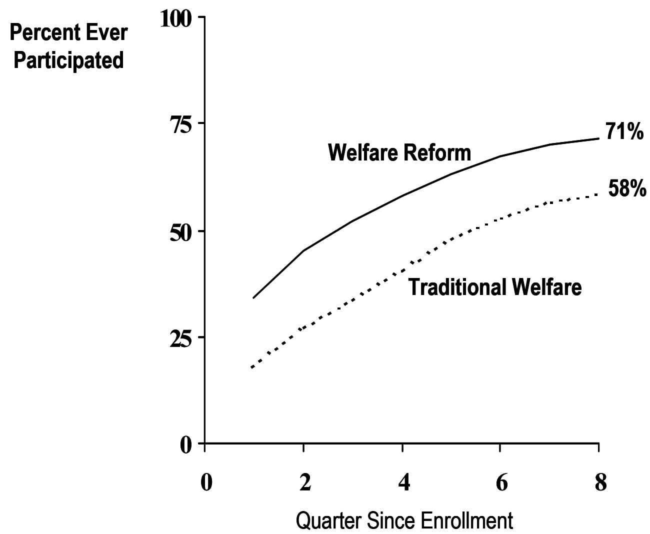
8 The overall participation rate is less than the sum of the rates for individual activities because some individuals participated in more than one type of activity.

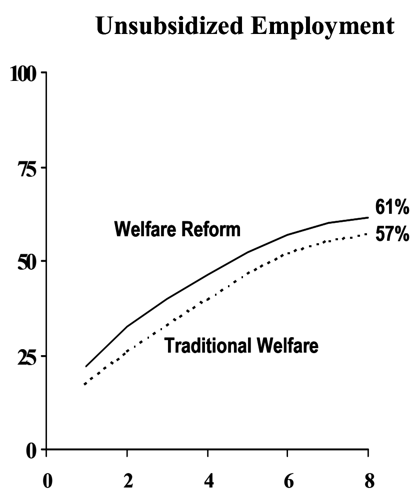
9 Impact estimates were statistically significant for every follow-up quarter.

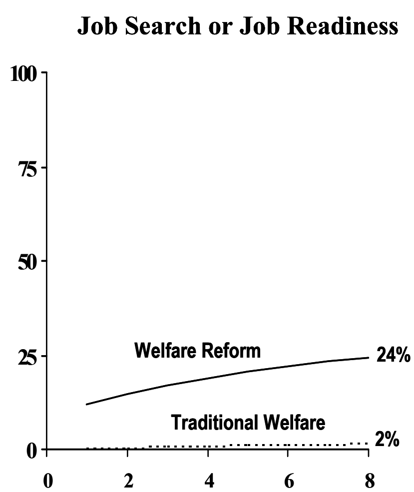
10 Because of changes in ICES, sanction data are available for the first-year cohort for only the first ten follow-up quarters. Sanction data are not available for the later cohort.

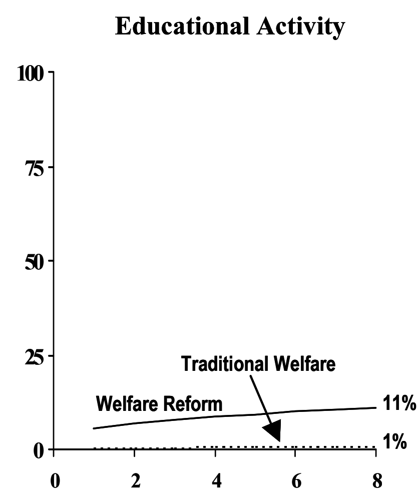
Exhibit 3.3
Cumulative Participation in IMPACT (E&T) Activities for Welfare Reform and Traditional Welfare Group Members
Later Cohort

Any Employment or Training Activity









Source: Indiana Client Eligibility System administrative records.

Notes: a. Sample size is 4,954 (3,863 Welfare Reform and 1,091 Traditional Welfare group members).
b. "Any employment or training activity" includes unsubsidized employment, job search or job readiness, and educational activities.
c. A 2-tailed t-test was applied to differences between the Welfare Reform and Traditional Welfare groups. Statistical significance levels are indicated as: ***=1 percent; **=5 percent; and *=10 percent.

Traditional Welfare group clients to the IMPACT program.[11] As a result, unsubsidized employment accounts for virtually all of the IMPACT participation for the Traditional Welfare group.

The larger E&T impacts for the later cohort might lead one to expect larger impacts on employment and earnings for that cohort as well. If, however, impacts on employment and earnings are driven primarily by one work activity—unsubsidized employment—then one would not expect larger impacts, because the later cohort did not have larger impacts than the first-year cohort on this work activity.

Another striking difference between the two cohorts is the higher rate of unsubsidized employment for the later cohort. By the eighth follow-up quarter (the last quarter for which data are available for the later cohort), unsubsidized employment rates were 61 percent, compared to 48 percent for the first-year cohort (in the Welfare Reform group). The *impact* was not larger for the later cohort, because the Traditional Welfare group also had a comparatively high rate of unsubsidized employment. Participation rates for job search and education, on the other hand, were similar across the two cohorts.

Survey measures of education and training activities. The results above measure only E&T activities occurring through the IMPACT program (and measured by administrative data). The five-year client follow-up survey provides more comprehensive measures of education and training, because the survey questions covered all such activities, within and outside IMPACT.

According to the survey measures, about half of the survey sample—which is representative of the first-year cohort—participated in an education or training activity at some time during the five years following random assignment (Exhibit 3.4, top row).[12] The most frequent activities were basic education and vocational training. Including vocational training as education,[13] slightly more than 40 percent of the sample participated in education at some time

[11] The State adopted the "no IMPACT services" policy for the Traditional Welfare group in order to provide a clearer experimental distinction and simplify field procedures. The policy has remained in effect since the third quarter of 1997.

[12] Although this rate appears lower than the overall administrative measure in Exhibit 3.2, the administrative measure includes unsubsidized employment and the survey measure does not. As expected, removing unsubsidized employment from the administrative measure yields an overall rate substantially lower than the survey estimate.

[13] The survey defined vocational training as "classes to help you train for a particular job or career like, for example, classes to be a certified nurse's assistant."

Exhibit 3.4
Survey Measures of Participation in Education or Training Activities For Welfare Reform and Traditional Welfare Group Members First-Year Cohort

Outcome	Welfare Reform Group	Traditional Welfare Group	Difference
Participated in any education or training activity (%)	54.1	49.6	4.5**
Participated in:			
Job search (%)	17.8	14.1	3.7**
Basic education (%)	23.2	24.0	-0.7
Vocational training (%)	26.6	22.5	4.1**
Post-secondary education (%)	5.2	5.1	0.1
On-the-job training (%)	13.4	9.8	3.6***
Sample size (total = 2,359)	1,159	1,200	

Source: Five-year client follow-up survey.

Note: A two-tailed t-test was applied to differences between the Welfare Reform and Traditional Welfare groups. Statistical significance levels are indicated as ***=1 percent; **=5 percent; *=10 percent.

after random assignment (not shown in the exhibit).[14] The survey measures also show that welfare reform produced positive impacts on vocational training, on-the-job training, job search, and overall participation in education and training.

Compared to the administrative data, the survey measures reveal higher rates of participation in education activities, suggesting that many participants pursued education on their own, outside the IMPACT program. The job search rates indicated by the survey data, however, were lower than those based on the administrative data, perhaps because job search activities were of short duration and not sufficiently substantial for some sample members to recall. Both survey and administrative data showed positive impacts on E&T participation.

The proportion of sample members who received degrees or certificates following random assignment was substantially lower than the proportion who participated in education (Exhibit 3.5). This difference may reflect the fact that most low-income single parents in school need to attend part-time, which means obtaining a degree may take many years. Close to ten percent of the Welfare Reform group received a high school diploma or GED following random assignment, and almost five percent received a post-secondary degree. Welfare reform increased the proportion receiving a high school diploma, although the increase was mostly offset by a decrease in the proportion receiving a GED. (The former impact is statistically significant, and the latter is not.) Welfare reform also increased the proportion of sample members who received a trade license or certificate (from approximately ten percent to 13 percent).

3.3 Time Limits, The Family Cap, and PRA Sanctions

This section discusses the proportion of Welfare Reform group members in both cohorts who reached the time limit, had a family cap birth, or were sanctioned for noncompliance with the PRA. Results are not presented for Traditional Welfare group members because they were not subject to any of these policies and their rates are virtually zero.[15] Therefore, the impact of

[14] The estimate of slightly more than 40 percent cannot be derived from Exhibit 3.4 because some individuals participated in more than one education activity; therefore, adding rates in Exhibit 3.4 involves some double counting.

[15] From the outset, ICES has consistently prevented workers from implementing grant reductions for time limits, PRA sanctions, or the family cap for the Traditional Welfare group. Analyses of ICES data confirm that ICES programming effectively shielded the Traditional Welfare group from implementation of these benefit reduction policies. ICES data indicate that the policies were applied to a very small proportion—generally 1 percent or less—of Traditional Welfare group members, presumably because they joined the cases of Welfare Reform group members.

Exhibit 3.5
Receipt of Education Credential Since Random Assignment
For Welfare Reform and Traditional Welfare Group Members
First-Year Cohort

Outcome	Welfare Reform Group	Traditional Welfare Group	Difference
Received high school diploma (%)	4.5	3.0	1.5*
Received GED (%)	4.3	5.5	-1.2
Received associate’s degree (%)	2.9	3.4	-0.5
Received bachelor’s degree (%)	1.5	0.9	0.6
Received graduate degree (%)	0.2	0.2	0.1
Received trade license or certificate (%)	12.6	10.2	2.4*
Sample size (total = 2,359)	1,159	1,200	

Source: Five-year client follow-up survey.

Note: A two-tailed t-test was applied to differences between the Welfare Reform and Traditional Welfare groups. Statistical significance levels are indicated as ***=1 percent; **=5 percent; *=10 percent.

these policies—for example, the difference in the proportion of Welfare Reform and Traditional Welfare group members reaching the time limit—is measured by the rate for the Welfare Reform group alone.[16]

The consequence of each of the three policies is a reduction in the TANF grant by about $90 per month (compared to what the grant would have been in the absence of the policy). However, the policies differ in the length of the reduction: the time limit and family cap reductions are permanent, while the PRA sanction lasts until it is remedied. In addition, the time limit and PRA reductions are fixed at $90, while a family cap reduction can be a multiple of $90 if a family has more than one child subject to the cap. (For example, a family with two family cap births would have a grant reduction of $180.)

The most direct expected effect of these policies was a negative impact on TANF payments. The policies could make some families more likely to leave welfare; however, even if the policies induced no increase in exits, we would expect a reduction in average TANF payments. The combined effect on TANF payments of the policies is additive, in the sense that a family could be affected by two or even all three policies.

Time limit. Indiana's welfare time limit eliminates the adult's portion of the cash grant after 24 months. Before June 1997, the State's policy was to count every month against this limit once the TANF enrollment "clock" began ticking, even when enrolled families were not actually receiving cash assistance. The time limit initially applied to only the subset of mandatory clients assigned to the Placement Track. In June 1997, the State's time limit policy was revised to count only months in which families received cash assistance. The limit was also extended to all mandatory clients. Indiana chose not to implement the federal five-year time limit until its waiver expired in April 2002.[17]

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[16] Because random assignment status was usually not yet known for applicants at the initial interview with a case worker, our early site visits found case workers informing some Traditional Welfare group families that they were subject to welfare reform policies. Case workers informed all applicants of these policies to avoid the need for Welfare Reform group members to make a separate office visit. In response to this problem, the central office moved the point of random assignment so that Traditional Welfare group status was known in the initial interview. The central office also established specialized "control group" case workers to ensure further that Traditional Welfare group clients would be correctly informed about the policies to which they were subject. Although the behavior of applicants in the Traditional Welfare group may have been affected by the incorrect message from case workers, ICES prevented the policies from being applied to the Traditional Welfare group.

[17] Prior to the 1996 federal welfare reform law, states could implement welfare reform policies if they received a waiver of the AFDC law from the U.S. Department of Health and Human Services. Under the federal welfare reform law, states are allowed to continue preexisting waivers, even if such waivers are inconsistent with the federal law. These "waiver inconsistencies" are limited to the duration of the waiver. Indiana's waiver expired in April 2002.

Only a fairly small proportion—about seven percent—of Welfare Reform group members reached the 24-month time limit within five years of follow-up (Exhibit 3.6, top left graph). Two primary factors account for the low proportion: (1) most individuals subject to the time limit left welfare before the 24-month limit was reached; and (2) until June 1997, the time limit applied to less than one-fifth of the Welfare Reform group (namely, those who had been assigned to the Placement Track). Indiana granted few extensions to the time limit.

For the later cohort, only two percent had reached the limit by the end of the eighth follow-up quarter (Exhibit 3.6, bottom left graph). A very small proportion (about one percent) appears to have reached the time limit *before* the eighth follow-up quarter. These clients may have had some months of cash assistance receipt prior to the month they entered the sample, although ICES extracts for the evaluation showed no prior months.

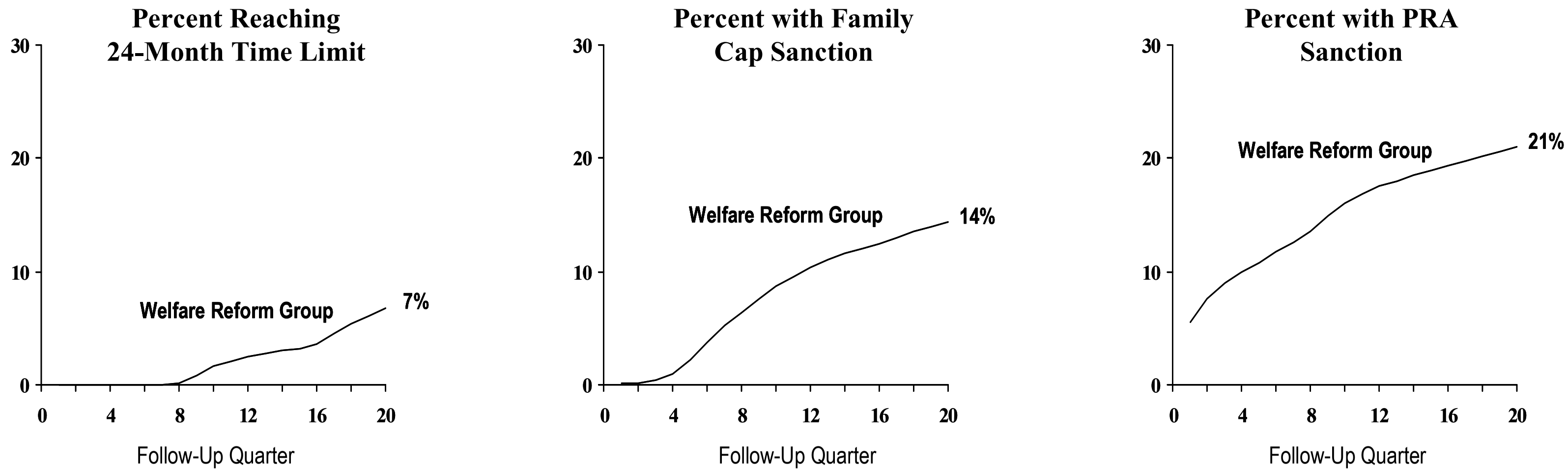
Family cap. Compared to their likelihood of reaching the time limit, Welfare Reform group members in the first-year cohort were twice as likely to have had a family cap birth (seven percent versus 14 percent) (Exhibit 3.6, top left and middle graphs). This difference understates the relative effect of the family cap somewhat because close to 25 percent of families with a family cap birth had more than one such birth. Perhaps the main reason the family cap proportion is higher than the time limit proportion is the fact that the family cap applies to all families, mandatory and exempt.

In the later cohort, families had cap births at roughly twice the rate of the earlier cohort. In follow-up quarter 8, the family cap child rate was 13 percent in the later cohort, compared to six percent in the first-year cohort. The higher rate likely results, in part, from the fact that adults in the later cohort were more likely to have children because they were somewhat younger and had fewer children at random assignment than adults in the first-year cohort. The higher rate is not due to later cohort families remaining on welfare longer; the later cohort had higher exit rates than the early cohort. The higher rate also is not due to stronger enforcement of the family cap, because it was applied automatically in ICES, rather than at the case worker's discretion.

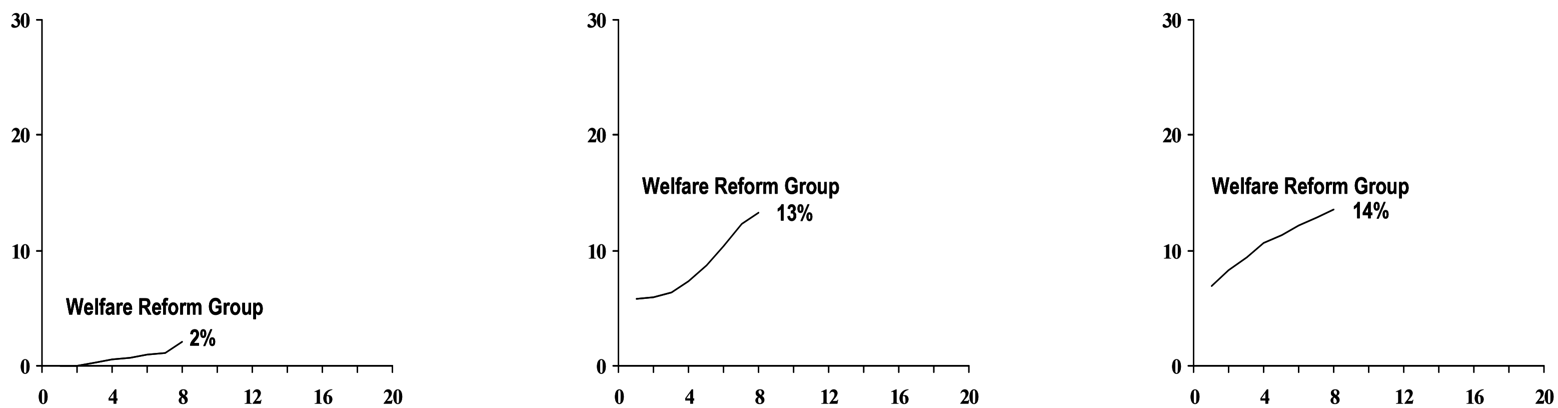
In both cohorts, the proportion of cases with family cap births is higher than the proportion of adults reaching the time limits. Therefore, the cap policy likely had a larger impact than the time limit on welfare payments.

Exhibit 3.6
Cumulative Percent of Welfare Reform Group Members Reaching the Time Limit, Having a Family Cap Birth, and Sanctioned for PRA Noncompliance

First-Year Cohort



Later Cohort



Source: Indiana Client Eligibility System administrative records.

Notes: a. Sample size is 63,233 Welfare Reform group members for first-year cohort, and 3,863 Welfare Reform group members for later cohort.
b. A 2-tailed t-test was applied to differences between the treatment and control groups. Statistical significance levels are indicated as: ***=1 percent; **=5 percent; and *=10 percent.

PRA sanctions. PRA sanctions applied to a higher percentage of the first-year cohort than the family cap or the time limit. By the last quarter of year 5, 21 percent of Welfare Reform group members had been sanctioned for PRA noncompliance, compared to 14 percent who had had a family cap birth and seven percent who had reached the time limit. In addition, PRA sanctions were applied earlier in the follow-up period; the PRA sanction rate at the end of year 1 was ten percent, compared to one percent for the family cap and zero for the time limit. Comparing rates among the three policies, however, may overstate the significance of PRA sanctions somewhat because, unlike the family cap and time limit, PRA sanctions could be remedied. As a result, adults sanctioned for PRA noncompliance may have experienced welfare grant reductions for fewer months, on average, than those who reached the time limit or had family cap births.

The rate of PRA sanctions was very similar across cohorts. By contrast, family cap births were twice as high in the later cohort as in the first-year cohort. Unlike the family cap and time limit, which were applied automatically in ICES, PRA sanctions were applied somewhat at the discretion of case workers. Comparable rates across cohorts, therefore, may indicate that case workers were no less likely to sanction in the later years of the study period.

Summary. Because the proportions of cases with PRA sanctions and family cap births were higher than the proportion reaching the time limit, it is likely that the former policies had a larger impact on TANF payments than the time limit. Based on when the three policies affected cases, the PRA sanction may have had a relatively important effect on TANF payments in the first year of follow-up, while the family cap and PRA sanctions were more important in later years. The time limit may have had its largest effect in year 5, because a larger proportion of sample members reached the limit that year than in earlier years.

Chapter 4

Five-Year Impacts on Clients Enrolled in the First Year

The goals and policies of Indiana's Family and Social Services Administration (FSSA) have been consistent since the program's beginning in 1995: to reduce clients' reliance on welfare and increase their reliance on work as a source of income. The key components of FSSA's approach have been a strong work first focus by case managers, strict enforcement of employment and training requirements (while providing necessary supportive services), and application of sanctions and a two-year case head time limit. These policies have been in place since the program began in 1995; policy changes since then mainly broadened the applicability of existing policies to a larger proportion of the caseload.[1]

Evidence from random assignment evaluations of other welfare reform programs has shown that work first approaches can increase employment and earnings and decrease use of public assistance. This report on the impacts of Indiana's program contributes to existing research in several ways. Indiana is the largest state to randomly assign all welfare recipients statewide, resulting in a very large sample size (more than 66,000 families in the first-year cohort). The impact findings cover a relatively long follow-up period (five years for the first-year cohort), and extend through mid-2001. Finally, Indiana's program had a more lenient approach to sanctions and time limits than most other states.[2] Indiana had no sanctions or time limit that caused involuntary closure of a TANF case.[3] Therefore, the findings presented in this report address the question of whether work first can work without the threat of involuntary case closure. This is an important question given research showing that sanction and time limit policies are more likely to be applied to relatively disadvantaged welfare recipients (Bloom and Winstead 2002).

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[1] The most important policy change since 1995 was a more generous earnings disregard that took effect in July 2000. This change, however, likely had little effect on the findings presented in this chapter because it took effect near the end of the five-year follow-up period for the first-year cohort covered in this chapter and after the vast majority of sample members had left public assistance.

[2] Pavetti and Bloom (2001) characterize both Indiana's time limit and sanction policies as relatively lenient.

[3] Although a large number of clients reached the two-year time limit, the limit applied only to case heads, and children remained eligible for TANF. Further, Indiana did not begin counting time against the federal five-year time limit until May 2002.

This chapter presents five-year economic impacts on *all* single-parent families (both IMPACT-mandatory and exempt) who became subject to welfare reform policies during the first year of Indiana's program. Appendix A presents results for two-parent families. The findings in this report exclude cases with no adult eligible for cash assistance at the time of random assignment (that is, child-only cases), because these cases were not subject to Indiana's welfare reform policies.

The impacts presented in this chapter are likely to underestimate the full effects of Indiana's program on this first-year cohort. Evidence from the implementation analysis and from two client surveys suggests that some Traditional Welfare group members mistakenly believed that they were subject to certain welfare reform policies. To the extent that these beliefs affected the behavior of Traditional Welfare group members, impacts are underestimated.[4]

Summary of Key Findings

Indiana's program reduced receipt of TANF and food stamps. Indiana's program reduced TANF payments and TANF receipt for the full sample of single-parent families and for every subgroup examined, and the impacts grew over the five-year follow-up period. The program also reduced food stamp payment and receipt, but the impacts were smaller and did not grow over time. The TANF payment and receipt impacts are probably due mainly to higher earnings among Welfare Reform group members and the two-year time limit on adults' receipt of TANF. The family cap likely also contributed to the impact on TANF payments.

Indiana's welfare reform program increased earnings and employment rates in each of the follow-up years. In percentage terms, earnings impacts were smaller than TANF payment impacts, and roughly in the middle of the range of earnings impacts found in welfare reform random assignment studies in other states. Impacts grew slightly over the five-year follow-up period. The results demonstrate that it is possible for work first programs to increase earnings and employment even under the traditional AFDC disregard and with relatively lenient sanction and time limit policies.

[4] The random assignment design, however, achieved clear distinctions between the Welfare Reform and Traditional Welfare Groups in all welfare reform policies. The two client surveys support this conclusion. In addition, most policies were "hard-wired" in ICES, the computer system that determined eligibility for cash assistance, so that case managers could not apply such policies to families in the Traditional Welfare group.

Welfare reform did not affect total income. Over the five-year follow up, Indiana's program did not produce a statistically significant increase in participants' income, measured either by administrative records or from a client survey. (For two-parent families, however, the program did increase income; see Appendix A.) No significant impacts on income resulted because earnings gains were not large enough to offset reductions in TANF and food stamp payments. The larger earnings disregard that took effect in July 2000 might produce positive impacts on income for subsequent cohorts.

Welfare reform did not affect health insurance coverage rates for adults or children. The Welfare Reform and Traditional Welfare groups did not differ significantly either in the proportion with any insurance or in the proportion with each type of insurance (Medicaid versus other). Adults were much less likely than children to be covered by Medicaid, a consequence of Indiana's low-income ceiling for adult Medicaid eligibility.

The next three sections of this chapter explain the impacts on public assistance, employment, and income, respectively. A subsequent section presents impacts on health insurance coverage for adults and children. A final section discusses policy implications.

4.1 Impacts on TANF and Food Stamp Payments and Receipt

Over five years, for all single-parent families in the first-year cohort, average TANF payments were $1,027 lower for the Welfare Reform group than for the Traditional Welfare group, an impact of about 18 percent (see Exhibit 4.1).[5] In percentage terms, impacts on TANF *receipt* are somewhat smaller than impacts on payments (the right-most column of Exhibit 4.1). Food stamp impacts, shown in the same exhibit, are smaller than TANF impacts. All of the impacts in Exhibit 4.1 are statistically significant.

[5] The *levels* of average payment and receipt shown in Exhibit 4.1 are somewhat higher than those shown in our previous reports because we took a different approach to measuring receipt. This report tracks adults even when they move to a new TANF case, while previous reports captured receipt only in the initial TANF case. The pattern of impacts, however, is very similar for the two approaches.

Exhibit 4.1
Five-Year Impacts on TANF and Food Stamp Receipt for All Single-Parent Families, First-Year Cohort

Outcome	Welfare Reform Group	Traditional Welfare Group	Difference	Percentage Change
Average total TANF payments received, years 1-5 ($)	4,652	5,679	-1,027***	-18.1
Year 1	1,928	2,031	-103***	-5.1
Year 2	1,080	1,242	-162***	-13.0
Year 3	722	930	-208***	-22.4
Year 4	512	780	-268***	-34.4
Year 5	410	696	-286***	-41.1
Received any TANF payments (%)				
Last quarter of year 1	48.9	52.4	-3.5***	-6.7
Last quarter of year 2	32.0	34.6	-2.6***	-7.5
Last quarter of year 3	23.1	27.5	-4.4***	-16.0
Last quarter of year 4	19.0	24.7	-5.7***	-23.1
Last quarter of year 5	16.7	21.9	-5.2***	-23.7
Average number of months receiving TANF payments, years 1-5	16.6	19.1	-2.5***	-13.1
Average total value of food stamps received, years 1-5 ($)	7,547	7,967	-420***	-5.3
Year 1	2,273	2,338	-65***	-2.8
Year 2	1,702	1,812	-110***	-6.1
Year 3	1,363	1,453	-90***	-6.2
Year 4	1,147	1,213	-66**	-5.4
Year 5	1,062	1,150	-88***	-7.7
Received any food stamps (%)				
Last quarter of year 1	66.5	69.0	-2.5***	-3.6
Last quarter of year 2	51.8	54.5	-2.7***	-5.0
Last quarter of year 3	41.8	44.2	-2.4**	-5.4
Last quarter of year 4	34.8	36.3	-1.5*	-4.1
Last quarter of year 5	34.5	36.6	-2.1**	-5.7
Average number of months receiving Food Stamp payments, years 1-5	25.8	27.2	-1.4***	-5.1
Sample size (total= 66,440)	63,223	3,217		

Sources: Indiana Unemployment Insurance earnings records and administrative records from the Indiana Client Eligibility System.

Note: A two-tailed t-test was applied to differences between the Welfare Reform and Traditional Welfare groups. Statistical significance levels are indicated as ***=1 percent; **=5 percent; *=10 percent.

Impacts over time. Looking at impacts *over time* reveals that TANF impacts grew steadily. The time pattern is shown graphically in the top panels of Exhibit 4.2. TANF payments and receipt drop sharply over time for both the Welfare Reform and Traditional Welfare groups, and by the last quarter of year 5, only 17 percent of Welfare Reform group families were still receiving a TANF payment. TANF impacts—the vertical distance between the two lines in each graph—grew over time. In the final year of follow-up, TANF payments for the Welfare Reform group are 41 percent lower than for the Traditional Welfare group. Food stamp impacts, on the other hand, show no evidence of growth over time (see food stamp payment and receipt impacts by year in Exhibit 4.1).

Impacts in other states. The TANF impacts for Indiana's program are larger than those found in comparable experiments conducted in several other states.[6] One reason for the difference may be that, unlike the other states, Indiana did not significantly change its TANF earnings disregard. The lower disregard in Indiana means that earnings increases caused a larger reduction in TANF payments than in other states. The more generous TANF earnings disregard that took effect in July 2000 is likely to reduce the size of TANF impacts for later cohorts.

Subgroup impacts. TANF payment and receipt impacts were widespread, affecting all of the subgroups examined (Exhibit 4.3). In terms of differences *across* subgroups, TANF payment and receipt impacts were smaller for clients who had been working steadily prior to random assignment than for clients with less work experience. In addition, TANF receipt impacts were smaller for applicants than for adults in ongoing cases.

What Policies Are Responsible for TANF Impacts?

A close look at the patterns of impacts in light of evidence from the process analysis suggests that TANF impacts are due primarily to increases in earnings and the two-year time limit, although other policies, especially the family cap, also contributed. This analysis of the reasons for impacts cannot be conclusive, because the evaluation was not designed to measure accurately the effects of individual policies. Rather, it was designed to measure the combined impacts of the entire set of welfare reform policies.

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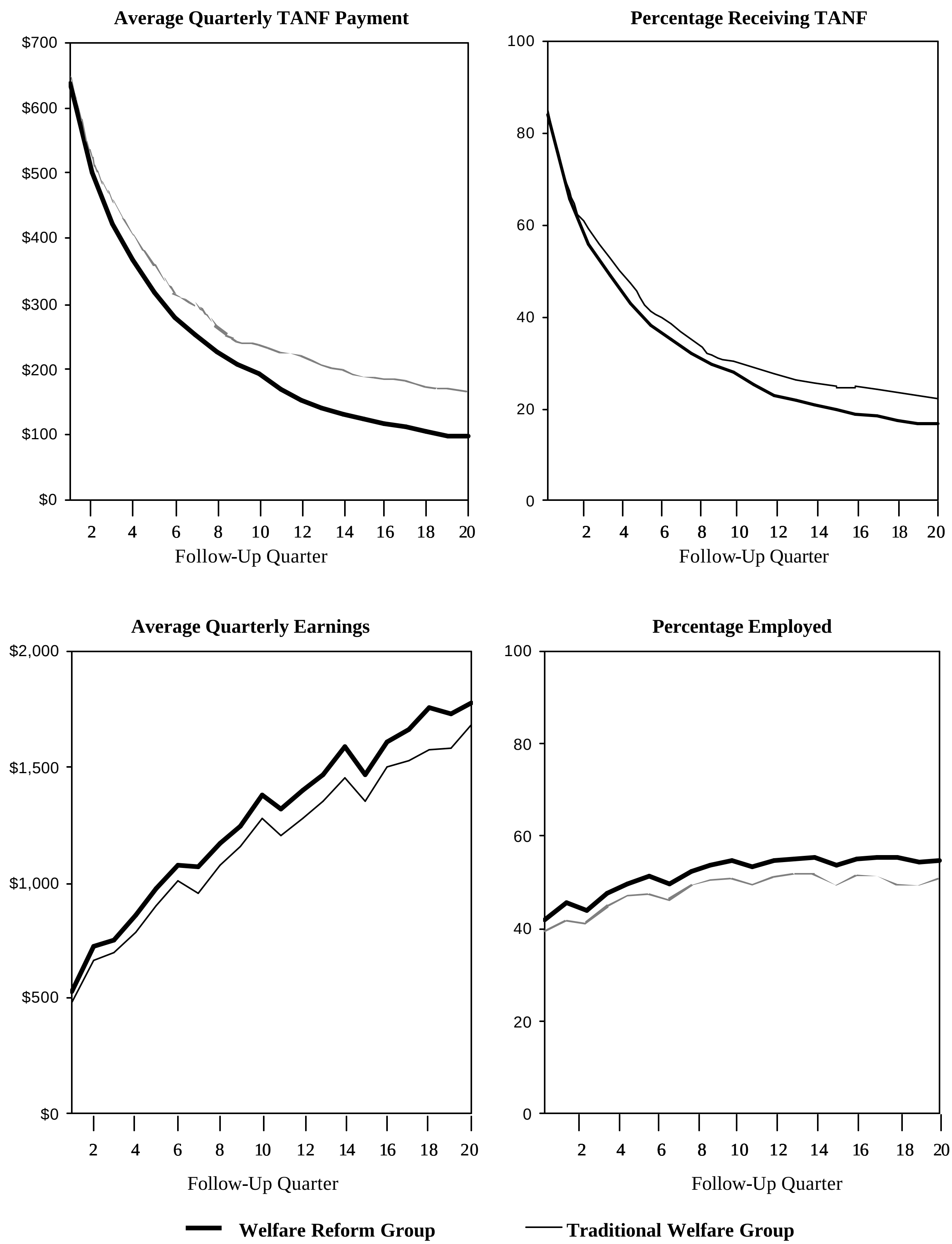
[6] Such states include Connecticut, Iowa, Minnesota, Vermont, and Virginia. TANF impacts in Florida were initially smaller but became comparable in size to Indiana's TANF impacts after Florida families began reaching the State's time limit.

Exhibit 4.2
Average Quarterly TANF Receipt, Earnings and Employment by Welfare Reform/Traditional Welfare Group Status, All Single-Parent Families, First-Year Cohort



Sources: Administrative records from the Indiana Client Eligibility System and Indiana Unemployment Insurance Records.

Exhibit 4.3

Subgroup Impacts on TANF Receipt for Single-Parent Families, First-Year Cohort

		Average Total TANF Payments Received, Years 1-5				Received Any TANF Payments, Last Quarter of Year 5			
Subgroup	**Sample Size**	**Welfare Reform Group**	**Traditional Welfare Group**	**Difference**	**Percentage Change**	**Welfare Reform Group**	**Traditional Welfare Group**	**Difference**	**Percentage Change**
IMPACT (E&T) Status									
Mandatory	37,756	$4,385	$5,473	-$1,088**	-19.9	15.8%	21.7%	-5.9%***	-27.2
Exempt	28,684	5,003	5,961	-958***	-16.1	17.7	22.2	-4.5***	-20.3
Ongoing or Applicant									
Ongoing	42,490	5,086	5,998	-912***	-15.2	16.9	23.7	-6.8***	-28.7
Applicant	23,950	3,884	5,113	-1,229***	-24.0	16.3	18.8	-2.5	-13.3
Work History									
Employed in none of the 5 quarters before enrollment	25,486	5,451	6,585	-1,134***	-17.2	18.0	25.4	-7.4***	-29.1
Employed in 1-3 of the 5 quarters before enrollment	23,438	4,617	5,752	-1,136***	-19.7	17.5	23.3	-5.9***	-25.3
Employed in 4-5 of the 5 quarters before enrollment	17,492	3,537	4,237	-699***	-16.5	13.6	14.6	-1.0	-6.8
County									
Marion County (Indianapolis)	14,319	5,158	6,197	-1,039***	-16.8	19.9	27.7	-7.8***	-28.2
Lake County (Gary)	13,153	6,315	7,325	-1,010***	-13.8	23.2	27.4	-4.2**	-15.3
Rest of the State	38,968	3,906	4,932	-1,026***	-20.8	13.3	17.9	-4.6***	-25.7
Full Sample	66,440								

Source: Administrative records from the Indiana Client Eligibility System.

Notes: (1) A two-tailed t-test was applied to differences between the Welfare Reform and Traditional Welfare groups. Statistical significance levels are indicated as ***=1 percent; **=5 percent; *=10 percent.

(2) Statistically significant impact differences across subgroups are shaded. For example, the impact on TANF receipt in the last quarter of year 5 was larger for ongoing clients than for applicants (-6.8 percent compared to –2.5 percent).

TANF payment impacts are driven primarily by Welfare Reform group members closing their cases sooner than Traditional Welfare group members, rather than by grant reductions while on TANF. Close to three-fourths of the impact on TANF payments results from a decrease in the number of months of receipt, with the remaining one-fourth due to grant reductions.[7] In other words, grant reductions caused by sanctions, the family cap, and the adult time limit are *not* the primary reasons for the impact on TANF payments over the five years of follow-up.[8]

The State's work first approach and two-year time limit probably had the strongest effect on TANF receipt. The work first focus resulted in higher earnings for the Welfare Reform group (shown in section 4.2), which, given the low payment standard and earnings disregard in Indiana, could easily trigger TANF case closures.[9] Although the two-year time limit does not close a TANF case—instead it makes the adult ineligible for TANF, resulting in a permanent grant reduction of about $90 per month—it appears that many clients closed their TANF cases when they reached the time limit. The time pattern of TANF impacts above shows that receipt impacts widened in the quarters after clients began to reach the time limit.[10] The time limit may have been a relatively important cause of TANF receipt impacts late in the follow-up period, while earnings increases may have been a relatively important cause of TANF receipt impacts early in the follow-up period.

Earnings impacts, however, are likely not the *only* cause of TANF receipt impacts during the first two follow-up years, because a few subgroups experienced early reductions in TANF receipt but no corresponding increases in earnings. Because none of Indiana's welfare reform policies actually *force* case closure, some other factor, such as client perceptions of increased "hassle" associated with welfare reform policies, likely contributed to impacts on TANF receipt by making Welfare Reform group clients more likely to close their cases.

As noted above, about one-fourth of the TANF payment impact is attributable to grant reductions among families continuing to stay on the rolls. A number of policies cause grant reductions, including the family cap, the two-year time limit, E&T sanctions, and personal

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[7] The proportion of TANF payment impacts attributable to the decline in the number of months of receipt is calculated as the percentage reduction in months of receipt (13.1, middle panel of Exhibit 4.1) divided by the percentage reduction in payments (18.1, top row of Exhibit 4.1).

[8] It is possible, however, that grant reductions contributed to the impact on receipt by inducing some clients to leave TANF.

[9] Indiana's "zero grant" policy allowed clients to keep their TANF cases open even after earnings reduced their TANF grant amount to zero. Many clients, however, may have chosen to close their TANF case once their grant went to zero rather than continue to use up months on their 24-month time clock.

[10] Responses to a question on a recent client follow-up survey in Indiana suggest that a sizeable proportion of clients mistakenly believed that the two-year time limit applied to the entire case, not just to their portion of the grant.

responsibility sanctions. Modest earnings increases will also cause TANF grant reductions without closing cases. The analysis in Chapter 3 suggests that, on average, the family cap may have been a relatively frequent reason for reduced grants among continuing recipients. The proportion of Welfare Reform group families with a family cap child is larger than the proportion of Welfare Reform group families that were sanctioned or that reached the two-year time limit. Further, sanctions are temporary, whereas the family cap (and the time limit) are permanent. Therefore, even if sanction rates were the same as family cap rates, the family cap would have a larger total effect given its longer duration.

Food stamp impacts. In contrast to TANF payment impacts, impacts on food stamp payments can be attributed almost entirely to food stamp case closures. This is because Indiana's welfare reform policies—such as the time limit, family cap, and sanctions—do not directly affect the food stamp grant. Food stamp case closures are likely caused partly by increases in earnings. TANF case closures also may have led to some food stamp case closures, because recipients may not have been aware of their continued eligibility for food stamps.[11] Unlike TANF impacts, food stamp impacts did not grow over time, which suggests that TANF case closures may have had a limited effect on food stamp case closures.

Food stamp impacts are smaller than TANF impacts for two reasons. First, as noted, Indiana's welfare reform policies affect the TANF grant but have no direct effect on the food stamp grant. Further, the indirect effect of these policies is to automatically *increase* food stamp payments, to partly offset the decrease in income caused by the TANF grant reduction. Second, a higher level of earnings is required to close a food stamp case than a TANF case.

Because the maximum TANF grant amount is relatively low in Indiana, and because food stamp receipt declined more slowly than TANF receipt, food stamp payments were a larger source of income than TANF payments over the follow-up period (compare TANF and food stamp payments in Exhibit 4.1). By follow-up year 5, average food stamp payments for the Welfare Reform group were more than twice as large as their TANF payments.

[11] In detailed interviews with TANF clients in Ohio, California, Florida, and Pennsylvania, Quint and Widom (2001) found that clients often knew little about continued eligibility for food stamps and mistakenly believed that food stamp benefits, like TANF benefits, were time-limited. The authors also found that, as a matter of policy, case managers terminate TANF and food stamp benefits when recipients fail to show up for TANF redetermination.

Summary. Overall, Indiana's program generated widespread reductions in TANF payments. A number of welfare reform components likely contributed to these impacts, including a work first push that led to earnings gains (as shown in the next section), the two-year time limit, and the family cap.

4.2 Impacts on Earnings and Employment

Indiana's welfare reform program increased earnings and employment rates in each of the follow-up years. Over five years, for all single-parent families in the first-year cohort, average earnings were approximately $2,100 higher for the Welfare Reform group than for the Traditional Welfare group, an impact of about nine percent (Exhibit 4.4). Quarterly employment rates were on average 3.5 percentage points higher for the Welfare Reform group than for the Traditional Welfare group, a proportionate impact of about seven percent. Indiana's program increased the proportion of clients who were working and not receiving public assistance (TANF and food stamps) by roughly two percentage points. All of the impacts shown in Exhibit 4.4 are statistically significant. In percentage terms, earnings impacts were smaller than TANF payment impacts.

Impacts over time. The magnitude of the impacts on earnings and employment was fairly constant over the five follow-up years. The bottom panels of Exhibit 4.2 show the time pattern graphically. Earnings and employment impacts—the vertical distance between the two lines in each graph—grew only slightly over time. On the other hand, it is somewhat surprising that employment impacts do not *shrink* over time, as other research on work first and labor force attachment programs has shown a tendency for employment impacts to fade. It may be that employment impacts do not fade in Indiana because employment and training (E&T) participation impacts (shown in Chapter 3) do not fade. It is also possible that the two-year time limit induced additional work effort starting in year 3 that offset the tendency for impacts to fade. Exhibit 4.2 also shows that earnings rose steadily over time for both the Welfare Reform and Traditional Welfare groups. Employment increased more slowly and leveled off by the third year of follow-up. In the last quarter of year 5, 55 percent of Welfare Reform group families were employed.[12]

[12] Employment rates for the last few years of follow-up (shown in Exhibit 4.2), which are based on Unemployment Insurance (UI) wage records, are very close to employment rates measured from the five-year client survey. Survey-reported employment is slightly higher than UI-reported employment for the Welfare Reform group, possibly because certain types of employment are excluded from the UI wage reporting system (or because the survey included some out-of-state respondents, who are not counted as employed in the analysis of Indiana UI wage records). For the Traditional Welfare group, survey-reported employment is virtually identical to UI-

Exhibit 4.4
Five-Year Impacts on Earnings and Employment for All Single-Parent Families, First-Year Cohort

Outcome	Welfare Reform Group	Traditional Welfare Group	Difference	Percentage Change
Average total earnings, years 1-5 ($)	25,649	23,553	2,096***	8.9
Year 1	2,878	2,647	231***	8.7
Year 2	4,304	3,940	364***	9.2
Year 3	5,355	4,929	426***	8.6
Year 4	6,138	5,653	485***	8.6
Year 5	6,889	6,320	570***	9.0
Average quarterly employment rate, years 1-5 (%)	52.0	48.5	3.5***	7.2
Last quarter of year 1	47.6	45.1	2.5***	5.5
Last quarter of year 2	52.3	49.5	2.8***	5.7
Last quarter of year 3	54.9	51.4	3.5***	6.8
Last quarter of year 4	55.4	51.9	3.5***	6.7
Last quarter of year 5	54.6	51.0	3.6***	7.0
Ever employed, years 1-5 (%)	88.5	86.7	1.7***	2.0
Employed and off TANF and food stamps (%)				
Last quarter of year 1	17.1	15.6	1.5**	9.7
Last quarter of year 2	26.4	24.3	2.1***	8.6
Last quarter of year 3	32.5	30.4	2.1**	6.8
Last quarter of year 4	35.0	33.4	1.6*	4.7
Last quarter of year 5	35.9	34.1	1.8**	5.4
Sample size (total= 66,413)	63,197	3,216		

Sources: Indiana Unemployment Insurance earnings records and administrative records from the Indiana Client Eligibility System.

Notes: (1) A two-tailed t-test was applied to differences between the Welfare Reform and Traditional Welfare groups. Statistical significance levels are indicated as ***=1 percent; **=5 percent; *=10 percent.
(2) The sample size for earnings and employment impacts is slightly smaller than the sample size for other impacts because Social Security numbers were missing for 27 sample members; therefore, Unemployment Insurance earnings records could not be obtained for those sample members.

reported employment. The Traditional Welfare group was more likely than the Welfare Reform group to be receiving TANF, and clients on TANF may have been slightly more reluctant than clients off TANF to report employment (Hotz, Mullin, and Scholz 2002).

Impacts in other states. The earnings and employment impacts for Indiana's program are roughly in the middle of the range of earnings impacts found in welfare reform random assignment studies in other states.[13] Other research suggests that earnings incentives, especially when coupled with strong employment mandates, can effectively increase welfare recipients' rate of employment. Indiana had a strong employment mandate but did not substantially change its earnings disregard during the follow-up period covered in this report. The results therefore demonstrate that it is possible for work first programs to increase earnings and employment even under the traditional AFDC disregard. The more generous TANF earnings disregard that took effect in July 2000 may increase the size of employment impacts for later cohorts.

Subgroup impacts. As with TANF impacts, Indiana's welfare reform program produced earnings and employment impacts for nearly every subgroup examined (Exhibit 4.5). Indiana's program produced the largest impacts for the subgroup with the least work history at the time of random assignment: both earnings and employment increased by about 18 percent for this subgroup. When unemployment rates are low—as they were in most of Indiana for the follow-up period—it may be that clients with recent work experience are able to find jobs on their own, and work first services are more helpful to clients who have not worked recently.

Employment impacts differed statistically across subgroups defined by work history, and by county (with the smallest impacts for Marion County).[14]

What Policies Account for Earnings and Employment Impacts?

Analysis of patterns of impacts as well as evidence from the process analysis suggest that earnings and employment impacts are due primarily to clients' participation in employment and training activities and the State's general push for clients to become employed quickly. The other welfare reform policies may not have had strong independent effects on employment, although the two-year case head time limit may have induced additional employment beginning some time during the third year of follow-up. This analysis of the reasons for impacts cannot be conclusive, because the evaluation was not specifically designed to measure accurately the effects of individual policies.

[13] Earnings and employment impacts were larger in Connecticut, Florida, Minnesota, and smaller or of similar size in Virginia, Iowa, and Vermont.

[14] One reason earnings and employment impacts are not larger for clients who were mandatory at random assignment compared to exempt clients is that a large proportion of exempt clients became mandatory over time. Consistent with this, earnings impacts for initially exempt clients are largest at the end of the follow-up period.

Exhibit 4.5
Subgroup Impacts on Earnings and Employment for Single-Parent Families, First-Year Cohort

Subgroup	Sample Size	Average Total Earnings, Years 1-5: Welfare Reform Group	Average Total Earnings, Years 1-5: Traditional Welfare Group	Average Total Earnings, Years 1-5: Difference	Average Total Earnings, Years 1-5: Percentage Change	Average Quarterly Employment Rate, Years 1-5: Welfare Reform Group	Average Quarterly Employment Rate, Years 1-5: Traditional Welfare Group	Average Quarterly Employment Rate, Years 1-5: Difference	Average Quarterly Employment Rate, Years 1-5: Percentage Change
IMPACT (E&T) Status									
Mandatory	37,746	$26,565	$24,673	$1,892***	7.7	53.0%	50.0%	3.0%***	6.0
Exempt	28,667	24,443	22,063	2,380***	10.8	50.7	46.5	4.2***	9.1
Ongoing or Applicant									
Ongoing	42,475	24,801	23,229	1,573***	6.8	50.9	48.0	2.9***	6.1
Applicant	23,938	27,154	24,124	3,030***	12.6	53.9	49.4	4.5***	9.1
Work History									
Employed in none of the 5 quarters before enrollment	25,486	18,681	15,747	2,933***	18.6	37.9	32.1	5.8***	18.0
Employed in 1-3 of the 5 Quarters before enrollment	23,438	24,395	21,929	2,466***	11.2	54.0	51.4	2.6***	5.1
Employed in 4-5 of the 5 quarters before enrollment	17,489	37,570	35,595	1,975*	5.5	69.9	67.7	2.2*	3.2
County									
Marion County (Indianapolis)	14,308	29,199	26,967	2,232**	8.3	57.8	56.6	1.2	2.1
Lake County (Gary)	13,145	21,848	20,153	1,695*	8.4	43.4	38.6	4.8***	12.4
Rest of the State	38,960	25,627	23,433	2,194***	9.4	52.8	48.8	3.9***	8.1
Full Sample	66,413								

Sources: Indiana Unemployment Insurance earnings records and administrative records from the Indiana Client Eligibility System.

Notes: (1) A two-tailed t-test was applied to differences between the Welfare Reform and Traditional Welfare groups. Statistical significance levels are indicated as ***=1 percent; **=5 percent; *=10 percent.
(2) Statistically significant differences in impacts across subgroups are shaded. For example, impacts on the average quarterly employment rate were smaller for Marion County than for Lake County or the rest of the State.

Earnings impacts result primarily from a larger proportion of Welfare Reform group members being employed, rather than from earnings increases among employed clients. About four-fifths of the impacts on earnings is due to an increase in the proportion of clients employed, and about one-fifth is due to higher earnings for employed Welfare Reform group clients, compared to employed Traditional Welfare group clients.[15] This pattern holds true for the full population, and for most subgroups. Other studies of labor force attachment programs tend to show the same pattern, that earnings impacts result mostly from increases in the proportion of clients employed, rather than to increases in the wages of those working. A premise of work first programs is that any employment is good because it is a step on a path to higher earnings.

The major cause of employment impacts is likely impacts on participation in employment and training activities. E&T activities, especially in work first programs, are geared toward finding employment; therefore, impacts on E&T activities should lead to impacts on employment. For the full population of single-parent families in the first-year cohort, steady impacts over time on E&T participation (see Exhibit 3.2) were accompanied by steady impacts over time on employment (Exhibit 4.4). For subgroups, employment impacts are generally larger in quarters and for subgroup categories where E&T impacts are larger. For example, employment impacts for mandatory clients are largest in the first half of the follow-up period, and employment impacts for initially exempt clients are largest in the second half of the follow-up period, which corresponds with when E&T impacts are largest for each of these subgroups.

Given Indiana's strong economy, job placements could be achieved not only through the E&T program but also through less structured approaches, such as cajoling from caseworkers or encouraging local offices to become more oriented toward employment. The central office of FSSA's Division of Family and Children (DFC), for example, established job placement quotas for counties, and evidence from the process analysis (staff interviews as well as a mail survey of the 92 county directors) suggests that both State staff and county DFC directors measured performance against these quotas. The general employment push that occurred outside (as well as within) the E&T program may explain why employment impacts seem broader than what can be explained by E&T impacts alone.

[15] The proportion of earnings impacts attributable to the increase in employment is calculated as the percentage increase in average quarterly employment (7.2, Exhibit 4.4, second panel, top row) divided by the percentage increase in earnings (8.9, Exhibit 4.4, top row).

Indiana's time limit probably was not a major source of employment impacts. The time limit was mild compared to most other states', resulting in only the case head's needs being removed from the grant, the financial equivalent of an approximately $90 per month sanction (albeit a permanent sanction). Employment and earnings impacts materialized early in the follow-up period, well before any clients reached the time limit. Other research suggests that many welfare recipients are not very concerned about time limits before they reach the limit, in part because they do not believe they will be on welfare long enough to reach the limit (Bloom *et al.* 1998). If so, time limits may not strongly affect behavior before clients use up most of their months.

Higher quarterly earnings for working clients, which account for about one-fifth of earnings impacts overall, could be due to clients working more hours in a quarter or to a higher wage rate per hour. Clients may work more hours in a quarter by working more weeks in the quarter or by increasing hours per week for each week worked. The survey data suggest that Welfare Reform group members may have had higher job retention than Traditional Welfare group members, which would be consistent with working more weeks in a quarter. The survey data do not show evidence of an impact on hours per week worked or an impact on wage rates. Indiana's E&T program emphasized job search much more than skills training, and it did not have a goal of placing clients only in high wage jobs; therefore, there is no strong reason to expect an impact on wage rates.

In summary, the earnings impacts observed in Indiana resulted primarily from effects on employment. In turn, the key factors explaining employment impacts are probably participation in Indiana's E&T program and the general thrust of Indiana's welfare reform toward quick employment.

What Types of Jobs Do Welfare Reform Group Clients Have?

Data from the five-year follow-up survey show that sample members who were working tended to work full-time at above-minimum-wage jobs. Exhibit 4.6 shows that, among sample members in the Welfare Reform group who had worked at some time during the two years preceding the survey (83 percent of the Welfare Reform group), the median number of hours worked was 40, and the median hourly wage was $7.50. Among sample members in full-time jobs, the median wage was close to $8.00 per hour. Although not enough by itself to meet living expenses for most families, $8.00 per hour (at 40 hours per week working year-round) is enough to put a mother and two children above the poverty guideline (even before including the Earned

Exhibit 4.6
Selected Characteristics of Current or Most Recent Job, for Welfare Reform Group, First-Year Cohort, Five Years After Random Assignment

	Full-Time Jobs	Part-Time Jobs	All Jobs
Hours worked per week			
Percent working less than 32 hours	0.0	100.0	29.1
Percent working 32 hours or more	100.0	0.0	70.9
Average hours worked	40.8	21.9	35.3
Median hours worked	40.0	24.0	40.0
Hourly wages (for clients reporting an hourly wage)			
Percent earning:			
$6.00-6.99	17.2	29.0	20.6
$7.00-7.99	18.4	15.4	17.5
$8.00-8.99	18.0	10.8	15.9
$9.00-10.99	18.1	9.1	15.5
$11.00 or more	13.6	8.7	12.2
Average wage	$8.24	$7.43	$8.00
Median wage	$7.91	$6.68	$7.50
Fringe benefits			
Percent offered:			
Sick leave	46.0	18.3	37.7
Vacation	68.5	31.8	57.6
Of those offered health insurance, percent declining	41.3	69.1	45.2
Percent declining health insurance because of:			
Cost	28.1	36.3	29.9
Not having worked long enough	37.6	21.0	34.0
Having other coverage	22.6	19.9	22.1
Other	11.6	22.7	14.1
Sample size	670	275	945

Source: Indiana 5-year client follow-up survey.

Notes: (1) Survey respondents were interviewed, on average, 61 months after enrolling in the demonstration. This exhibit includes all respondents in the Welfare Reform group who had ever worked in the two years prior to the interview. These respondents account for 83 percent of all respondents in the Welfare Reform group.
(2) For purposes of this exhibit, "full-time" is defined as 32 hours or more per week, and "part-time" as less than 32 hours per week.

Income Tax Credit).[16] The next section of this chapter provides a more complete picture of income based on survey data.

A comparison of wage data for Welfare Reform group members from the five-year survey and the first client survey about three and one-half years earlier shows evidence of wage growth. Between the first and second surveys, sample members' median wage increased 25 percent, from $6.00 to $7.50, and the proportion of *employed* clients who worked full-time increased from 57 percent to 71 percent. The comparison of surveys also shows slight increases in the proportion of workers offered fringe benefits and increases in the proportion receiving health insurance from employers. These results suggest that sample members made some progress in the labor market, consistent with work first expectations of gains from work experience. This conclusion, however, should be viewed cautiously, because different individuals were interviewed for the two surveys. The samples for both surveys are representative of the first-year cohort; there is some overlap in sample members, but the overlap is small.

Comparisons of job characteristics—including hours worked, hourly wages, and specific fringe benefits—for Welfare Reform and Traditional Welfare group members showed no statistically significant differences. The survey therefore provides no evidence that welfare reform affected the types of jobs held by clients, which is not surprising given that this was not a goal of the program.

Summary. Overall, Indiana's program generated modest earnings and employment increases that were in the middle of the range found for welfare reform programs in other states. These impacts did not fade over the five-year follow-up period. Earnings and employment impacts were largest for clients with no recent work experience at the time of random assignment. The pattern of impacts, together with evidence from the process study, suggests that earnings and employment impacts are due primarily to participation in E&T activities and to a general push for clients to become employed quickly. A comparison of the first and second client surveys suggests that individuals on average are increasing wage rates over time and working more hours per week.

[16] In 2001, the poverty guideline for a family of three was $14,630, while full-time work at $8 per hour would result in an annual income of approximately $16,000. The poverty guideline, however, probably understates the income needed to meet all living expenses. For example, Pearce and Brooks (1999) estimate an average "basic needs" budget for a single parent with two children in Indiana of $29,388, or approximately twice the poverty line. This result is consistent with similar research for other areas in the United States.

4.3 Impacts on Income

The impacts reported in previous sections of this chapter have been based on administrative records. The income impacts presented in this section are based on two sources: (1) administrative records, where income is measured as the sum of earnings reported in the UI system, TANF payments, and food stamp payments; and (2) the five-year client survey. The latter source provides a more complete measure of income, because it includes earnings from employment that is not reported to the UI system, as well as income from other sources and from other household members. The administrative measure of income, on the other hand, is available for a much larger sample size, allowing us to better estimate impacts for subgroups. We first examine impacts on income measured by administrative records, and then impacts based on the more complete survey measures.

Over five years, for all single-parent families in the first-year cohort, average annual income from earnings, TANF, and food stamps was about $120 higher for the Welfare Reform group than for the Traditional Welfare group, an impact of 1.6 percent, which was not statistically significant (Exhibit 4.7). None of the impacts on average income in Exhibit 4.7 is statistically significant. (For two-parent families, however, the program did increase income; see Appendix A.) Indiana's program significantly increased the proportion of clients who received most of their income from earnings, shown in the second panel of Exhibit 4.7. This result is consistent with the program's goal of making clients more reliant on their own earnings and less reliant on public assistance.

Looking not at impacts but at the *levels* of income reveals that, over time, average income (as measured by administrative records) in both groups increased slightly, due to earnings increases that were larger in magnitude than the decreases in TANF and food stamp payments. The proportion of clients who received most of their income from earnings nearly doubled between years 1 and 5, and by year 5 most individuals in both groups were getting most of their income (as measured by administrative records) from earnings.

Impacts in other states. Research from other welfare reform random assignment studies generally shows that programs like Indiana's (which retain the AFDC disregard) do not increase income. Positive impacts on income are more likely with an increased disregard.[17] Indiana's

[17] In other recent welfare reform random assignment evaluations, states that increased their disregard and produced positive impacts on income include Connecticut, Minnesota, and Iowa. States that increased their disregard and *did not* produce overall impacts on income include Virginia, Vermont, and Florida. In Florida, there were positive impacts on income for years 2 and 3, but not for years 1 through 4 taken together.

Exhibit 4.7
Impacts on Income Measured by Administrative Records and by Survey for All Single-Parent Families, First-Year Cohort

Outcome	Welfare Reform Group	Traditional Welfare Group	Difference	Percentage Change
Measures from Administrative Records				
Average annual income from earnings, TANF, and food stamps, Years 1-5 ($)	7,581	7,458	123	1.6
Year 1	7,101	7,037	64	0.9
Year 2	7,104	7,012	92	1.3
Year 3	7,452	7,324	127	1.7
Year 4	7,806	7,656	151	2.0
Year 5	8,368	8,182	186	2.3
At least 50 percent of income from earnings (%)				
Year 1	30.3	27.9	2.5***	8.9
Year 2	45.3	41.3	4.0***	9.6
Year 3	52.3	49.2	3.1***	6.2
Year 4	55.7	52.0	3.7***	7.0
Year 5	56.9	51.4	5.5***	10.8
Sample size (total = 66,413)	63,197	3,216		
Measures from Five-Year Client Survey				
Average total income from all sources in the year before the interview ($)	18,902	18,845	57	0.3
Income above 2000 Federal poverty line (%)	40.2	38.4	1.8	4.7
Distribution of annual income (%)				
< $5,000	9.4	8.7	0.7	8.0
$5,001-$10,000	18.4	20.8	-2.4	-11.5
$10,001-$15,000	16.8	17.7	-1.1	-6.2
$15,001-$20,000	16.9	15.8	1.1	7.0
More than $20,000	38.5	37.0	1.5	4.1
Survey sample size (total = 2,359)	1,161	1,198		

Sources: Administrative records: Indiana Unemployment Insurance earnings records and Indiana Client Eligibility System records. Survey: Five-year client survey.

Note: A two-tailed t-test was applied to differences between the Welfare Reform and Traditional Welfare groups. Statistical significance levels are indicated as: ***=1 percent; **=5 percent; *=10 percent.

higher earnings disregard, which took effect July 2000, may increase income for later enrollees, through a smaller negative impact on TANF and food stamp payments and a larger positive impact on earnings.

Subgroup impacts. Although impact estimates on income measured from administrative records are positive for every subgroup of single-parent families in the first-year cohort, they are small and generally not statistically significant (Exhibit 4.8). The two statistically significant impacts are for individuals with the least and most work experience as of random assignment; income for each of these subgroups increased by about four percent. None of the impact differences across subgroups is statistically significant.

A More Complete Measure of Income From the Five-Year Survey

Consistent with the administrative records data discussed above, the five-year client survey shows no significant impacts on income. Average household income in the year prior to the survey (which corresponds roughly to follow-up year 4) was virtually the same for the Welfare Reform and Traditional Welfare groups (Exhibit 4.7, third panel). Although Welfare Reform group families were slightly more likely than Traditional Welfare group families to be above the federal poverty line, the difference was not statistically significant.

Even if time-limited welfare reform programs such as Indiana's have no effect on average income overall, they could plausibly result in underlying offsetting effects: welfare reform could lower incomes for some families and increase income for others. The survey data, however, show no evidence of a significant impact on the *distribution* of income (Exhibit 4.7, bottom).

In terms of the *level* of income (as opposed to impacts or differences in income), the client survey shows that, five years after enrolling in welfare reform, about 60 percent of single-parent families in the first-year cohort still had household incomes below the poverty line. The average family income of close to $19,000 in the year before the survey is above the poverty line for a single-parent family with two or three children, but not for larger families.[18] On the other

[18] Income measured from the survey is more than twice as large as income measured from administrative records because the former includes: more sources of income (such as the EITC and SSI); income from other household members (such as a spouse or partner) when that income is used to support the respondent or her children; income from employment not covered by the UI wage reporting system; and income for sample members even if they have moved out of Indiana.

Exhibit 4.8
Subgroup Impacts on Income from Earnings, TANF, and Food Stamps for Single-Parent Families, First-Year Cohort

		Average Annual Income from Earnings, TANF, and Food Stamps, Years 1-5			
Subgroup	**Sample Size**	**Welfare Reform Group**	**Traditional Welfare Group**	**Difference**	**Percentage Change**
IMPACT (E&T) Status					
Mandatory	37,746	$7,658	$7,601	$57	0.7
Exempt	28,667	7,480	7,264	216	3.0
Ongoing or Applicant					
Ongoing	42,475	7,616	7,553	63	0.8
Applicant	23,938	7,519	7,289	230	3.2
Work History					
Employed in none of the 5 quarters before enrollment	25,486	6,459	6,229	230*	3.7
Employed in 1-3 of the 5 quarters before enrollment	23,438	7,343	7,200	143	2.0
Employed in 4-5 of the 5 quarters before enrollment	17,489	9,567	9,181	386*	4.2
County					
Marion County (Indianapolis)	14,308	8,490	8,377	114	1.4
Lake County (Gary)	13,145	7,553	7,459	95	1.3
Rest of the State	38,960	7,257	7,097	161	2.3
Full Sample	66,440	63,223	3,217		

Sources: Indiana Unemployment Insurance earnings records and administrative records from the Indiana Client Eligibility System.

Note: A two-tailed t-test was applied to differences between the Welfare Reform and Traditional Welfare groups. Statistical significance levels are indicated as ***=1 percent; **=5 percent; *=10 percent.

hand, consistent with a key goal of welfare reform, clients' own earnings were by far the largest source of income, with TANF and food stamps accounting for only a small fraction of income (not shown in an exhibit). At the five-year point, most clients had transitioned off public assistance and into work, but most were not yet earning enough to leave poverty.

Summary. Indiana's welfare reform program did not produce statistically significant improvements in average income for single-parent families, as measured by either the client survey or administrative records. Increases in average earnings were not large enough to offset the reduction in TANF and food stamp payments. The survey data show that, five years after being exposed to welfare reform, most single-parent families were receiving most of their income from work and relying very little on public assistance, and in that sense were self-sufficient. Although families' incomes increased over time, this was true for both the Welfare Reform and Traditional Welfare groups, and a majority of both groups remained below the poverty line.

4.4 Impacts on Health Insurance Coverage

Indiana's program had no significant impact on health insurance coverage, for either adults or children. The survey shows that five years after entering Indiana's program, more than 85 percent of children were covered by health insurance (Exhibit 4.9). Medicaid accounted for three-fourths of this coverage. The Welfare Reform and Traditional Welfare groups did not differ significantly in terms of the proportion with any insurance or the proportion with each type of insurance (Medicaid versus other). Indiana was an early state leader in enrolling children under the Children's Health Insurance Program, and those outreach efforts likely increased insurance coverage for children in both the Welfare Reform and Traditional Welfare groups.

Indiana's 88 percent health insurance coverage rate for (all or some) children is similar to the rate in four other states for which comparable recent information is available: Delaware (90 percent of children with health insurance coverage), New Jersey (84 percent), Florida (83 percent), and Vermont (80 percent).[19]

[19] Statistics for other states are from Fein and Lee (2001) for Delaware; Bloom *et al*. (2000) for Florida; Bloom, Hendra, and Michalopolous (2000) for Vermont; and Rangarajan and Wood (1999) for New Jersey. Because these studies all had surveys with high response rates administered close to the time of Indiana's survey, and were based on cohorts of entrants, they are comparable to this study.

Exhibit 4.9
Impacts on Health Insurance Coverage for Single-Parent Families, First-Year Cohort

Outcome	Welfare Reform Group	Traditional Welfare Group	Difference	Percentage Change
Health insurance coverage				
Children				
All children in family covered by health insurance (%)	86.3	87.0	-0.7	0.8
All children covered by Medicaid (%)	66.7	66.3	0.4	0.6
All children covered by other insurance (%)	19.6	20.7	-1.1	-5.3
Some children in family covered by health insurance (%)	1.9	1.8	0.1	5.6
No children in family covered by health insurance (%)	11.7	11.2	0.5	4.5
Respondent				
Covered by health insurance (%)	64.6	67.4	-2.8	4.2
Medicaid (%)	36.3	39.6	-3.3	-8.3
Other insurance (%)	28.3	27.8	0.5	1.8
Not covered by any health insurance (%)	35.5	32.6	2.9	8.9
Survey sample size (n=2,359)	1,161	1,198		

Source: Indiana 5-year client follow-up survey.

Notes: (1) A two-tailed t-test was applied to differences between the Welfare Reform and Traditional Welfare groups. Statistical significance levels are indicated as ***=1 percent; **=5 percent; *=10 percent.

(2) The tabulations for children's health insurance coverage exclude 203 respondents, representing 8.6 percent of the survey sample, who had no children in the household at the time of the survey.

Health insurance coverage rates for adults in Indiana were substantially lower, with only about 65 percent of adults having health insurance at the time of the survey. As with children, there were no significant impacts on coverage. Given the large negative impacts on TANF receipt, some might have expected negative impacts on Medicaid receipt. The absence of such impacts, however, suggests that Indiana made efforts to ensure that clients leaving TANF would not lose their Medicaid coverage.

Adults were much less likely than children to be covered by Medicaid (36 percent versus 67 percent for the Welfare Reform group), a consequence of Indiana's low income ceiling for adult Medicaid eligibility.[20, 21] Indiana's adult health insurance coverage rate was higher than Florida's (61 percent), but lower than Delaware's (82 percent), New Jersey's (82 percent), and Vermont's (79 percent).

4.5 Summary and Policy Implications

Results presented in this chapter show that Indiana's ambitious statewide welfare reform program produced impacts in key areas. Welfare reform in Indiana has given the cash assistance system a much greater focus on work, increased clients' employment and earnings, and decreased their use of TANF and food stamps. The combined effect of these changes has been to increase clients' reliance on their own earnings as a source of income. Although it is not possible to accurately measure the separate effects of individual policies, we believe the most important reasons for Indiana's impacts are its employment and training program, the program's work first emphasis (driven partly by county job placement quotas), the two-year adult time limit (toward the end of the follow-up period), and the family cap.

An examination of the *level* of earnings (rather than impacts) reveals that earnings for families in the first-year cohort grew substantially over the follow-up period. A comparison of job characteristics in the first and second client surveys suggests that over time adults may be moving into higher-wage jobs and working more hours. In addition, average household income has grown enough to put 40 percent of families above the poverty guideline.

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[20] Adults are ineligible for Medicaid if their income is higher than about 25 percent of the poverty line, whereas children do not lose free Medicaid eligibility until family income reaches 150 percent of the poverty line.

[21] Administrative records show slightly higher rates of adult Medicaid receipt than the survey.

However, important challenges remain. About half of the adults in the first-year cohort were not yet strongly attached to the labor force by the end of the follow-up period. Household income for most families was below the poverty guideline five years after they enrolled in welfare reform. More than 95 percent of families in the first-year cohort had debt, and only a small proportion had any savings. About 35 percent of adults in the first-year cohort had no health insurance (although the proportion who are uninsured is much lower for children). And while some families were improving their circumstances over time, a sizeable minority of families continued to struggle and experience significant financial hardship, such as being unable to pay rent or having to skip meals.[22]

Welfare reform by itself cannot fully address these challenges. Like welfare reform programs in other states, Indiana's program does not have the resources to bring all clients' out of poverty, so that is not a realistic expectation for the program by itself.

If additional resources are available to address the challenges above, a number of steps are worth considering. The earning disregard that took effect in July 2000 is an important step toward increasing the incentive to work and increasing household income. These effects could be strengthened if the disregard were modified to apply to food stamps too, so that increases in earnings are not partly offset by decreases in food stamps. Indiana could also boost household income by developing policies and procedures that further encourage families to stay on food stamps after leaving TANF. Indiana could provide additional support for work by expanding Medicaid coverage for adults through an increase in the income eligibility ceiling. For some families the loss of health insurance coverage when transitional Medicaid ends is a critical barrier to staying employed. Finally, another way to promote long-term self-sufficiency is to encourage education and skill-based training for clients who would benefit. It is possible to do this within a work first approach, for example by encouraging E&T activities after clients have reached a certain number of weekly hours of work.

Finally, we need to learn more about the minority of families whose circumstances have not improved over time and who are facing serious hardships. For these worst-off families, different and more intensive strategies are likely needed.

[22] A recent report on the impacts of Indiana's welfare reform program on the well-being of children includes findings from the five-year client survey on financial hardship (Beecroft, Cahill, and Goodson 2002).

Chapter 5

Two-Year Impacts for a Later Cohort

This chapter presents impact results for a later cohort of single-parent families—specifically, those who began receiving TANF and were randomly assigned between March 1998 and February 1999. For this later cohort, random assignment was restricted to twelve counties, rather than all 92 counties statewide as for the first-year cohort.

Comparing results for this later cohort to those of the first-year cohort is of interest given differences in the policy environments of the two groups, differences in characteristics between the cohorts, and the strengthened experimental distinction for the later cohort. Because families in the later cohort began receiving welfare after Indiana's July 1997 policy changes, a larger proportion of Welfare Reform group families in the later cohort experienced the full set of Indiana's welfare reform policies and experienced those policies after any initial implementation difficulties had been addressed. In addition, the later cohort was made up entirely of new applicants to welfare, while the first-year cohort included mostly clients who were already on welfare when Indiana's welfare reform program began. For both of these reasons, impacts for the later cohort may better represent the "steady-state" effects of Indiana's program. Finally, prior to the later cohort's entry, FSSA had made changes to the random assignment process to strengthen distinctions between Welfare Reform and Traditional Welfare group experiences (as described in section 1.1 of Chapter 1). Other things equal, the strengthened experimental distinction and the application of the full set of welfare reform policies to a larger proportion of Welfare Reform clients would lead us to expect larger impacts for the later cohort than the first-year cohort.

Compared to members of the first-year cohort, clients in the later cohort were younger, had fewer and younger children, had spent much less time on TANF or AFDC, had somewhat higher earnings, and were much more likely to come from Marion County (Indianapolis). Families in the later cohort were more likely to come from Marion County because of the restriction in random assignment from statewide to twelve counties.

Summary of Key Findings

TANF payment impacts were larger for the later cohort than for the first-year cohort in years 1 and 2. TANF *receipt* impacts for the later cohort were larger than those of the first-year cohort in year 1 but faded by the end of year 2, perhaps because of the enhanced disregard that took effect in July 2000.

Indiana's program increased the average employment rate across the eight follow-up quarters but did not significantly increase earnings. Compared to the first-year cohort's impacts, earnings and employment impacts for the later cohort were similar in year 1 and smaller in year 2.

Indiana's program did not produce impacts on the later cohort's income (measured as the sum of earnings, TANF payments, and food stamp benefits). This finding is similar to the result for the first-year cohort.

5.1 Impacts on TANF and Food Stamp Payments and Receipt

Over the first two follow-up years, for all single-parent families in the later cohort, average TANF payments were $446 lower for the Welfare Reform group than for the Traditional Welfare group, an impact of about 17 percent (Exhibit 5.1). In percentage terms (shown in the right-most column of Exhibit 5.1), impacts on TANF receipt were somewhat smaller than impacts on TANF payments. Food stamp impacts, shown in the same exhibit, were smaller than impacts on TANF. Most of the TANF impacts shown in Exhibit 5.1 are statistically significant, and most of the food stamp impacts are not.

Impacts over time. Although TANF payments impacts were statistically significant and fairly similar in size in both years, TANF receipt impacts were not significant by the end of year 2. The lack of impacts on TANF receipt for the last quarter of year 2 may have resulted from the July 2000 increase in the earnings disregard which, by allowing clients to receive a TANF cash grant until their earnings grew to the poverty level, provided an incentive to stay on TANF

Exhibit 5.1
Two-Year Impacts on TANF and Food Stamp Receipt for Single-Parent Families, Later Cohort

Outcome	Welfare Reform Group	Traditional Welfare Group	Difference	Percentage Change
Average total TANF payments received, years 1-2 ($)	2,245	2,691	-446***	-16.6
Year 1	1,468	1,707	-240***	-14.0
Year 2	777	984	-207***	-21.0
Received any TANF payments (%)				
Last quarter of year 1	39.2	45.0	-5.8***	-12.8
Last quarter of year 2	31.3	32.1	-0.8	-2.5
Average number of months receiving TANF payments, years 1-2	8.9	9.9	-1.0***	-10.1
Average total value of food stamps received, years 1-2 ($)	3,266	3,318	-52	-1.6
Year 1	1,905	1,867	38	2.0
Year 2	1,361	1,451	-90*	-6.2
Received any food stamps (%)				
Last quarter of year 1	57.0	58.7	-1.7	-2.9
Last quarter of year 2	46.8	46.2	0.7	1.5
Average number of months receiving food stamp payments, years 1-2	12.1	12.1	0	0
Sample size (total=4,954)	3,863	1,091		

Sources: Indiana Unemployment Insurance earnings records and administrative records from the Indiana Client Eligibility System.

Note: A two-tailed t-test was applied to differences between the Welfare Reform and Traditional Welfare groups. Statistical significance levels are indicated as ***=1 percent, **=5 percent, and *=10 percent.

longer. The last quarter of year 2 occurred after the disregard change for about two-thirds of the later cohort.[1]

Subgroup impacts. For the subgroup categories examined (work history and county), impacts did not differ significantly across subgroups (Exhibit 5.2). For each subgroup within the work history and county categories, TANF payment impacts were statistically significant, and TANF receipt impacts were not.

Comparison to first-year cohort. The later cohort's TANF payment impacts were larger than those of the first-year cohort in years 1 and 2, and its TANF receipt impacts were larger in year 1. Possible reasons for the later cohort's larger initial impacts include the broader applicability of Placement Track policies following the June 1997 policy changes and the strengthened experimental distinctions between the Welfare Reform and Traditional Welfare groups. Other differences between the two cohorts that may have affected impacts include sample composition (clients in the later cohort came from twelve counties rather than statewide, and the group was made up only of new applicants) and economic conditions (families in the later cohort experienced a weakening economy during their initial follow-up years).

Food stamp impacts were generally smaller for the later cohort than the first-year cohort.[2] Indiana increased its food stamp outreach efforts in the later years of the study period to ensure that clients leaving TANF would be aware of their continued eligibility for food stamps. These outreach efforts could have affected both Welfare Reform and Traditional Welfare groups and thereby reduced impacts on food stamp receipt.

In terms of outcome *levels*, rather than impacts, TANF payments were substantially lower in both years for the later cohort, and TANF receipt was lower in year 1. The lower outcome levels are consistent with the fact that all clients in the later cohort were new applicants to welfare and therefore less likely to be long-term recipients than clients in the first-year cohort. The fact that TANF receipt rates were similar across cohorts by the end of year 2 could be due to the disregard change and the slowing economy.

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[1] If the disregard change explains the fade-out of impacts on TANF receipt by the end of year 2, we would also expect to see a fade-out of impacts on TANF payments. Other analyses, not presented in Exhibit 5.1, show TANF payment impacts fading out in a pattern similar to receipt impacts.

[2] Because of the very different sample sizes for the first-year and later cohorts (66,440 and 4,954, respectively), it is important to compare the size of estimated impacts, not just their statistical significance.

Exhibit 5.2
Subgroup Impacts on TANF Receipt for Single-Parent Families, Later Cohort

Subgroup	Sample Size	Average Total TANF Payments Received, Years 1-2: Welfare Reform Group	Traditional Welfare Group	Difference	Percentage Change	Percentage That Received Any TANF Payments, Last Quarter of Year 2: Welfare Reform Group	Traditional Welfare Group	Difference	Percentage Change
Work History									
Employed in none of the five quarters before enrollment	2,092	$2,340	$2,732	$-393***	-14.4	32.4	30.7	1.7	5.6
Employed in 1-3 of the five quarters before enrollment	1,474	2,279	2,603	-324***	-12.5	35.6	34.4	1.2	3.5
Employed in 4-5 of the five quarters before enrollment	1,388	2,111	2,522	-411***	-16.3	25.6	29.2	-3.5	-12.1
County									
Marion County (Indianapolis)	2,139	2,492	2,957	-465***	-15.7	35.4	37.0	-1.6	-4.4
Rest of the State	2,815	2,053	2,483	-430***	-17.3	28.1	28.3	-0.2	-0.8
Full Sample	4,954								

Sources: Administrative records from the Indiana Client Eligibility System.

Note: A two-tailed t-test was applied to differences between the Welfare Reform and Traditional Welfare groups. Statistical significance levels are indicated as *** =1 percent; ** =5 percent; and * =10 percent.

5.2 Impacts on Earnings and Employment

For the later cohort, Indiana's program increased the average employment rate across the eight follow-up quarters but did not significantly increase earnings (Exhibit 5.3). The average quarterly employment rate was 56 percent for the Welfare Reform group, close to three percentage points higher than the rate for the Traditional Welfare group. The program did not increase the proportion of clients who left welfare and became employed.

Impacts over time. The size of the estimated impacts on earnings and employment was smaller in year 2 than year 1, although none of the annual impacts were statistically significant. We would have expected the opposite pattern, given the stronger work incentive provided by the disregard change.

Subgroup impacts. Like impacts for the first-year cohort, estimated earnings and employment impacts for the later cohort were largest for the subgroup with the least work history. However, the difference across cohorts was not statistically significant (Exhibit 5.4). Similarly, the estimated earnings impact was larger in Marion County than the rest of the State, but the difference across subgroups was not significant.

For the individual subgroups within the work history and county categories, employment impacts were statistically significant for clients with the least work history and for clients outside of Marion County. Earnings impacts were not significant for any individual subgroup.

Comparison to first-year cohort. Earnings and employment impacts for the later cohort were similar to those of the first-year cohort in year 1 and smaller in year 2. Earnings and employment impacts were sustained across five follow-up years for the first-year cohort but appear to have faded by the second follow-up year for the later cohort. These results are somewhat surprising, given the larger E&T impacts for the later cohort shown in Chapter 3 and the increased earnings disregard that took effect at the end of the second follow-up year. The results in Chapter 3 suggest one possible explanation: E&T impacts were larger for the later cohort than the first-year cohort for job search and educational activities *but not for unsubsidized employment*. Further, unsubsidized employment was more common than the other two activities combined. Traditional Welfare group members in the later cohort had much lower rates of participation in job search and education activities than Traditional Welfare group members in

Exhibit 5.3
Two-Year Impacts on Earnings and Employment for Single-Parent Families, Later Cohort

Outcome	Welfare Reform Group	Traditional Welfare Group	Difference	Percentage Change
Average total earnings, years 1-2 ($)	11,433	11,288	145	1.3
Year 1	4,669	4,447	222	5.0
Year 2	6,729	6,806	-77	-1.1
Average quarterly employment rate, years 1-2 (%)	55.5	52.8	2.7**	5.0
Last quarter of year 1	60.0	57.6	2.4	4.2
Last quarter of year 2	56.5	56.6	-0.1	-0.1
Ever employed, years 1-2 (%)	85.2	82.8	2.4**	2.9
Employed and off TANF (%)				
Last quarter of year 1	25.2	23.8	1.4	6.0
Last quarter of year 2	29.9	30.9	-1.0	-3.2
Sample size (total=4,947)	3,858	1,089		

Sources: Indiana Unemployment Insurance earnings records and administrative records from the Indiana Client Eligibility System.

Notes: (1) A two-tailed t-test was applied to differences between the Welfare Reform and Traditional Welfare groups. Statistical significance levels are indicated as ***=1 percent; **=5 percent; and *=10 percent.
(2) The sample size for earnings and employment impacts is slightly smaller than the sample size for other impacts because Social Security numbers were missing for seven sample members, meaning Unemployment Insurance earnings records could not be obtained for those members.

Exhibit 5.4
Subgroup Impacts on Earnings and Employment for Single-Parent Families, Later Cohort

		Average Total Earnings, Years 1-2				Average Quarterly Employment Rate, Years 1-2			
Subgroup	Sample Size	Welfare Reform Group	Traditional Welfare Group	Difference	Percentage Change	Welfare Reform Group	Traditional Welfare Group	Difference	Percentage Change
Work History									
Employed in none of the five quarters before enrollment	2,092	$10,094	$9,733	$361	3.7	46.3%	41.3%	5.0%**	12.1
Employed in 1-3 of the five quarters before enrollment	1,474	10,942	10,952	-10	-0.1	57.3	54.6	2.7	4.9
Employed in 4-5 of the five quarters before enrollment	1,388	13,904	14,224	-321	-2.3	67.5	67.8	-0.5	-0.7
County									
Marion County (Indianapolis)	2,139	12,346	11,643	704	6.0	57.4	54.7	2.7	4.9
Rest of the State	2,815	10,738	10,979	-241	-2.2	54.1	51.3	2.7*	5.3
Full Sample	4,947								

Sources: Indiana Unemployment Insurance earnings records and administrative records from the Indiana Client Eligibility System.

Note: A two-tailed t-test was applied to differences between the Welfare Reform and Traditional Welfare groups. Statistical significance levels are indicated as ***=1 percent; **=5 percent; and *=10 percent.

the first-year cohort and much higher rates of unsubsidized employment.[3] The apparent substitution of unsubsidized employment for other activities may have increased employment rates for Traditional Welfare group members beyond what they otherwise would have been, thereby decreasing impacts. *Ex post* explanations such as this, however, should be regarded with caution.

The *levels* of employment and earnings are higher for the later cohort than the first-year cohort. This is consistent with the fact that the later cohort is made up of new applicants with higher baseline earnings than the members of the first-year cohort (as shown in Exhibit 3.1 in Chapter 3). Higher earnings are consistent with the lower levels of TANF receipt for the later cohort.

5.3 Impacts on Income

For the later cohort, Indiana's program did not produce impacts on income, measured as the sum of earnings, TANF payments, and food stamp benefits (Exhibit 5.5). Over the two years, income from these sources was $187, or about two percent, lower for the Welfare Reform group than the Traditional Welfare group, a small and not statistically significant difference. The negative estimated impact is due primarily to the reduction in TANF payments. The program did increase the proportion of sample members who received at least half their income from earnings, in part because of the reduction in TANF receipt. Income impacts did not differ across subgroups and were not significant for any individual subgroup (Exhibit 5.6).

These findings are similar to the results for the first-year cohort. For both cohorts, estimated impacts on the sum of earnings, TANF payments, and food stamp benefits were small and not statistically significant. The AFDC earnings disregard in effect for most of the study period caused increases in earnings to be offset by decreases in TANF and food stamp payments, leaving income essentially unchanged. For cohorts that began receiving TANF after the July 2000 disregard change, the potential for an increase in income was greater, because increases in earnings should not have been offset by increases in TANF payments.

[3] Compare the lower left panels of Exhibits 3.2 and 3.3 in Chapter 3. By the eighth follow-up quarter, 57 percent of the later cohort had participated in unsubsidized employment, compared to only 44 percent of the first-year cohort.

Exhibit 5.5
Impacts on Income Measured by Administrative Records for Single-Parent Families, Later Cohort

Outcome	Welfare Reform Group	Traditional Welfare Group	Difference	Percentage Change
Measures from Administrative Records				
Average annual income from earnings, TANF, and food stamps, Years 1-2 ($)	8,475	8,662	-187	-2.2
Year 1	8,046	8,036	10	0.1
Year 2	8,866	9,238	-372	-4.0
At least 50 percent of income from earnings (%)				
Year 1	45.8	40.4	5.4***	13.4
Year 2	55.9	52.9	3.0*	5.7
Sample size (total=4,947)	3,858	1,089		

Sources: Indiana Unemployment Insurance earnings records and administrative records from the Indiana Client Eligibility System. Survey: Five-year client survey.

Note: A two-tailed t-test was applied to differences between the Welfare Reform and Traditional Welfare groups. Statistical significance levels are indicated as: ***=1 percent; **=5 percent; and *=10 percent.

Exhibit 5.6
Subgroup Impacts on Income from Earnings, TANF, and Food Stamps for Single-Parent Families, Later Cohort

	Average Annual Income from Earnings, TANF, and Food Stamps, Years 1-2				
Subgroup	**Welfare Reform Group**	**Traditional Welfare Group**	**Difference**	**Percentage Change**	**Sample Size**
Work History					
Employed in none of the five quarters before enrollment	$7,882	$7,925	$-43	-0.5	2,092
Employed in 1-3 of the five quarters before enrollment	8,253	8,347	-94	-1.1	1,474
Employed in 4-5 of the five quarters before enrollment	9,635	10,015	-380	-3.8	1,388
County					
Marion County (Indianapolis)	9,170	9,018	152	1.7	2,139
Rest of the State	7,945	8,368	-423	-5.1	2,815
Full Sample					4,947

Sources: Indiana Unemployment Insurance earnings records and administrative records from the Indiana Client Eligibility System.

Note: A two-tailed t-test was applied to differences between the Welfare Reform and Traditional Welfare groups. Statistical significance levels are indicated as ***=1 percent; **=5 percent; and *=10 percent.

The *level* of income was larger in the later cohort than the first-year cohort, because the level of earnings was substantially higher for families in the later cohort.

5.4 Summary and Policy Implications

For the later cohort, the only consistent impacts found were reductions in TANF payments. These impacts were larger than the corresponding impacts for the first-year cohort, although they appear to have faded toward the end of year 2 as the enhanced earnings disregard took effect. The later cohort did not experience systematic impacts on earnings or income as measured by administrative records.

These results are somewhat surprising, given the strengthened experimental distinctions and the enhanced disregard (although the latter occurred late in the follow-up period). The embargo on IMPACT participation may have led some Traditional Welfare group members to obtain unsubsidized employment instead. It is also possible that differences between the two cohorts or differences in the economic conditions they experienced may partly explain the smaller impacts for the later cohort. Whatever the reason, employment rates were substantially higher for Traditional Welfare group members in the later cohort. The higher employment rates and levels of earnings, and lower TANF and food stamp receipt rates for the later cohort (compared to those of the first-year cohort) suggest that the later cohort was on average less disadvantaged.

The results may be different for cohorts that began receiving TANF after the July 2000 disregard change. We expect that the disregard should increase income, by providing a stronger work incentive and eliminating the offsetting reduction in TANF payments as earnings increase.

Chapter 6
Costs and Benefits for Clients Enrolled in the First Year

This chapter presents an assessment of the statewide costs and benefits of Indiana's welfare reform efforts for single-parent families in the first-year cohort. The analysis provides reliable answers to three fundamental questions about the effectiveness of this reform:

- *How has welfare reform affected welfare families financially?* The answer is that the economic benefits of welfare reform to families—resulting mainly from increased employment—slightly outweighed the losses in welfare payments and other income. While some welfare families may have been financially harmed, the typical family's economic position was very modestly improved.

- *How have taxpayers fared?* Welfare reform savings—in the cost of operating the TANF, Food Stamp, and Medicaid programs—offset welfare reform expenditures on employment and training services, and child care subsidies. These budgetary savings have been shared by the Indiana and federal treasuries.

- *Has welfare reform been a cost-effective use of public resources?* Combining the perspectives of welfare families and State and federal taxpayers, the estimated benefits to society of Indiana's welfare reform program exceed its costs by several thousand dollars per welfare family.

The chapter begins by describing the analytic approach used in this benefit-cost analysis and presenting estimates of the costs of Indiana's welfare reform program. Next, the analysis develops estimates of the employment-related effects of welfare reform for the first-year cohort, including earnings, fringe benefits, and taxes. The chapter then presents the transfer program effects, which are reductions in TANF, Food Stamp, and Medicaid program payments. The costs and benefits are then totaled from the perspectives of welfare recipients, taxpayers, and society as a whole to determine the overall net benefit of welfare reform in Indiana.

6.1 Analytic Approach

The main task of this chapter's benefit-cost analysis is to place dollar values on the net inputs and net effects of Indiana's welfare reform initiative. To do this, we have estimated the benefits and costs of reform per Welfare Reform group member, minus the costs and benefits that would have occurred in the absence of the program, as indicated by the experience of the Traditional Welfare group. The effects covered by the analysis include the impacts on earnings, TANF payments, and food stamp benefits discussed in Chapter 4. (In this chapter, however, the results are presented in 2001 dollars, rather than current dollars.) Additional effects have been imputed using administrative records and survey data for Welfare Reform and Traditional Welfare group sample members.

In our analysis, we also measured input use for the Welfare Reform and Traditional Welfare groups using IMPACT program expenditure and participation data.[1] Net cost estimates reflect the differences in resource use for the two groups.

In a social program initiative such as this one, program expenditures for a given cohort of participants tend to be highest in the first year or two following program enrollment (when participation is highest), while program effects can last for a longer time. As a result, the five-year observation period for this analysis captures nearly all the resource costs of welfare reform, but not all of its effects. As noted in Chapter 4, measured impacts on both earnings and TANF payments were just as large in the fifth year of follow-up as in each of the preceding four years. Therefore, the discussion at the end of this chapter considers how benefits and costs might change over a longer time horizon than the five-year study period.

Once estimated, particular components of the analysis constitute benefits or costs (or neither) depending on the analytic perspective taken. (Exhibit 6.1 shows the perspectives used in the benefit-cost analysis.) The perspective of *welfare families* identifies gains and losses to Welfare Reform group members. By taking into account impacts on earnings, TANF and food stamp payments, and other pertinent program outcomes, this perspective shows how welfare families' overall economic well-being changed as a result of welfare reform.[2]

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[1] Service and administrative cost data were provided by the financial management staff of Indiana's Family and Social Services Administration (FSSA). The service data include in-house and contractor costs associated with case management, employment and training services, and other supportive services. The administrative data reflect the costs of *providing* TANF, Medicaid, food stamps, and child care subsidies to families—that is, all costs of these programs except the value of benefit payments.

[2] The analysis does not take into account some types of non-pecuniary benefits and costs, such as participants' preferences for working over receiving welfare or their having less time for parenting due to increased work. These types of costs and benefits are difficult to estimate, and their net value is unclear.

Exhibit 6.1
Accounting Framework for the Benefit-Cost Analysis

Component	Accounting Perspective: Welfare Families	Taxpayers	Society	Estimation Methods
Increased earnings and benefits				Earnings measured, benefits estimated based on earnings.
Earnings	+	0	+	
Fringe benefits	+	0	+	
Increased tax payments				Taxes estimated based on earnings and TANF payments.
Social Security taxes	-	+	0	
Federal and State income taxes	?	?	0	
State and local sales taxes	-	+	0	
Reduced use of transfer programs				TANF and food stamp payments measured, other items estimated based on program participation.
TANF payments	-	+	0	
Food stamp payments	-	+	0	
Medicaid payments	-	+	0	
Food stamp administrative costs	0	+	+	
Medicaid administrative costs	0	+	+	
TANF administration				Costs estimated based on program participation.
TANF eligibility	0	+	+	
IMPACT expenditures	0	-	-	
Reduced use of other programs				Costs estimated based on program participation.
Vocational training	0	-	-	
Child care	-	+	0	
Other programs	-	+	0	
Non-pecuniary benefits and costs	?	0	?	Not estimated.

Notes: The components are shown as an expected benefit (+) or cost (-) or as neither a benefit nor a cost (0), according to *a priori* expectations regarding their value from a given perspective.

Although child support enforcement efforts are an integral part of TANF programs, Indiana's demonstration did not handle child support enforcement differently for the Welfare Reform and Traditional Welfare groups, and we did not estimate costs and benefits for this activity.

The *taxpayer* perspective measures benefits and costs to all taxpayers other than the welfare families, including several types of gains and losses to federal, State, and local governments' budgets.[3] The first type of program costs and savings from a taxpayer perspective are those registered by the Family and Social Services Administration (FSSA), the agency that implemented welfare reform in Indiana. Reductions in TANF payments, a cost from the standpoint of welfare families, are a budgetary gain to FSSA. TANF administrative cost savings are also a gain. Expenditures on the IMPACT program and child care constitute the agency's key costs. These FSSA gains and losses affect both federal and State budgets, because the two levels of government share the funding of TANF. The second type of costs and benefits are the budgetary costs and savings that other agencies realized as a result of welfare reform's impacts on food stamps and Medicaid. Again, both the payments and the administrative expenditures of the programs—which are borne by federal and State government budgets—are affected.

Third, the taxpayer perspective captures changes in taxes paid by welfare family heads. Welfare reform's impacts on earnings and TANF payments affect federal and State income taxes, State and local sales taxes, and the Social Security payroll tax.[4] The changes in tax revenues to the federal government can be distinguished from those earmarked for Indiana and local government.

The perspective of the general public, or *society* as a whole, combines the perspectives of welfare families and taxpayers. For any component of the analysis, a net gain to society results whenever the gain to one group (welfare families or taxpayers) exceeds the loss to the other. Thus, the net value to society can be measured by adding the estimated value for participants to the value for taxpayers.

All benefit and cost results in this analysis are expressed in 2001 dollars, the last year in which follow-up data were collected. Program effects and resource use occurring before 2001 have been adjusted to reflect their value in 2001. The adjustment uses a real annual discount rate of 5 percent, which takes into account foregone investment as well as inflation.[5] The difference between the net benefit and net cost estimates—the program's net present value—is then calculated from each of the analytic perspectives. The program's net present value is the end result of the cost-benefit analysis and is an overall measure of program effectiveness.

[3] Although welfare families are also taxpayers, they are explicitly accounted for under the first column in Exhibit 6.1 and are excluded from the taxpayer perspective to avoid double counting.

[4] Employees pay half of the payroll tax (a cost from the perspective of welfare families), and employers pay the other half (a cost from the taxpayer perspective). The federal government receives the full tax (a benefit from the taxpayer perspective).

[5] The inflation adjustments have been made using the GNP implicit price deflator.

6.2 Costs

We followed three steps to estimate the net costs of Indiana's welfare reform program per Welfare Reform group member. First, we identified relevant expenditures in Indiana during the years following random assignment. Second, we used this expenditure data to determine the "unit costs" (that is, the costs per welfare case per month on welfare) of various aspects of TANF and IMPACT participation. Finally, we applied these unit costs to participation data for the Welfare Reform and Traditional Welfare groups in order to estimate the total net cost per Welfare Reform group member.

Indiana's welfare reform program is jointly funded by the federal and State governments. The relevant statewide expenditures—during fiscal years 1997, 1998, and 1999—have been assembled from a number of different accounting sources, which are described in Appendix C. These expenditures were allocated among the program functions shown in Exhibit 6.2 (see Appendix C for details). Like all dollar amounts in this chapter, the cost data have been discounted and adjusted for inflation.

Costs per Welfare Reform Group Member and Net Costs

For each type of administrative cost and service provided, the total cost per welfare case can be calculated as the average cost per month in the program (the unit cost) multiplied by the average number of months in the program. For example, the total cost of administering TANF per Welfare Reform group case is the administrative cost per month ($58) multiplied by the average number of months on TANF (16.6) for a total of $963. These numbers are shown in the top row of Exhibit 6.2 (except for the total cost). The difference in the total costs for the Welfare Reform and Traditional Welfare groups represents the net cost of welfare reform per sample member. Because we used the same unit cost for both groups, differences in total cost result from differences in the number of months of participation in each program. For example, the Traditional Welfare group spent an additional 2.5 months on TANF, on average (Exhibit 6.2, top row, column c minus column b). Therefore the savings in TANF administrative cost per case is $145 (which equals 2.5 months multiplied by $58 per month).

Exhibit 6.2 shows the estimated unit costs and net costs for each type of administrative cost and service provided. The TANF eligibility cost reflects all income maintenance functions, including eligibility determination and redetermination, payment operations, and administration

Exhibit 6.2
Five-Year Total Administrative Costs and Costs of Services Provided, First-Year Cohort (in 2001 Dollars)

Type of Cost	(a) Cost per Case per Active Month	(b) No. of Active Months, Welfare Reform Group	(c) No. of Active Months, Traditional Welfare Group	Net Cost Over Five-Year Study Period (= a x (b – c))
Administrative costs				
TANF eligibility	$58	16.6	19.1	-$145
IMPACT administration	34	3.7	2.0	59
Food Stamps administration	33	25.8	27.2	-46
Medicaid administration	31	30.6	31.9	-40
Child care administration	15	3.8	3.0	12
Total administrative cost	171			-161
Cost of services provided				
IMPACT services	$111	3.7	2.0	$189
Child care services	325	3.8	3.0	260
Total cost of services	436			449
Sample size (total = 66,413)				

Sources: Abt Associates calculations from ICES records and Indiana FSSA annual reports.

Note: Estimates reflect discounting and adjustments for inflation.

(including the costs of maintaining ICES, the computerized eligibility system). TANF unit costs were larger than the other types of administrative costs. TANF administrative costs equal approximately 20 percent of the monthly welfare payment of about $270 for a single parent with two children. Food stamp and Medicaid administrative costs are lower as a proportion of benefits.

Welfare reform's largest unit cost by far is the cost of providing child care subsidies, which amounts to about $340 ($325 in payments to providers and $15 in administrative costs) per family for each month of subsidy. Over the first few years of welfare reform, Indiana substantially increased spending on child care for welfare recipients.

The average cost of employment and training services ($145 per adult per active month, including $111 in services and $34 in administrative costs) was somewhat low in Indiana compared to the cost of such services in other welfare to work programs.[6] This is partly due to the fact that a large majority of clients fulfilled their IMPACT participation requirement by working in an unsubsidized job, requiring very little IMPACT expenditure. The next most common program activities were job search or job readiness, which were short term and relatively inexpensive. Only a small proportion of sample members engaged in longer term education or training through the IMPACT program.[7]

The *net* costs, or the cost per Welfare Reform group family minus the cost per Traditional Welfare group family, were negative for administrative costs and positive for services. In other words, Indiana's welfare reform program reduced administrative costs because Welfare Reform group families had fewer months of receipt of TANF, food stamps, and Medicaid. On the other hand, Welfare Reform group members were more likely to participate in IMPACT and more likely to receive subsidized child care, so welfare reform led to increased spending on these services. Overall costs were higher under welfare reform because the increase in spending on child care and IMPACT was larger than the saving in administrative costs. These calculations, however, do not take into account the saving in transfer payments, discussed in section 6.4.

[6] See, for example, Hamilton *et al*. 2001.

[7] Our analysis does not take into account the cost of education and training (E&T) services that sample members received on their own (i.e., outside the IMPACT program). Tabulations from the five-year client survey suggest slightly lower rates of non-IMPACT E&T participation for the Welfare Reform group compared to the Traditional Welfare group. This would at least partly offset the higher rates of *IMPACT* E&T participation for the Welfare Reform group. As a consequence, our results may understate the net benefit to taxpayers of Indiana's welfare reform (i.e., the actual benefit to taxpayers may be higher).

6.3 Employment-Related Effects of Welfare Reform

As discussed in Chapter 4, Indiana's welfare reform program produced increases in employment and earnings for single-parent families in the first-year cohort. The estimated impact on earnings is an important component of the cost-benefit analysis. It can also be used to estimate the dollar value of changes in both the fringe benefits sample members received and the federal, State, and local taxes they paid.

Earnings and Fringe Benefits

Exhibit 6.3 presents the net value of the earnings gains generated by welfare reform over the evaluation's five-year observation period. These gains have been discounted to reflect their value in 2001, the base year for this analysis. As the table shows, the earnings gain was approximately $2,400 per Welfare Reform group member in the first-year cohort.

The compensation from the employment of sample members also included fringe benefits, notably employer-paid health and life insurance, pension contributions, and workers' compensation. Based on federal data (U.S. Bureau of the Census 1997), these benefits constitute an estimated 15 percent of earnings.[8] The resulting estimate of the value of increased fringe benefits, about $360 per Welfare Reform group member, lifts the overall gain in compensation from employment to $2,757.

Tax Payments

The increase in earnings affected taxes paid by welfare families, including federal and state income taxes, Social Security taxes, and state and local sales taxes. Federal and State tax rules in effect in 1997 and 1998—including rules governing tax credits such as the Earned Income Tax Credit (EITC)—have been applied to the earnings and (where appropriate) TANF payments of Welfare Reform and Traditional Welfare group members during the observation period, as shown in Exhibit 6.3.

[8] This is the proportion of compensation paid to workers in non-manufacturing establishments that covered legally required benefits (Social Security, workman's compensation, etc.), health and other insurance, and retirement benefits.

Exhibit 6.3
Five-Year Impacts on Earnings, Fringe Benefits, and Taxes, First-Year Cohort (in 2001 Dollars)

Component of Analysis	Welfare Reform Group	Traditional Welfare Group	Difference
Earnings	$29,513	$27,116	$2,397
Fringe benefits	4,427	4,067	360
Total earnings and fringe benefits	33,940	31,183	2,757
Social Security payroll tax	$2,258	$2,075	$183
Federal income tax	-4,064	-3,781	-283
State sales and income tax	990	907	83
Total taxes	-816	-799	-17
Sample size (total = 66,413)	63,197	3,216	

Sources: Abt Associates calculations from Indiana Unemployment Insurance earnings records and published data on fringe benefits and taxes.

Notes: Estimates reflect discounting and adjustments for inflation.
Welfare Reform and Traditional Welfare group differences have been regression-adjusted to control for differences in the characteristics of sample members using the same models employed by the impact estimates presented in Chapter 4.

Welfare reform had a larger effect on federal income taxes than other taxes. Because of the EITC, the increase in earnings led to increased tax credits totaling $283 per Welfare Reform group member during the observation period. The EITC is a refundable credit, so this was a tangible gain to welfare families.

The value of this financial gain, however, was roughly offset by increases in other taxes. The largest boost was in Social Security payroll taxes, which increased by an estimated $183 per Welfare Reform group member. State sales and income tax payments increased by $83, based on the proportion of family expenditures that are taxable, and because of welfare reform's impacts on earnings and TANF payments. The estimated effect on Indiana income tax was smaller than the estimated effect on sales taxes.

6.4 Transfer Program Effects of Welfare Reform

Indiana's welfare reform efforts also produced impacts on transfer program payments and benefits, as discussed in Chapter 4. Exhibit 6.4 presents TANF, food stamp, and Medicaid payments for the Welfare Reform and Traditional Welfare groups over the five-year observation period. In dollar terms, Medicaid provided the largest benefit to sample members—about $14,000 per family over the five-year study period (more than twice the amount families received in TANF payments). Food stamp payments were larger than TANF but smaller than Medicaid benefits.

In terms of *net* benefits, however, the largest difference was for TANF payments. As shown in the table, TANF cash assistance payments to Welfare Reform group members during this period were on average nearly $1,200 less than those made to Traditional Welfare group members. The effect on TANF payments was larger because the reduction in TANF receipt was larger than the reduction in food stamp receipt or Medicaid participation. In total, Welfare Reform group members received about $2,100 less than Traditional Welfare group members in transfer payments over the five years, which represents a cost savings to taxpayers and a loss in income for sample members.

The effect on Medicaid payments was not directly measured. The estimated difference, $462, reflects a small reduction in Medicaid program participation over the five years. This difference was valued using the average Medicaid payments to welfare families covered by Medicaid in Indiana in fiscal years 1996 through 2000, expressed in 2001 dollars.

Exhibit 6.4
Five-Year Impacts on Transfer Payments, First-Year Cohort (in 2001 Dollars)

Component of Analysis	Welfare Reform Group	Traditional Welfare Group	Difference
TANF payments	$5,762	$6,942	-$1,180
Food stamps	9,139	9,634	-495
Medicaid payments	13,740	14,202	-462
Total transfer payments	28,641	30,777	-2,137
Sample size (total = 66,440)	63,223	3,217	

Sources: Abt Associates calculations from survey data, Indiana transfer program records, TANF and Food Stamps administrative cost data, and published data on Medicaid payments and administrative costs.

Notes: Estimates reflect discounting and adjustments for inflation.
Welfare Reform and Traditional Welfare group differences have been regression-adjusted to control for differences in the characteristics of sample members using the same models employed by the impact estimates presented in Chapter 4.

6.5 Overall Cost-Benefit Results

Exhibit 6.5 uses the cost and benefit results from the previous exhibits to estimate the overall net benefit of Indiana's welfare reform program from the perspectives of welfare families, taxpayers, and society as a whole.

Results for Welfare Families

The first column of Exhibit 6.5 shows that welfare families in the first-year cohort experienced a small average net gain from welfare reform of about $900 per family over the five years, or about $180 per year. The key to these results is welfare reform's substantial impact on employment and earnings. This impact produced the gains due to earnings, fringe benefits, and the EITC that offset the losses in TANF payments, food stamps, and Medicaid, as well as the payroll and state tax increases.

The finding in this chapter of a modest benefit to welfare families appears to conflict with the finding in Chapter 4 of no significant increase in income for these same families. The estimated benefit per year of $180 is somewhat higher than the estimated annual impact on income reported in Exhibit 4.7 ($123 per year). The benefit estimate is higher mainly because it includes additional sources of benefits beyond those included in the measure of income reported in Exhibit 4.7; on net, these other sources are positive. A second reason the benefit estimate is higher is that the adjustment process used to express benefits in 2001 dollars inflates the values for earlier years. The result in Exhibit 4.7 includes no such adjustment for inflation.

A final reason for the apparent conflict in findings between this chapter and Chapter 4 is that cost-benefit analyses typically do not take into account statistical significance, while impact analyses do. Thus, in Chapter 4 we found no evidence of an impact on income, even though the estimated impact was positive, because the estimate was not statistically significant. In this chapter, the estimated benefit is positive and is reported as such, without regard to statistical significance.[9]

These results also do not take into account the presumably reduced time that single parents had to devote to personal and family activities as a result of the additional hours they worked. A separate analysis, however, found no evidence that Indiana's program had adverse impacts on children (Beecroft, Cahill, and Goodson 2002).

[9] The methods used to derive some of the estimates for the benefit-cost analysis do not enable tests of statistical significance.

Exhibit 6.5
Five-Year Estimated Benefits and Costs per Welfare Reform Group Family, by Accounting Perspective, First-Year Cohort (in 2001 Dollars)

	Perspective		
Type of Benefit or Cost	**Welfare Families**	**Taxpayers**	**Society**
Earnings	$2,397	$0	$2,397
Fringe benefits	360	0	360
Social Security payroll tax	-183	367	0
Federal income tax	283	-283	0
State taxes	-83	83	0
TANF payments	-1,180	1,180	0
Food stamps	-495	495	0
Medicaid payments	-462	462	0
TANF eligibility administration	0	145	145
TANF IMPACT administration	0	-59	-59
TANF IMPACT services	0	-189	-189
Child care services	260	-260	0
Other transfer program administration	0	74	74
Net gain or loss (net present value)	$897	$2,015	$2,728

Sources: Abt Associates calculations from survey data, Indiana Unemployment Insurance (UI) and program records, and published data on fringe benefits, taxes, Medicaid and Food Stamps program administrative costs and Medicaid payments.

An important caveat to the cost-benefit results for welfare families is that such results are *averages* estimated across thousands of families. While the average family benefited financially from welfare reform, a minority of families may have been harmed.

Results for Taxpayers

The second column of Exhibit 6.5 shows savings for taxpayers of about $2,000 per Welfare Reform group family over the five-year study period. The chief source of savings was the reduction in TANF payments, followed by decreases in food stamps and Medicaid. These savings were larger than the increased spending on child care and the IMPACT program (borne by Indiana), and the increase in EITC payments (borne by the federal government).

An important question, from the standpoint of taxpayers, is whether Welfare Reform group members displaced other workers. If positive effects of welfare reform, in terms of welfare families' employment and earnings, came at the expense of other people who were unable to find employment, then such taxpayer losses should be counted. However, given the low unemployment rate and high availability of jobs during most of the observation period, it is unlikely that many workers were displaced in that period. Labor markets grew weaker after 2000, increasing the possibility of displacement.

Results for Society

The far-right column of Exhibit 6.5 shows that from the perspective of society as a whole, welfare reform resulted in a savings of about $2,700 per Welfare Reform group family over five years. These results are driven by the impact on employment and earnings. Overall, the results suggest that Indiana's welfare reform program has helped families, produced gains for taxpayers, and been a cost-effective public investment.

The results shown in Exhibit 6.5 are limited to the impacts measured during the evaluation's five-year observation period. However, welfare reform's impacts on earnings and transfer payments grew over the five years, making it likely that such impacts have continued beyond the observation period. Even assuming earnings and transfer payment impacts decreased steadily in size after year 5, the overall net gain from welfare reform would be larger than that shown in Exhibit 6.5, for all three perspectives.

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Appendix A

Five-Year Impacts for Two-Parent Families

Exhibit A.1
Five-Year Impacts on TANF and Food Stamp Receipt for All Two-Parent Families, First-Year Cohort

Outcome	Welfare Reform Group	Traditional Welfare Group	Difference	Percentage Change
Average total TANF payments received, years 1-5 ($)	2,686	3,249	-563*	-17.3
Year 1	1,521	1,627	-106	-6.5
Year 2	485	554	-69	-12.5
Year 3	293	453	-160*	-35.3
Year 4	212	324	-112	-34.6
Year 5	175	290	-115	-39.7
Received any TANF payments (%)				
Last quarter of year 1	24.6	26.8	-2.2	-8.2
Last quarter of year 2	11.3	13.7	-2.4	-17.5
Last quarter of year 3	8.5	12.9	-4.4	-34.1
Last quarter of year 4	7.1	10.6	-3.5	-33.0
Last quarter of year 5	6.8	7.0	-0.2	-2.9
Average number of months receiving TANF payments, years 1-5	7.5	9.0	-1.5*	16.7
Average total value of Food Stamps received, years 1-5 ($)	6,132	6,960	-827*	-11.9
Year 1	2,451	2,696	-245*	-9.1
Year 2	1,381	1,525	-144	-9.4
Year 3	915	1,086	-171	-15.7
Year 4	731	855	-125	-14.6
Year 5	654	797	-143	-17.9
Received any Food Stamps (%)				
Last quarter of year 1	51.4	59.0	-7.6*	-12.9
Last quarter of year 2	33.7	39.5	-5.8	-14.7
Last quarter of year 3	24.8	33.7	-8.9**	-26.4
Last quarter of year 4	22.0	29.4	-7.4*	-33.6
Last quarter of year 5	20.5	22.8	-2.3	-10.1
Average number of months receiving Food Stamp payments, years 1-5	16.9	20.3	-3.4**	-16.7
Sample size (total= 3,444)	3,294	150		

Sources: Indiana Unemployment Insurance earnings records and administrative records from the Indiana Client Eligibility System.

Note: A two-tailed t-test was applied to differences between the Welfare Reform and Traditional Welfare groups. Statistical significance levels are indicated as ***=1 percent; **=5 percent; *=10 percent.

Exhibit A.2
Five-Year Impacts on Earnings and Employment for All Two-Parent Families, First-Year Cohort

Outcome	Welfare Reform Group	Traditional Welfare Group	Difference	Percentage Change
Average total earnings, years 1-5 ($)	53,671	45,113	8,558**	19.0
Year 1	6,807	6,407	337	5.2
Year 2	9,689	7,309	2,380***	32.6
Year 3	11,453	8,907	2,546***	28.6
Year 4	12,333	10,514	1,818*	17.3
Year 5	13,487	11,974	1,513	12.6
Earnings of primary wage earner, years 1-5 ($)	37,474	32,318	5,156*	16.0
Earnings of other parent, years 1-5 ($)	16,228	12,793	3,435**	26.9
Average quarterly employment rate, either parent, years 1-5 (%)	65.9	63.0	2.9	4.6
Last quarter of year 1	65.1	61.0	4.1	6.7
Last quarter of year 2	68.2	58.8	9.4**	16.0
Last quarter of year 3	67.9	61.2	6.7	10.9
Last quarter of year 4	66.4	61.2	5.2	8.5
Last quarter of year 5	63.9	60.2	3.7	6.1
Average quarterly employment rate, primary wage earner, years 1-5 (%)	54.5	52.2	2.3	4.4
Average quarterly employment rate, other parent, years 1-5 (%)	32.2	30.3	1.9	6.3
Sample size (total= 3,442)	3,292	150		

Sources: Indiana Unemployment Insurance earnings records and administrative records from the Indiana Client Eligibility System.

Notes: (1) A two-tailed t-test was applied to differences between the Welfare Reform and Traditional Welfare groups. Statistical significance levels are indicated as ***=1 percent; **=5 percent; *=10 percent.

(2) The sample size for earnings and employment impacts is slightly smaller than the sample size for other impacts because social security numbers were missing for 2 sample members, so that Unemployment Insurance earnings records could not be obtained.

Exhibit A.3
Impacts on Combined Income from Earnings, TANF, and Food Stamps for All Two-Parent Families, First-Year Cohort

Outcome	Welfare Reform Group	Traditional Welfare Group	Difference	Percentage Change
Average total income from earnings, TANF, and Food Stamps, Years 1-5 ($)	63,290	56,274	7,017**	12.5
Year 1	10,938	11,140	-203	-1.8
Year 2	11,698	9,695	2,003***	20.7
Year 3	12,800	10,724	2,076**	19.4
Year 4	13,436	11,724	1,713	14.6
Year 5	14,418	12,991	1,427	11.0
Proportion of income from earnings (%)				
Year 1	48.8	46.1	2.7	5.9
Year 2	64.8	60.5	4.3	7.1
Year 3	69.6	61.7	7.9**	12.8
Year 4	69.3	64.7	4.5	7.0
Year 5	69.5	60.4	9.1**	15.1
Sample size (total = 3,444)	3,294	150		

Sources: Administrative records: Indiana Unemployment Insurance earnings records and Indiana Client Eligibility System records.

Note: A two-tailed t-test was applied to differences between the Welfare Reform and Traditional Welfare groups. Statistical significance levels are indicated as: ***=1 percent; **=5 percent; *=10 percent.

Appendix B

Impacts on Reported Child Maltreatment

Appendix B

Impacts on Reported Child Maltreatment

This appendix presents estimates of the impacts of Indiana's welfare reform program on substantiated child maltreatment as reported to Indiana's child protective services agency. We estimate impacts on any reported maltreatment, on maltreatment by type (neglect, physical abuse, and sexual abuse), and on out of home placements for all children in both the first year cohort and the later cohort. Data on maltreatment cover approximately seven years of follow up for the first year cohort, and four years of follow up for the later cohort.[1]

Why Might Welfare Reform Affect Child Maltreatment?

The impacts of welfare reform on child maltreatment, if any, are likely to be indirect. In other words, because welfare reform targets and primarily affects adults, any effects on children are likely to be an indirect result of effects on adults' employment or families' cash assistance payments. In Indiana, as in other states, welfare reform has increased clients' employment and reduced their cash assistance (with the latter effect primarily due to clients leaving welfare sooner). Clients' income has not been affected on average, because higher earnings have been offset by lower cash assistance payments.

The observed impacts on cash assistance and employment could in theory lead to reductions or increases on child maltreatment for families in the research sample. Welfare reform might reduce child maltreatment if higher employment rates and lower reliance on welfare improves parents' psychological well being, or if increased use of paid child care increases the quantity or quality of adult supervision. On the other hand, welfare reform could *increase* child maltreatment if higher employment rates and earlier welfare exits increase parental stress or reduce the amount and quality of adult supervision for some children.

To the extent that welfare reform affects child maltreatment, favorably or unfavorably, it is most likely to affect neglect, rather than physical abuse or sexual abuse. Of the three types, neglect may be most sensitive to effects of welfare reform such as changes in parents' psychological well being or changes in adult supervision. Nationally, neglect is the most frequent type of reported maltreatment, sexual abuse the least frequent, and physical abuse in between. We estimate impacts, however, on all three types of maltreatment.

[1] As described below, however, some maltreatment reports are missing for follow up years one and two for the first year cohort, due to a system conversion.

Other Research on Welfare Reform's Effects on Child Maltreatment

Relatively little of the large volume of research on welfare reform has focused on welfare reform's impacts on child maltreatment. Of the studies that have examined impacts on child maltreatment, only two have been based on a random assignment design. Those two studies, state welfare reform evaluations in Delaware and Iowa, used individual-level administrative data from child protective services systems to examine the effects of welfare reform on reported child maltreatment. In Delaware, Fein and Lee (2003) found evidence that welfare reform may have produced small increases in neglect, but found no effect on physical abuse, sexual abuse, or foster care placements. In Iowa, Fraker *et al.* (2002) estimated impacts on receipt of child welfare services, a proxy for child maltreatment. For three of four cohorts (ongoing welfare clients and two cohorts of applicants), the authors found no evidence that welfare reform affected receipt of child welfare services. For the fourth cohort, comprising the most recent applicants, the treatment group was more likely than the control group to use all three types of child welfare services: family-centered services, family-preservation services, and foster care services.

In a nonexperimental analysis, Paxson and Waldfogel (2003) used state level data from 1990 to 1998 from the National Clearinghouse on Child Abuse and Neglect to estimate the effects of specific welfare reform policies on reported child maltreatment.[2] Reductions in average annual welfare benefits at the state level were associated with increases in neglect and out of home placements. The authors found no evidence that welfare reform policies as a whole affected substantiated child maltreatment, but some evidence that welfare reform may have increased out of home placements. Key limitations of this analysis, however, are the nonexperimental design and the use of aggregate rather than individual level data.

In sum, previous research has generally found either no impacts or some adverse impacts of welfare reform on reported child maltreatment. No studies have found consistently favorable impacts on (that is, reductions in) reported child maltreatment.

The analysis presented in this appendix, in addition to providing specific information about the effects of Indiana's program, is valuable more generally because it uses a random assignment design, and has larger sample sizes and a longer follow-up period than the two prior random assignment studies.

The Sample, Data Source, and Outcomes

The sample. Impacts on child maltreatment are estimated for all single parent families in both the first year cohort and the later cohort. The first year cohort includes all 66,440 single parent families statewide (63,223 in the Welfare Reform group and 3,217 in the Traditional Welfare group) who received welfare at some point during the first year of Indiana's welfare reform program, between May 1995 and April 1996. The later cohort comprises 4,954 families (3,863 in the Welfare Reform group and 1,091 in

[2] For a summary of other nonexperimental analyses, see Slack (2002).

the Traditional Welfare group) who began receiving TANF and were randomly assigned between March 1998 and February 1999. Unlike the first year cohort, which is from all 92 counties in Indiana, the later cohort comes from 12 counties (mixed in size and region but including Marion County, which contains Indianapolis). Demographic characteristics of the two cohorts are presented in Chapter 3; economic impacts are presented in Chapter 4 for the first year cohort and Chapter 5 for the later cohort.

Data sources. Data on reported child maltreatment for these families come from the Indiana Child Welfare Information System (ICWIS), the main data system used by child protective services case workers in Indiana's Family and Social Services Administration.

A key issue in extracting child maltreatment data for a sample is ensuring that all relevant reports are extracted. Social security numbers for children are likely to be incomplete in both the child protective services system and the welfare eligibility system. (Persons telephoning in allegations of child maltreatment likely often do not know the victim's social security number, and even if the social security number is determined through subsequent investigation it may not always be entered into the system.) Consequently, extracting records only by social security number is likely to miss some maltreatment records. Instead, child maltreatment records were extracted for this analysis using probabilistic matching, which should yield more complete data than matching only on social security number. For every person in our sample, a matching process was used to determine whether the person appeared in the ICWIS database.[3] All substantiated child maltreatment records for sample members were extracted from ICWIS.

ICWIS provides detailed information on every allegation of maltreatment, including the specific type of maltreatment alleged, the source of the report, the date of the report, the finding of the investigation, and the action taken. Maltreatment is categorized broadly into three types—neglect, physical abuse, and sexual abuse—although each type includes a number of specific sub-types. The most frequent sources of maltreatment reports for the sample were law enforcement personnel and school staff; together these two sources accounted for slightly over 40 percent of all reports. The next most frequent sources of reports were relatives, friends or neighbors, and social service agencies.[4] Some allegations have more than one report source.

The data used for this analysis are likely to understate true rates of child maltreatment in the study sample, for two reasons. First, the analysis in this appendix is based only on *substantiated* maltreatment, excluding unsubstantiated reports.[5] To the extent that some reports are unsubstantiated for reasons other than being false,

[3] In the absence of a social security number, probabilistic matching estimates the probability that two records are for the same child, based on comparing multiple pieces of information such as name, date of birth, gender, and race.

[4] Compared to families in the Traditional Welfare group, maltreatment reports for families in the Welfare Reform group were more likely to come from law enforcement, and less likely to come from school personnel and social service agencies.

[5] Indiana provided data only on substantiated maltreatment.

substantiated rates will understate true rates of reported maltreatment. Second and likely more important, most child abuse and neglect is not reported to child protective service agencies.[6] Nevertheless, except for some missing data for the first year cohort, discussed below, the data used for this analysis should accurately measure *substantiated maltreatment report rates.* Further, to the extent that substantiated report rates are correlated with true maltreatment rates, the findings from this analysis may provide information about welfare reform's impacts on broader measures of maltreatment.

Outcomes. For this analysis, the main outcomes created from ICWIS data were whether sample families had a report of any substantiated child maltreatment, the number of such reports (one, two, and three or more), whether sample families had reports of substantiated maltreatment by type (neglect, physical abuse, and sexual abuse), and whether families had any children placed out of the home or specifically in foster care.[7] All outcomes were aggregated to the family level, consistent with the other analyses in this report.

Time period covered by the data. The child maltreatment data extend from August 2002 back in time to well before random assignment.[8] The data therefore cover approximately seven years of follow up for the first year cohort, and four years of follow up for the later cohort.[9]

Some maltreatment reports are missing, however, for the first year cohort. In early 1997, Indiana converted to a new computer system for child welfare case management. Some records from the prior system were transferred to the new system, but not all prior records. The time period with incomplete data varies from approximately 18 months for clients randomly assigned in May 1995 (the first enrollment month for the first year cohort) to approximately 6 months for clients randomly assigned in April 1996 (the last enrollment month for the first year cohort). Given that the incomplete data are due to system conversion, and there is no reason why conversion rates would differ for Welfare Reform and Traditional Welfare group members, the incomplete data will not bias impact estimates.

To estimate the extent of missing data, we compared the first-year cohort and the later cohort in the distribution of the number of maltreatment reports by follow-up year. Missing data due to system conversion does not affect sample members in the later cohort, who were randomly assigned in 1998 and 1999, after system conversion. The number of maltreatment reports for the later cohort was slightly higher in the first follow-up year compared to the second and third follow-up years. For the first-year cohort, the

[6] The Third National Incidence Study of Child Abuse and Neglect estimated that only 28 percent of children who were identified as maltreated according to the harm standard were investigated by Child Protective Services staff (Sedlak and Broadhurst 1996).

[7] Data on out of home placements do not include voluntary placements, such as voluntary kinship care, even if such placements are due to unsubstantiated reports or reports that were not adjudicated.

[8] Child maltreatment records prior to random assignment were used to construct covariates for estimating impacts.

[9] More precisely, the follow-up period ranges from 77 to 88 months for the first-year cohort, and from 43 to 54 months for the later cohort, depending on sample members' random assignment dates.

number of maltreatment reports in the first follow-up year is about 40 percent as large as the annual average number of reports in follow-up years three through six. Given the timing of reports for the later cohort, this suggests that perhaps 70 percent of maltreatment reports are missing *for the first follow-up year*. We estimate that this represents 12 to 15 percent of all maltreatment reports during the full follow-up period for the first year cohort. Again, however, there is no reason to expect that missing rates differ for the Welfare Reform and Traditional Welfare groups, and therefore no reason why the missing data would bias impact estimates for the first year cohort.

Results

For the first year cohort, we found no statistically significant impacts on any of the child maltreatment outcomes examined for the full sample (Exhibit B.1). For all of the maltreatment outcomes (any report, number of reports, and type of maltreatment), the estimated impacts were small in size. For out of home placements, estimated impacts were somewhat larger in percentage terms, but small in absolute size and not statistically significant.

For subgroups in the first year cohort, three impact estimates were statistically significant, but given the number of impacts estimated it is unclear whether the impacts are real or occurred by chance. For the same subgroup categories examined in Chapter 4 and two additional categories (number of children and race/ethnicity of the mother), we estimated impacts on one outcome—the proportion of families with any substantiated maltreatment reports. Statistically significant increases in maltreatment reports were found for ongoing clients for clients in the "medium" work history category, and for clients with three or more children (Exhibit B.2). It is not clear whether these are real effects because, given that impacts were estimated for sixteen subgroups, it is likely that one or two of the impact estimates would be statistically significant at the ten percent level by chance.

For the later cohort, we found a statistically significant reduction in substantiated maltreatment reports for the full sample (Exhibit B.3). Slightly more than seven percent of families in the Welfare Reform group had a substantiated maltreatment report, compared to nine percent of Traditional Welfare families. Impact estimates for the full sample are generally negative for the later cohort, and larger in size than for the first year cohort.

For subgroups in the later cohort, six of the twelve impacts estimated were statistically significant, and five of the six significant estimates were favorable (that is, showed a reduction in substantiated maltreatment). Reductions in reported maltreatment were found for clients who: were exempt; had no recent work history at the time of random assignment; lived in counties other than Marion; had three or more children on TANF; and were black (Exhibit B.4). In contrast, clients with the most work history showed an increase in substantiated maltreatment. Any attempt to explain these findings is highly speculative. With that caveat in mind, maltreatment impacts for both cohorts appear to be more closely related to impacts on TANF receipt than to impacts on TANF

Exhibit B.1
Impacts on Reported Child Maltreatment and Out of Home Placements for Single-Parent Families, First-Year Cohort

Outcome	Welfare Reform Group	Traditional Welfare Group	Difference	Percentage Change
Any Substantiated Maltreatment Reports				
Families with any substantiated maltreatment reports since random assignment (%)	11.9	11.1	0.7	6.4
Number of substantiated maltreatment reports since random assignment				
Families with one report (%)	7.9	7.3	0.7	9.2
Families with two reports (%)	2.4	2.2	0.2	5.5
Families with three or more reports (%)	1.5	1.6	-0.1	-5.1
Type of Maltreatment				
Families with substantiated neglect (%)	8.9	8.4	0.5	6.3
Families with substantiated physical abuse (%)	4.1	4.0	0.1	1.5
Families with substantiated sexual abuse (%)	3.7	3.6	0.1	2.9
Out of Home Placements				
Families with any out of home placement (%)	3.1	3.6	-0.5	13.2
Families with foster care placement (%)	1.6	1.9	-0.3	16.5
Survey sample size (n=66,440)	63,223	3,217		

Source: Administrative records from the Indiana Child Welfare Information System.

Note: (1) A two-tailed t-test was applied to differences between the Welfare Reform and Traditional Welfare groups. Statistical significance levels are indicated as ***=1 percent; **=5 percent; *=10 percent.

Exhibit B.2
Subgroup Impacts on Reported Child Maltreatment for Single-Parent Families, First-Year Cohort

Subgroup	Families with Any Substantiated Maltreatment Reports Since Random Assignment (%)				Percentage Change
	Sample Size	Welfare Reform Group	Traditional Welfare Group	Difference	
IMPACT (E&T) Status					
Mandatory	37,746	11.8	10.9	1.0	8.8
Exempt	28,667	11.9	11.5	0.4	3.2
Ongoing or Applicant					
Ongoing	42,475	12.1	10.8	1.3**	11.8
Applicant	23,938	11.5	11.7	-0.3	-2.3
Work History					
Employed in none of the 5 quarters before enrollment	25,486	11.9	10.8	1.2	10.9
Employed in 1-3 of the 5 quarters before enrollment	23,438	12.9	10.9	2.0	18.1
Employed in 4-5 of the 5 quarters before enrollment	17,489	10.4	12.2	-1.8	-14.7
County					
Marion County (Indianapolis)	14,308	8.5	8.1	0.4	4.3
Lake County (Gary)	13,145	6.8	5.5	1.3	23.5
Rest of the State	38,960	14.8	14.2	0.6	4.5
Number of Children Receiving TANF					
One	32,477	7.3	8.1	-0.8	-10.4
Two	19,782	13.8	12.6	1.2	9.4
Three or more	14,181	19.6	16.2	3.4'	21.3
Race/Ethnicity					
White	38,176	8.8	8.0	0.8	10.0
Black	25,156	22.6	21.6	0.9	4.3
Hispanic	2,518	14.2	13.0	1.2	9.1
Full Sample	66,440	63,223	3,217		

Source: Administrative records from the Indiana Child Welfare Information System.

Notes: (1) A two-tailed t-test was applied to differences between the Welfare Reform and Traditional Welfare groups. Statistical significance levels are indicated as ***=1 percent; **=5 percent; *=10 percent.

(2) Statistically significant differences in impacts across subgroups are shaded. In particular, impacts on substantiated maltreatment reports differed across subgroups defined by work history and number of children receiving TANF.

Exhibit B.3
Impacts on Reported Child Maltreatment and Out of Home Placements for Single-Parent Families, Later Cohort

Outcome	Welfare Reform Group	Traditional Welfare Group	Difference	Percentage Change
Any Substantiated Maltreatment Reports				
Families with any substantiated maltreatment reports since random assignment (%)	7.3	9.0	-1.7*	-18.7
Number of substantiated maltreatment reports since random assignment				
Families with one report (%)	5.1	6.8	-1.7**	-25.6
Families with two reports (%)	1.6	1.4	0.2	13.7
Families with three or more reports (%)	0.6	0.7	-0.1	-16.4
Type of Maltreatment				
Families with substantiated neglect (%)	5.7	6.8	-1.1	-16.8
Families with substantiated physical abuse (%)	3.0	3.0	-0.1	-2.1
Families with substantiated sexual abuse (%)	1.6	1.8	-0.2	-13.2
Out of Home Placements				
Families with any out of home placement (%)	2.4	3.1	-0.8	-25.0
Families with foster care placement (%)	1.2	1.7	-0.5	-29.5
Survey sample size (n=4,954)	3,863	1,091		

Source: Administrative records from the Indiana Child Welfare Information System.

Note: (1) A two-tailed *t*-test was applied to differences between the Welfare Reform and Traditional Welfare groups. Statistical significance levels are indicated as ***=1 percent; **=5 percent; *=10 percent.

Exhibit B.4
Subgroup Impacts on Reported Child Maltreatment for Single-Parent Families, Later Cohort

Subgroup	Sample Size	Families with Any Substantiated Maltreatment Reports Since Random Assignment (%): Welfare Reform Group	Traditional Welfare Group	Difference	Percentage Change
IMPACT (E&T) Status					
Mandatory	2,167	9.3	9.9	-0.6	-6.2
Exempt	2,787	5.6	8.2	2.5	-31.1
Work History					
Employed in none of the 5 quarters before enrollment	2,116	6.1	10.9	-4.8**	-43.8
Employed in 1-3 of the 5 quarters before enrollment	1,440	7.6	9.1	-1.5	16.8
Employed in 4-5 of the 5 quarters before enrollment	1,388	8.7	5.6	3.1*	56.0
County					
Marion County (Indianapolis)	2,139	9.1	9.0	0.0	0.3
Remaining counties	2,815	5.2	8.0	-2.8**	-35.4
Number of Children Receiving TANF					
One	3,094	5.0	5.2	-0.2	-3.0
Two	1,162	9.7	12.7	-2.9	-23.1
Three or more	698	13.1	19.7	-6.6	-33.4
Race/Ethnicity					
White	2,631	5.0	6.1	-1.1	-17.5
Black	2,035	15.0	17.7	-2.7*	-15.1
Full Sample	4,954	3,863	1,091		

Source: Administrative records from the Indiana Child Welfare Information System.

Notes: (1) A two-tailed t-test was applied to differences between the Welfare Reform and Traditional Welfare groups. Statistical significance levels are indicated as ***=1 percent; **=5 percent; *=10 percent.

(2) Statistically significant differences in impacts across subgroups are shaded. In particular, impacts on substantiated maltreatment reports differed across subgroups defined by mandatory status and by work history.

payments, employment, or earnings. That is, adverse impacts on reported maltreatment tend to occur for subgroups with large reductions in TANF receipt, and favorable impacts on reported maltreatment tend to occur for subgroups with no reduction in TANF receipt. (See the subgroup impacts in Chapters 4 and 5, Exhibits 4.3, 4.5, 5.2 and 5.4.) It is unclear, however, why TANF receipt would reduce reported maltreatment, if not through an effect on TANF payments and thereby income.[10]

Taken across both cohorts, the results do not suggest that welfare reform has had a consistently favorable or unfavorable effect on reported child maltreatment. Estimated impacts are generally favorable for the later cohort, but smaller and somewhat unfavorable for the first-year cohort (in direction, although few estimates were statistically significant). The difference in results across cohorts is not clearly explained by differences in economic impacts across cohorts. On balance, a tentative conclusion is that Indiana's welfare program may have reduced reported child maltreatment for some later applicants to TANF, but not for the initial cohort. The limited experimental evidence to date, from Indiana, Delaware, and Iowa, does not suggest widespread adverse impacts of welfare reform on reported child maltreatment.

In addition to the findings on impacts, the numbers in the exhibits in this appendix are of interest for what they reveal about the level of involvement of welfare recipients with the child welfare system. For the first year cohort, about 13 percent of families subject to welfare reform had children who were victims of substantiated child maltreatment during the seven-year follow-up period (adjusting for missing data during the early follow-up period). This rate varies across the subgroups examined in Exhibit B.2, with the largest reported maltreatment rates for blacks, families with three or more children, and counties other than Marion (Indianapolis) and Lake (Gary).

The maltreatment report rate is lower for the later cohort, at least in part because of the shorter follow-up period. Approximately 7 percent of welfare reform group families had substantiated reports during the approximately four-year follow-up period. As with the first-year cohort, rates were highest for black families and families with three or more children.

On an annual basis, about 2.5 to 3 percent of children in the sample were victims of substantiated child maltreatment. This is higher than the 0.8 percent rate for all Indiana children, and higher than the 1.1 percent rate for all U.S. children (U.S. Department of Health and Human Services (2003)). The rate is lower, however, than the 5 percent annual rate reported by Fein and Lee (2003) for welfare reform families in Delaware. Because reported child maltreatment is negatively correlated with income, reported child maltreatment rates are generally higher for families receiving welfare than for all families.

[10] Apart from the cash grant, the primary value of receiving TANF for many clients may have been categorical eligibility for Medicaid. An open question, therefore, is whether Medicaid receipt (compared to no health coverage) might reduce the likelihood of reported child maltreatment.

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Appendix C

Cost Data Used in the Benefit-Cost Analysis

Appendix C
Cost Data Used in the Benefit-Cost Analysis

This appendix provides additional information regarding the cost data used in the benefit-cost analysis in Chapter 6.

Sources of Program Expenditures Data

Most of the cost data were obtained from Indiana's Family and Social Services Administration (FSSA) for state fiscal years 1997, 1998, and 1999. The State's fiscal year (SFY) lasts from July 1 to June 30. The one exception is child care costs, which are maintained by Federal fiscal year (FFY), which runs from October 1 – September 30. Because Indiana's MIS systems are designed to support billing, contract management, and federal reporting requirements, some assumptions and allocations were required for this analysis. However, no adjustments were made for the fact that child care costs correspond to different 12-month periods than other program costs.

As shown in Exhibit C.1, the program expenditure data fall into several categories. For income maintenance programs, the expenditure data used in this analysis cover the costs of providing TANF, Medicaid and Food Stamps to families—essentially all of the costs of these programs *except* the value of benefit payments, which are reported in ICES. The costs of operating the TANF, Food Stamps, and Medicaid programs are billed by the State to each Federal program using allocations of staff time based on a Random Moment Sampling survey of how caseworkers spend their time. The State identifies separately those costs that apply *only* to IMPACT families. We have assumed that all administrative costs not specifically assigned to IMPACT are the same for IMPACT and non-IMPACT clients.

Two other features of the cost data are noteworthy. First, the child care costs include all subsidized child care—that is, child care for transitional as well as active TANF families. Second, during SFY 1998 and FY 1999, Indiana contracted with 85 service providers across the State to assist clients in overcoming a variety of barriers to self sufficiency. The services provided under these "Barrier Busting" contracts included job training, life management skills, housing and shelter assistance, substance abuse screening and counseling, and other social and supportive services. The costs of the barrier busting contracts are included in the total cost of IMPACT services.

Exhibit C.1
Summary of Cost Data

Cost Category	Description
TANF Eligibility	These costs are billed to federal programs as direct program costs. The allocations to each program are based on random moment sampling. For TANF eligibility, costs include all staff activities required to support a client receiving income maintenance, such as eligibility determination, screening, interviewing, redetermination, case documentation, and case management. State and County indirect costs, which are included in this total, are allocated using the same method.
IMPACT:	
Work Activities	Contractor costs (FY 1998 and 1999 include Barrier Busting contracts as well as IMPACT contracts) for job search, development and placement; work experience site development, job readiness services.
Education and Training	Contractor costs for job training and basic education.
Assessment and Case Management	Contractor costs for assessment, social services, case management, and program development.
Supportive Services	Costs paid by FSSA for items to support working clients, such as bus tokens, transportation reimbursement, work clothes and uniforms, training tuition, and vehicle repair.
Administration	Include direct and indirect costs as well as ICES expenditures. The allocations to each program are based on random moment sampling. State and county indirect costs are allocated using the same method.
TANF and CDBG Child Care:	
Child care paid	Total child care subsidies paid in the federal fiscal year
Administrative costs	Includes amounts paid to voucher agents who administered the CCDF program and county indirect costs.