

Executive Summary

TESTING TWO SUBSIDIZED
EMPLOYMENT APPROACHES
FOR RECIPIENTS OF
TEMPORARY ASSISTANCE
FOR NEEDY FAMILIES

Implementation and Early
Impacts of the Los Angeles
County Transitional Subsidized
Employment Program

OPRE Report 2016-77

November 2016

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Testing Two Subsidized Employment Approaches for Recipients of Temporary Assistance for Needy Families: Implementation and Early Impacts of the Los Angeles County Transitional Subsidized Employment Program

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Contract Number: HHSP 233-2010-0029YC

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Suggested citation: Glosser, Asaph, Bret Barden, and Sonya Williams, with Chloe Anderson. (2016). *Testing Two Subsidized Employment Approaches for Recipients of Temporary Assistance for Needy Families: Implementation and Early Impacts of the Los Angeles County Transitional Subsidized Employment Program*. OPRE Report 2016-77. Washington, DC: Office of Planning, Research and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services.

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MDRC and subcontractors MEF Associates, Branch Associates, and Decision Information Resources (DIR), Inc., are conducting the Subsidized and Transitional Employment Demonstration under a contract with the Administration for Children and Families in the U.S. Department of Health and Human Services (HHS), funded by HHS under a competitive award, Contract No. HHSP 233-2010-0029YC. The project officers are Girley Wright and Erica Zielewski. The Rockefeller Foundation also provided funding to support the demonstration.

Dissemination of MDRC publications is supported by the following funders that help finance MDRC's public policy outreach and expanding efforts to communicate the results and implications of our work to policymakers, practitioners, and others: The Annie E. Casey Foundation, Charles and Lynn Schusterman Family Foundation, The Edna McConnell Clark Foundation, Ford Foundation, The George Gund Foundation, Daniel and Corinne Goldman, The Harry and Jeanette Weinberg Foundation, Inc., The JBP Foundation, The Joyce Foundation, The Kresge Foundation, Laura and John Arnold Foundation, Sandler Foundation, and The Starr Foundation.

In addition, earnings from the MDRC Endowment help sustain our dissemination efforts. Contributors to the MDRC Endowment include Alcoa Foundation, The Ambrose Monell Foundation, Anheuser-Busch Foundation, Bristol-Myers Squibb Foundation, Charles Stewart Mott Foundation, Ford Foundation, The George Gund Foundation, The Grable Foundation, The Lizabeth and Frank Newman Charitable Foundation, The New York Times Company Foundation, Jan Nicholson, Paul H. O'Neill Charitable Foundation, John S. Reed, Sandler Foundation, and The Stupski Family Fund, as well as other individual contributors.

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Overview

Introduction

Securing unsubsidized employment in a competitive labor market can be difficult for job seekers with limited education or work experience, especially if they are caring for young children, doubly so if they are single parents. Some public assistance programs — state Temporary Assistance for Needy Families (TANF) programs, for example — attempt to make recipients more employable by temporarily providing subsidized employment to people who cannot find them in the regular labor market, using public funds to pay all or some of their wages.

Subsidized jobs can be designed to teach participants basic work skills, give them work experience that can be used on future résumés, or help them get a foot in the door with employers. Past research has found mixed results regarding these programs' ability to affect participants' employment rates or earnings in the long term, or the rates at which they receive TANF benefits. The mixed track record of subsidized employment programs has pushed the field to identify new models for subsidized employment. This study evaluates two approaches to subsidized employment for TANF recipients in Los Angeles County.

Primary Research Questions

The study seeks to answer the following research questions:

- How was the program designed and operated?
- What are the impacts of the program's two approaches on employment, TANF receipt, income, and overall well-being, relative to what would have happened in the absence of the program?
- Which of the two approaches appears to be more effective for which population subgroups?
- To what extent do the two approaches' costs differ from the amounts expended on behalf of individuals randomly assigned to a control group that could not receive program services? How does this cost differential relate to the benefits associated with program impacts, if any?

Purpose

This report presents implementation findings and interim impact results (after one year) from a random assignment evaluation of subsidized employment for TANF recipients in Los Angeles County. The study examines the impact of two distinct approaches to subsidized employment. The first, Paid Work Experience (PWE), subsidizes the wages of individuals placed at nonprofit or public-sector employers. The second, On-the-Job Training (OJT), offers wage subsidies to for-profit, private-sector employers who agree to place employees onto their payrolls after an initial two-month tryout period; if they do, the wage subsidies can continue up to an additional four months. The study

examines the implementation and impacts of both approaches to subsidized employment, and draws some initial comparisons between them.

Key Findings

Findings from the report include the following:

- **The two approaches had substantially different subsidized employment placement rates.** Forty-two percent of OJT participants were placed in subsidized employment, compared with 80 percent of PWE participants.
- **PWE placements lasted an average of more than 64 days longer than OJT placements.** Compared with OJT placements, PWE placements were far more likely to continue beyond the second month, the time when OJT participants were to move onto employers' payrolls. Both types of placements were designed to last up to six months.
- **Members of the control group received other types of welfare-to-work services.** Members of the control group were almost as likely as members of the program groups to receive welfare-to-work services other than subsidized employment. The control group was more likely than either of the program groups to be involved in education.
- **Both PWE and OJT group members had higher rates of work and earnings than control group members.** In the first year after random assignment, both PWE and OJT group members were more likely to work, worked more quarters on average, and had higher average earnings than control group members. These differences were largest among sample members who had not been employed in the year before random assignment. The differences also declined as people left subsidized jobs. There were only a few modest differences between the program participants and control group members in other outcomes such as TANF receipt or overall well-being.

Methods

The evaluation includes an implementation study, an impact study, and a benefit-cost analysis. This report presents implementation findings and interim impact findings (after one year). Benefit-cost findings and longer-term impact findings (after 30 months) will be presented in a future report.

The implementation study describes the PWE and OJT approaches as they were designed and as they ultimately operated. Data sources for the implementation study include staff interviews, observations, and participation data. The implementation sections of this report integrate qualitative and quantitative data from these various sources to create a coherent picture of the implementation of the programs.

The impact study uses a randomized controlled trial design in which individuals eligible for and interested in the subsidized jobs program were randomly assigned to PWE, to OJT, or to a control group who does not have access to either of these subsidized employment approaches. This design makes it possible to compare each subsidized employment approach with the control group, and to compare them with one another. The study will evaluate impacts on employment and earnings,

TANF receipt, and overall well-being, among other areas. Data sources for the impact study include administrative wage records, subsidized employment payroll records, TANF benefit payment records, and surveys conducted approximately 4, 12, and 30 months after participants entered the study.

Acknowledgments

This report would not have been possible without the support of many individuals and organizations. The Subsidized and Transitional Employment Demonstration and Evaluation Project (STED) is conceived and sponsored by the Administration for Children and Families in the U.S. Department of Health and Human Services (HHS). Dedicated staff members in that agency have been instrumental to the success of the project, in particular Girley Wright and Erica Zielewski.

At the Los Angeles Department of Public Social Services (DPSS), we would like to thank Luther Evans, Lorraine Sinelkoff, Silvia Dueñas, Patricia Buenrostro, and Michael Bono. At South Bay Workforce Investment Board, we would like to thank David Nelms, Tracey Atkins, and Francisco Carrillo. We would also like to acknowledge and thank the many DPSS and Worksource Center staff members across Los Angeles County who implemented the intervention. We also thank Chris Warland at the National Transitional Jobs Network for assistance with the implementation of this study.

At MEF, Mike Fishman co-lead the site work and implementation research and provided a thoughtful review of the report; Emmi Obara was also instrumental in site work and implementation research. At MDRC, Dan Bloom, Cindy Redcross, Vanessa Martin, Charles Michalopoulos, Gayle Hamilton, Richard Hendra, Johanna Walter, John Hutchins, and Gordon Berlin provided thoughtful comments on several drafts of this report. Michelle Manno capably managed the report's production. In addition to the authors, Melanie Skemer, Chloe Anderson, Sally Dai, Danielle Cummings, Gary Reynolds, and Adrienne Yao were part of the stellar quantitative analysis team who processed the surveys and federal and local data sets used in the report, and offered insightful recommendations. Danielle Craig coordinated the production of the report. Joshua Malbin edited the report and Carolyn Thomas prepared it for publication.

Finally, we extend our deep appreciation to the thousands of women and men who participated in the study and gave generously of their time to respond to surveys and participate in interviews and focus groups.

The Authors

Executive Summary

Securing unsubsidized employment in a competitive labor market can be difficult for job seekers with limited education or work experience, especially if they are caring for young children, doubly so if they are single parents. Some public assistance programs — state Temporary Assistance for Needy Families (TANF) programs, for example — attempt to make recipients more employable by offering them subsidized employment. Subsidized employment programs provide jobs to people who cannot find them in the regular labor market, using public funds to pay all or some of their wages. Subsidized jobs can be designed to teach participants basic work skills, provide them with work experience that can be used on future résumés, or help them get a foot in the door with employers. Past research has found mixed results regarding these programs’ ability to affect participants’ employment rates or earnings in the long term, or the rates at which they receive TANF benefits.

This report presents implementation findings and interim impact results (after one year) from a random assignment evaluation of subsidized employment for TANF recipients in Los Angeles County. The study is part of a broader evaluation being funded by the Administration for Children and Families in the U.S. Department of Health and Human Services, called the Subsidized and Transitional Employment Demonstration (STED). The Los Angeles STED study examines how two distinct approaches to subsidized employment affect TANF recipients’ employment, earnings, TANF receipt, and overall well-being. The first approach subsidizes the wages of individuals placed at nonprofit or public-sector employers. The second approach offers wage subsidies to private-sector employers. Both of these subsidized employment approaches target TANF recipients who have not been able to secure employment in the competitive labor market following a supervised job-search period.

Background and Context

Previous efforts to use subsidized employment to improve the long-term employment outcomes of hard-to-employ populations have had mixed results. Bloom outlines the history of subsidized and transitional employment tests, finding a long legacy of such programs.¹ Some programs have resulted in long-term gains in employment and earnings. However, most recent studies suggest that while subsidized employment can generate impacts on employment and earnings during the subsidy period, those impacts recede quickly after the subsidy ends.²

¹Dan Bloom, *Transitional Jobs: Background, Program Models, and Evaluation Evidence* (New York: MDRC, 2010).

²A recent study of one program targeting TANF recipients in Philadelphia, which did not find long-term positive impacts on employment, did find sustained positive impacts on measures of TANF receipt. Program
(continued)

Subsidized employment received renewed attention as a result of the recent recession. In 2009, when the national unemployment rate reached 10 percent, states used funds from the American Recovery and Reinvestment Act's TANF Emergency Fund to subsidize jobs for about 280,000 people. Forty states put at least some people to work under its auspices before the funding expired in late 2010, and 14 states (including California) and the District of Columbia each placed at least 5,000 people in subsidized jobs.

Most of the TANF Emergency Fund programs (particularly the larger ones) broadly targeted unemployed workers. Eligibility was not limited to TANF recipients, people with criminal records, or other disadvantaged groups who had been the focus of most earlier studies of subsidized employment programs. Notably, about half the TANF Emergency Fund placements nationwide were summer jobs for young people. Also, many of the programs did not emphasize helping participants make a transition to unsubsidized jobs; instead, they emphasized "rapid job placement to alleviate unemployment."³ Like previous efforts in economic downturns designed to give unemployed people the chance to earn income, the TANF Emergency Fund programs served many people who had steady work histories, and the models assumed that those people would return to regular jobs once the labor market improved. The TANF Emergency Fund programs were popular in many states, with governors from both parties expressing strong support for them. The experience, while relatively short-lived, rekindled interest in subsidized employment more broadly.

In 2010, the U.S. Departments of Health and Human Services and Labor made substantial investments to further advance the field's understanding of subsidized employment. Through STED, the Department of Health and Human Services is funding studies of seven subsidized employment interventions. These studies explore how subsidized employment strategies can meet the needs of TANF recipients and other low-income young people and adults. Two of these studies, including the Los Angeles study that is the subject of this report, focus specifically on subsidized employment for TANF recipients.⁴

group members were less likely than control group members to be receiving cash assistance 18 months after they enrolled in the program. See Dan Bloom, Sarah Rich, Cindy Redcross, Erin Jacobs, Jennifer Yahner, and Nancy Pindus, *Alternative Welfare-to-Work Strategies for the Hard-to-Employ: Testing Transitional Jobs and Pre-Employment Services in Philadelphia* (New York: MDRC, 2009).

³Mary Farrell, Sam Elkin, Joseph Broadus, and Dan Bloom, *Subsidized Employment Opportunities for Low-Income Families: A Review of State Employment Programs Created Through the TANF Emergency Fund* (Washington, DC: Office of Planning, Research and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services, 2011).

⁴For a summary of other subsidized employment tests being funded by the Departments of Health and Human Services and Labor see Dan Bloom, *Testing the Next Generation of Subsidized Employment Programs: An Introduction to the Subsidized and Transitional Employment Demonstration and the Enhanced* (continued)

The STED Evaluation in Los Angeles County

The mixed track record of subsidized employment programs described above has pushed the field to identify new models for subsidized employment. This study of Los Angeles’s Transitional Subsidized Employment program is one such attempt. Targeting TANF recipients in Los Angeles County who failed to find unsubsidized jobs during a four-week “job club,” the study is an opportunity to understand the extent to which two different approaches to subsidized employment can improve participants’ employment and earnings.

- **Paid Work Experience**, or PWE, involves a six-month, fully subsidized placement in a public-sector or nonprofit position. Participants do not go onto employers’ payrolls, and instead are paid (at the minimum wage) by a Workforce Investment Board acting as an intermediary. PWE seeks to increase the employability of participants by giving them work experience.
- **On-the-Job Training**, or OJT, is a private-sector wage subsidy approach. Participants are placed in jobs with for-profit, private employers; they spend the first two months on the payroll of a Workforce Investment Board and the final four months on employers’ payrolls, with employers receiving a partial subsidy of up to \$550 per month. This approach seeks to replicate more closely a “real-world” work environment, with the goal of permanent, unsubsidized placement at the same employer.⁵

The evaluation set out to answer the following questions:

- How was the program encompassing these two approaches designed and operated?
- What are the impacts of these two approaches on employment, TANF receipt, income, and overall well-being, relative to what would have happened in the absence of the program?
- Which of the two approaches appears to be more effective for which population subgroups?

Transitional Jobs Demonstration, OPRE Report 2015-58 (Washington, DC: Office of Planning, Research and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services, 2015).

⁵Many articles and research studies have defined “on-the-job training” models, particularly in the workforce system. The OJT approach implemented in Los Angeles County differs from other on-the-job training models in several ways, including the structure of the subsidy, the point at which a participant transitions onto an employer’s payroll, and the availability of training that complements the placement. This report nevertheless refers to the approach as “On-the-Job Training” both for the sake of consistency and because that is what it is called by the Los Angeles Department of Public Social Services, which runs the program.

- To what extent do the two approaches' costs differ from the amounts expended on behalf of individuals randomly assigned to a control group? How does this cost differential relate to the benefits associated with program impacts, if any?

To answer these questions, the evaluation includes an implementation study, an impact study, and a benefit-cost analysis. The impact study uses a randomized controlled trial design, in which individuals eligible for and interested in the subsidized jobs program were randomly assigned to one of the two subsidized employment approaches (the two program groups) or to a control group who did not have access to these subsidized job opportunities but who could receive other welfare-to-work services. The MDRC team is following the program and control group members for 30 months using surveys and government records to measure outcomes in three areas: employment and earnings, TANF benefit receipt, and overall well-being. If differences emerge between the program groups and the control group over time, and these differences are statistically significant, then the differences can be attributed with some confidence to the subsidized employment approaches. Such differences are referred to as “impact estimates.” In addition to examining how the outcomes of the program groups compare with those of the control group, the evaluation will also examine how the outcomes of the PWE and OJT program groups compare with one another.⁶

This report focuses mostly on the implementation study, but it also describes the two approaches' impacts in the first year after people were randomly assigned to one of the three groups. One year of follow-up is not long enough to fully assess the two approaches' impacts on many important outcomes. In particular, program group members spent a substantial part of the first year in subsidized jobs, so the programs' long-term impacts on *unsubsidized* employment are not yet clear.⁷ Impact results at 30 months after random assignment will be presented in a later report, as will the findings from the benefit-cost analysis.

⁶It is too early to assess the two approaches' long-term impacts on unsubsidized employment. Because this report only follows participants' outcomes through one year, the analyses presented here may be considered “exploratory,” and therefore do not use formal statistical methods to account for the fact that several program-control differences are examined. When many such comparisons are made, there is a greater probability that some of the differences will be found to be statistically significant even though they did occur by chance. The report's analysis addresses this issue by minimizing the number of comparisons and highlighting those that are most important. The 30-month report will present “confirmatory” impacts on earnings in Year 2 through the first half of Year 3, a time when the longer-run effects should be evident.

⁷Although most impact analyses presented in this report are within one year after random assignment, employment and earnings in the first quarter of Year 2 are also included because they show a time when the vast majority of program group participants had completed work in their subsidized jobs, and thus provide a preview of what their outcomes might be after the subsidy ends. However, even in the first quarter of Year 2, around 2 percent of PWE and OJT program group members were still in subsidized employment.

The Transitional Subsidized Employment Program

Los Angeles County's TANF agency has traditionally viewed subsidized employment as a viable option for all TANF recipients who are required to meet work-participation requirements and who are unable to secure unsubsidized employment. The sample members can be thought of as representing the middle of the TANF caseload in terms of job readiness. They were not the most job-ready TANF recipients: They had all been unable to find unsubsidized employment after a four-week job search with the help of TANF staff members, and they had barriers to employment such as limited work experience, low levels of education, criminal convictions, or prolonged spells on TANF. However, neither were they the most disadvantaged TANF recipients, as many of those highly disadvantaged people (those with disabilities, those caring for disabled family members, or those with very young children) would have had exemptions from work-participation requirements.

Los Angeles County represented a unique opportunity to test large-scale subsidized employment approaches in a geographically and economically varied setting. The county has a large TANF program, contains diverse municipalities, and offers a complex operational context in which to implement the program. All of these factors result in a study that demonstrates both the difficulty of implementing a large-scale subsidized employment program and the lessons that stem from its implementation.

Main Results in This Report

Los Angeles County partnered with 21 Worksource Centers that were responsible for recruiting employers, placing participants into PWE or OJT subsidized jobs, and providing case management during placements. The centers handled these tasks differently and had varying degrees of success in implementing the program.

- **The two approaches had substantially different placement rates: 42 percent of OJT group members were placed in subsidized employment, compared with 79 percent of PWE group members.**

Most Worksource Centers indicated that it was not difficult to place PWE participants. A wide array of employers was available to them, many of which were willing to take almost any participant referred by the centers, sometimes without even interviewing that individual. Examples of PWE employment included maintenance work at a county courthouse, administrative duties at a nonprofit arts organization, and sorting donations at a food bank's warehouse.

In comparison, Worksource Center staff members had more divergent assessments about how feasible it was to place participants in OJT positions. Examples of OJT employment included customer service at a medical products company, housekeeping at a hotel, and production work at a wholesale food services company.

It was clear from staff interviews that several Worksource Centers decided that placing participants in OJT positions was not worth the effort required. These Worksource Centers either did not have enough people on staff or were unwilling to devote enough of their time to develop enough job openings for the participants referred to them. Many Worksource Centers found it difficult to recruit private-sector employers that were willing to hire TANF recipients, even when the position was subsidized. In part the difficulty arose because private-sector employers had to take on greater risk to participate in the program — specifically, they were required to agree to move participants onto their own payrolls at the beginning of the third month. However, the fact that a subset of Worksource Centers did succeed in placing more than half of their OJT participants suggests that there are viable models for placement in private-sector subsidized employment.

The PWE placement rate is clear evidence that a welfare-to-work program can create subsidized work experiences for TANF recipients on a large scale, with diverse public-sector and nonprofit employers. The OJT placement rate, while lower than PWE's, compares favorably with other attempts to place welfare participants in private-sector subsidized positions.⁸ The experience of implementing OJT in Los Angeles County reinforces previous findings that it is difficult to place hard-to-employ people in private-sector subsidized employment.

- **Participants in the two approaches stayed in their placements for different average lengths of time. PWE placements lasted an average of more than 64 days longer than OJT placements. Compared with OJT placements, PWE placements were far more likely to continue beyond the second month.**

Retention beyond the second month was a critical measure of success for the OJT program, because after the second month OJT participants moved onto employers' payrolls. The lower retention rate and shorter overall duration of placements among OJT participants reflects the fact that private-sector employers applied added scrutiny and higher standards as participants approached this transition point.

- **As expected, members of the control group were almost as likely as those in the program groups to receive welfare-to-work services other**

⁸Stephen Freedman, Jan Bryant, George Cave, and Michael R. Bangser, *New Jersey: Final Report on the Grant Diversion Project* (New York: MDRC, 1988); Patricia Auspos, George Cave, and David Long, *Maine: Final Report on the Training Opportunities in the Private Sector Program* (New York: MDRC, 1988); Larry Orr, Howard S. Bloom, Stephen H. Bell, Fred Doolittle, Winston Lin, and George Cave, *Does Job Training for the Disadvantaged Work? Evidence from the National JTPA Study* (Washington, DC: Urban Institute Press, 1996).

than subsidized employment. The control group was more likely than either of the program groups to be involved in education.

All individuals in the study (including control group members) were expected to participate in some type of welfare-to-work activities as a condition of receiving TANF. Thus, it is not surprising that the three groups had similar overall participation rates in welfare-to-work activities and supportive services offered as part of TANF. However, the OJT and PWE approaches had a negative impact on participation in education: Members of both program groups were less likely than the control group to report participation in education, in particular postsecondary education leading to a degree. This decrease could have occurred because program group members who were busy in subsidized employment had less time available to pursue education, or because control group members who did not have access to subsidized employment pursued education in order to improve their employability and to partly fulfill TANF work requirements.⁹ Regardless, these results suggest that participation in subsidized employment may have an opportunity cost that could affect longer-term employment and earnings, if control group members secure degrees or credentials that make them more competitive in the labor market. Future reports with longer follow-up periods will analyze the extent to which control and program group members successfully completed postsecondary education programs and earned degrees.

- **In the first year after random assignment, both PWE and OJT group members were more likely to work than control group members, worked more quarters on average, and had higher average earnings. These differences were larger among sample members who had not been employed in the year before random assignment and declined as people left subsidized jobs.**

As shown in Table ES.1, 58 percent of the control group worked in jobs covered by unemployment insurance in the first year after random assignment. However, the employment rates for the PWE group (92 percent) and the OJT group (76 percent) were both substantially higher, as were the annual average earnings for both research groups.¹⁰ These differences in employment and earnings reflect participation in subsidized employment; as noted earlier, 79 percent of PWE and 42 percent of OJT group members worked in subsidized jobs in the year following random assignment. The differences in employment and earnings between the

⁹Under federal regulations, TANF programs can count a maximum of 12 months of postsecondary education or vocational educational training toward a participant's core work requirement in his or her lifetime.

¹⁰These percentages also include employment from subsidized jobs provided to the program groups, employment which is not covered by unemployment insurance wage records.

Table ES.1
Impacts on Employment and Earnings After One Year

Outcome	PWE Group	OJT Group	Control Group	Difference (Impact)		
				PWE vs. Control	OJT vs. Control	PWE vs. OJT
Employment (%)	91.8	76.2	57.8	34.1 ***	18.4 ***	15.8 ***
PWE or OJT subsidized employment (%)	79.4	41.6	--			
Total earnings (\$)	7,188	5,764	4,459	2,729 ***	1,305 ***	1,424 ***
Amount of earnings subsidized (\$)	3,895	1,083	--			
Total earnings (%)						
\$6,000 or more	57.8	36.7	26.2	312 ***	10.2 ***	21.1 ***
\$10,000 or more	23.2	22.5	15.9	7.3 ***	6.6 ***	0.7
\$14,000 or more	9.0	11.6	10.7	-1.7	0.9	-2.6 *
Employment in the first quarter of Year 2	51.5	53.6	47.2	4.4 *	6.5 ***	-2.1
PWE or OJT subsidized employment in the first quarter of Year 2	2.1	1.9	--			
Sample size	874	877	871			

SOURCES: MDRC calculations based on quarterly wage data from the National Directory of New Hires and program payroll records.

NOTES: Results in this table are regression-adjusted, controlling for pre-random assignment characteristics.

Statistical significance levels are indicated as: *** = 1 percent; ** = 5 percent; * = 10 percent.

Employment rates and earnings include both subsidized jobs and all other jobs covered by unemployment insurance.

program groups and the control group were concentrated in the first two quarters after random assignment, when most participation in subsidized employment occurred. The employment rates and earnings of the three groups converged over time as program group members left their subsidized jobs. By the beginning of the second year following random assignment, the PWE and OJT groups were still significantly more likely than the control group to be employed, but the differences between groups were much smaller.

In general, impacts were larger for less employable participants. For both PWE and OJT, the differences in employment rates and earnings between the program group and the control group were much larger among the subgroup of sample members who had not worked in the year before random assignment. Notably, almost all of the difference in employment rates

for the first quarter of Year 2 appears to be among sample members who were not employed in the year before random assignment. In addition, the difference between the PWE and OJT groups was larger for the subgroup who did not work in the year before random assignment than it was for the subgroup who did.

- **There were only a few modest differences between the program participants and control group members in outcomes not directly related to employment, including TANF receipt and measures of well-being.**

Almost all of the research participants received TANF benefits in the quarter of random assignment. Receipt rates declined in a similar fashion for all three groups, reaching about 70 percent for PWE, OJT, and control group members in the first quarter of Year 2. PWE and OJT group members did receive smaller amounts from TANF on average than control group members in the year following random assignment, though the differences between the program group members and the control group members are fairly modest (\$469 less on average for PWE group members and \$170 less on average for OJT group members). The PWE group members experienced a greater reduction in total TANF payments than the OJT group, reflecting the PWE group's higher overall earnings during this time.

At around five months after random assignment PWE members were 22 percentage points more likely than control group members and 15 percentage points more likely than OJT group members to report being financially better off than they had been a year before. There may have been a larger impact for the PWE group than the OJT group because PWE group members were placed in subsidized jobs at a higher rate. PWE group members were also somewhat less likely to report experiencing psychological distress than their control group counterparts at around five months after random assignment. However, when surveyed one year after random assignment, there were few differences in reported well-being between the program and control group members.

Next Steps

The STED evaluation in Los Angeles County is part of an effort to investigate the effects of subsidized employment programs for TANF recipients. As has been the case in many recent, similar tests, short-term employment and earnings impacts were observed during the study period for both PWE and OJT group members. More follow-up is required to determine whether in fact the employment impacts of the Los Angeles program are restricted to the subsidy period. The work experience PWE and OJT group members gained from their placements may have effects on employment that become apparent later on. However, control group members reported higher rates of participation in education than PWE and OJT group members, which may also affect their employment and earnings in the long term.

A second goal of the evaluation is to compare two approaches to subsidized employment. The PWE approach achieved higher placement rates in subsidized jobs than the OJT approach, resulting in larger initial employment and earnings gains for the PWE group than the OJT group. While the employment and earnings of both PWE and OJT participants followed similar trends by the end of the observation period, it is possible that their longer-term outcomes may diverge. The OJT model provided participants with an employment experience that better reflects the unsubsidized labor market; this experience could translate to more successful employment searches in the future. In addition, because the OJT placements could turn into permanent jobs, longer-term employment and earnings gains may emerge over time for OJT group members compared with PWE group members.

Finally, it is always relevant to examine the targeting of services in any employment program — “what works for whom.” While this question cannot be addressed in any definitive fashion in the analysis period used for this report, so far the majority of the employment impacts produced by both PWE and OJT were among sample members without recent work experience. While both approaches also produced employment gains for sample members who did have recent work experience, these results suggest that subsidized employment programs may be more effective for people who are more detached from the labor market. Additional follow-up will reveal whether these effects persist and shed light on the relative effectiveness of the PWE and OJT approaches for different population subgroups. The final report, expected in 2018, will present the effects of these two subsidized employment approaches 30 months after random assignment.