Executive Summary

The Employment Retention and Advancement Project

Benefit-Cost Findings for Three Programs in the Employment Retention and Advancement (ERA) Project

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BUILDING KNOWLEDGE TO IMPROVE SOCIAL POLICY

Executive Summary

This report presents an analysis of the financial benefits and costs of three programs that are part of the national Employment Retention and Advancement (ERA) project. Conceived and funded by the Administration for Children and Families (ACF) in the U.S. Department of Health and Human Services, the ERA project tested 16 models in eight states that aimed to promote steady work and career advancement for current and former welfare recipients or other low-income groups. MDRC — a nonprofit, nonpartisan research organization — is conducting the ERA project under contract to ACF.

The three programs chosen for this analysis were operated in four sites: Corpus Christi and Fort Worth, Texas; Riverside County, California; and Chicago, Illinois.[1] These programs were selected because evaluation results during the five-year follow-up period indicate that they increased the employment and earnings of individuals who were assigned to them. This report serves as a companion document to a larger ERA report that presents effectiveness results for a majority of the ERA programs.[2]

Background

Launched in 1999, the ERA project identified and tested a diverse set of models designed to promote employment stability and career advancement. Some models also sought to reduce recidivism among individuals who exited the Temporary Assistance for Needy Families (TANF) program — the cash welfare program that mainly serves single mothers and their children. Programs that were successful in reducing recidivism would, in turn, reduce government expenditures on welfare.

The project used a rigorous random assignment design to analyze the programs' effects on individuals' outcomes. In each site, individuals who met the ERA eligibility criteria (which varied by site) were assigned, at random, to a program group or to a control group. Members of the program group were recruited for (and, in some sites, were required to participate in) the services offered by the ERA program, while members of the control group were not eligible for ERA services but were eligible for other services and supports. The control group services and

[1]Houston also operated the Texas ERA program. It is not included in the benefit-cost analysis because it did not have any effect on employment and earnings during the follow-up period. The Riverside program that is examined in this report is the Post-Assistance Self-Sufficiency (PASS) program. Two other ERA programs operating in Riverside County did not have effects on employment and earnings.

[2]Richard Hendra, Keri-Nicole Dillman, Gayle Hamilton, Erika Lundquist, Karin Martinson, and Melissa Wavelet, *How Effective Are Different Approaches Aiming to Increase Employment Retention and Advancement? Final Impacts for Twelve Models* (New York: MDRC, 2010).

supports were those generally available in the sites' communities and could also include the standard welfare-to-work program or, in some cases, minimal efforts that the sites already had in place to provide assistance to individuals who found jobs. Each site's control group thus represents the benchmark against which that site's ERA approach is assessed. Differences in outcomes between the program group and the control group after random assignment are known as "impacts," and they indicate the effects of the ERA program in each site.

The benefit-cost analysis in this report goes beyond the basic impact measures that are presented in the final ERA impact report by providing an overall accounting of the programs' financial gains and losses from three perspectives: the ERA program groups, the government budget, and society as a whole. The analysis also examines whether the programs were cost-effective. In this report, cost-effectiveness is defined as the amount gained by program participants for every dollar invested by the government, net of what was spent on the control group; if the gain to individuals is more than one dollar for every dollar the government spent, then the program may be considered to be cost-effective.

Benefit-Cost Methodology

The ERA benefit-cost analysis compares the costs and benefits of the ERA program services with the costs and benefits of the usual services (in most cases) that were available to the control group. The amounts presented are the *net present values* per ERA program group member, that is, the difference in financial effects between the ERA program group and the control group. The benefit-cost analysis extends the findings on program impacts by considering program effects on additional outcomes, such as fringe benefits from employment; income and sales taxes; Medicaid expenditures; and the costs of administering welfare payments, food stamps, and Medicaid payments (in this report, collectively referred to as "public assistance").[3] As noted, the analysis also examines the benefits and costs from three perspectives:

- **Program group.** The *program group perspective* identifies the net gains or losses for the program group members, indicating how they fared as a result of the ERA program, relative to the control group. The program group derives a net gain if the program increases earnings (plus fringe benefits) or other forms of income — such as Earned Income Tax Credits — by an amount that exceeds any income lost (for example, from reductions in welfare or other public assistance) and increases in taxes paid.

[3]Unlike the impacts that are presented in the final impact report (Hendra et al., 2010), the benefit-cost analysis incorporates positive and negative financial estimates even when they do not reach the level of statistical significance, because they nonetheless represent the best estimates available. Thus, the financial estimates presented in this report should be considered approximations.

- **Government budget.** The *government budget perspective* measures whether the government realized a net revenue increase or decrease as a result of operating the ERA program. Financial gains can occur from increases in tax revenues, net of the Earned Income Tax credit, and from reductions in public assistance and their associated administrative cost. These gains are compared with any losses from increases in public assistance and administrative costs plus the net cost of providing ERA services, relative to the cost of services for the control group.

- **Society.** The *social perspective* measures the monetary effects of the programs on society as a whole and combines the costs and benefits of both the program group members and the government budget.

The benefit-cost analysis measures only the program effects that are easily monetized. Not included in the analysis are such effects as the displacement of other workers by program group members, changes in children's achievement and behavior, losses of leisure time, changes in health status, changes in quality of life, increased satisfaction on the part of the general public due to more employment among welfare recipients, and any other effects that are not easily monetized. In addition, the analysis does not include all the work-related expenditures for program and control group members — such as for child care, transportation, and other work supports — because data were not readily available to measure the full expenditures for both groups. Not including these factors could increase or decrease the net gains from ERA.

The Programs Discussed in This Report

The ERA evaluation tested a range of models that differed in terms of when services were first provided and to whom they were provided. The Texas program, for example, targeted TANF applicants and recipients who were not employed; the Chicago program targeted employed TANF recipients; and the Riverside PASS program targeted individuals who had left TANF and were working.

The three ERA programs included in this report were similar in some of their features. First, TANF agencies had lead roles in implementing the ERA programs, although they also relied on organizations other than government social service agencies to provide services. Second, the programs used one-on-one staff-client interactions as the platform from which to provide services. Third, these programs also offered job search assistance, to get participants into jobs or to get them a new job if they lost their job. Finally, some referrals to education or training were made by these programs, but none of them made this the primary focus.

These ERA programs had additional special features, some of which are noted in Table ES.1. The Texas program offered financial incentives (stipends) to encourage people to stay employed at full-time jobs, as a way to try to reduce the rate at which TANF leavers returned to the TANF rolls. The Chicago program, aiming to help employed TANF recipients advance into higher-paying jobs, used a for-profit employer intermediary — a provider with strong linkages to firms in a variety of industries — to place people into better jobs and also offered financial incentives to participants who reached program benchmarks. The Riverside PASS program provided services via community-based organizations (CBOs) in a majority of locations, based on the assumption that organizations other than the welfare agency would be more familiar with the jobs and services available in their communities and that those who were leaving TANF would be more willing to work with organizations other than the welfare agency. In all three programs, a greater share of program group members participated in retention and advancement services than control group members.[4]

While these three ERA programs were selected for this report because they increased program group members' employment and earnings, some of the other programs in the national ERA project also contained some of these features, but they lacked positive impacts. It is not clear which features "drove" the impacts in any given site.

Benefit-Cost Findings

The benefit-cost analysis addresses several questions. Was the cost of operating the ERA programs more or less than the cost of providing services to the control group? Are program group members financially better off or worse off as a result of ERA? Is the government's net investment in services for the program group offset by budget savings? Does society as a whole come out ahead or behind as a result of the programs in these sites? Were the ERA programs cost-effective, overall?

The same program effect might elicit gains from one perspective and losses from another. In assessing each main program effect, it is important in the benefit-cost analysis to consider the perspective of each directly affected group. Table ES.2 summarizes the main financial effects of the ERA programs from each perspective. Gains are indicated by positive values, and losses are shown by negative values. These results were then summed to obtain an estimate of the overall net value (net gain or net loss) of each program, analyzed by perspective.

[4]The participation impacts presented in Table ES.1 are based on client survey data. The Riverside PASS cost estimates in this report are based on data from the program's management information system (MIS). Analysis of the MIS data suggests that PASS increased the use of retention and advancement services.

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Table ES.1

Highlights of Programs That Increased Employment Retention and Advancement

	Texas	Chicago	Riverside PASS
Strategy	Placement, retention, and advancement strategies: job search assistance, stipend for employed former TANF recipients, reemployment assistance, and work site visits	Advancement strategies: job search assistance, career counseling, financial incentives to participants who reached program benchmarks, and reemployment assistance	Retention and advancement strategies: reemployment assistance, career counseling, and referrals to education and training
Target population	Unemployed TANF applicants and recipients	TANF recipients who had worked at least 30 hours per week for at least 6 consecutive months	Employed former TANF recipients who recently left TANF
Service providers	Local workforce development boards contracted with nonprofit organizations	Experienced, for-profit, employment intermediary	Primarily community-based organizations and a community college
Control group services	Relatively strong welfare-to-work program	Standard welfare-to-work program	Limited postemployment services for those leaving TANF
Participation highlights	In Corpus Christi, 30 percent took up the financial incentive; 20 percent did so in the other Texas sites. Increased percentages received help with retention and advancement in Corpus Christi and Fort Worth.	Increased percentages received help in finding a better job while working and in getting other forms of retention and advancement help.	While increases in participation were not large, participation data are for a cohort that had few positive economic impacts.[a]
Economic impacts	Increased employment retention and advancement in Corpus Christi and Fort Worth	Increased employment retention and advancement and reduced welfare receipt	Increased employment retention and advancement

SOURCE: Hendra et al. (2010).

NOTES: [a]The participation impacts presented in this table are based on client survey data. As detailed in the final impact report (Hendra et al., 2010), survey response issues were present in the Riverside PASS site. Analysis of program data suggests that the Riverside PASS program may have increased the use of a broader range of services. ERA costs were estimated using data from the management information system.

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Table ES.2

Five-Year Estimated ERA Costs, Financial Effects, and Net Value per Program Group Member (in 2008 Dollars)

	Accounting Perspective		
Program	Program Group	Government Budget	Social
Corpus Christi			
Net earnings and fringe benefits	4,048	0	4,048
Net taxes and credits	50	221	0
Net public assistance[a]	-424	583	159
Net employment and training costs	0	-1,844	-1,844
Net gain or net loss (net value)	3,673	-1,041	2,362
Fort Worth			
Net earnings and fringe benefits	2,458	0	2,458
Net taxes and credits	-262	427	0
Net public assistance[a]	1,083	-1,208	-125
Net employment and training costs	0	-1,595	-1,595
Net gain or net loss (net value)	3,279	-2,376	738
Chicago			
Net earnings and fringe benefits	2,566	0	2,566
Net taxes and credits	168	4	0
Net public assistance[a]	786	-899	-113
Net employment and training costs	0	-1,631	-1,631
Net gain or net loss (net value)	3,520	-2,527	822
Riverside PASS			
Net earnings and fringe benefits	5,082	0	5,082
Net taxes and credits	-314	654	0
Net public assistance[a]	-373	438	65
Net employment and training costs	0	-1,022	-1,022
Net gain or net loss (net value)	4,394	70	4,125

(continued)

Table ES.2 (continued)

SOURCES: MDRC calculations from TANF and food stamp records; Medicaid eligibility records; unemployment insurance (UI) earnings from the States of Texas, Illinois, and California; and published data on tax rates, employee fringe benefits, and Medicaid benefits. Corpus Christi and Fort Worth calculations also include postemployment stipend or incentive payment records. Riverside PASS calculations include supportive service payment records from the DPSS P3 automated program tracking system.

Employment and training costs for Corpus Christi and Fort Worth are based on fiscal and participation data from Workforce Solutions for Tarrant County, WorkSource of the Coastal Bend, ERA program tracking data, The Workforce Information System of Texas (TWIST), Texas Education Agency, Texas Higher Education Coordinating Board, U.S. Department of Education, and ERA 12-Month Survey.

Employment and training costs for Chicago are based on fiscal and participation data from Employment and Employer Services, Inc., ERA program records and participant case files, Illinois Department of Human Services, TANF administrative records from the State of Illinois, Illinois Community College Board, U.S. Department of Education, and ERA 12-Month Survey.

Employment and training costs for Riverside PASS are based on fiscal and participation data from Riverside County Department of Social Services, Riverside DPSS P3 automated program tracking system, TANF administrative records from the State of California, California Department of Education, U.S. Department of Education, and ERA 12-Month Survey.

NOTES: Estimates reflect discounting and adjustment for inflation.

Estimates were regression-adjusted using ordinary least squares, controlling for pre-random assignment characteristics of sample members.

Rounding may cause slight discrepancies in calculating sums and differences.

Tests of statistical significance were not performed.

[a]Public assistance includes welfare payments, food stamps, and Medicaid. It also includes stipends in Texas and incentives in Chicago. From the government budget perspective, it also includes public assistance administration.

- **Averaged across the four sites, the net operating cost of the ERA programs was about $1,500 per program group member.**

The employment and training costs (the costs of providing ERA services, along with other education and training services) was about $1,500 more per person, on average, than the standard welfare-to-work employment and education services that were received by the control groups. (Individual sites' net operating costs ranged from $1,000 to $1,800.) The ERA programs' net employment and training costs in the four sites presented in this report are lower than the net costs of many welfare-to-work programs from the 1990s that emphasized increasing participants' income while balancing reductions in welfare costs.[5] Unlike in many of the earlier studies of welfare-to-work programs, however, the ERA control groups received services, often from the TANF agency; the net cost presented in this report is thus the cost of the "added value" of the ERA services.

[5]David Greenberg, Victoria Deitch, and Gayle Hamilton, *Welfare-to-Work Program Benefits and Costs: A Synthesis of Research* (New York: MDRC, 2009).

- **From the program group perspective, the program group members in all four sites were better off financially as a result of the ERA programs.**

The ERA programs that operated in the four sites discussed in this report led to substantial financial gains for program group members relative to control group members. The Corpus Christi and Riverside PASS ERA programs produced net financial gains of $3,673 and $4,394, respectively. These gains came primarily from higher earnings for program group members, compared with the control groups' earnings. In Chicago and Fort Worth, the ERA programs produced net financial gains of $3,520 and $3,279, respectively, and here the gains were due to a combination of higher earnings *and higher public assistance* (specifically, increases in food stamps and Medicaid).

- **With one exception, the ERA programs in this report did not produce net savings from the government budget perspective.**

In three of the four sites, the additional amount spent on ERA services, compared with expenditures for the control groups, was not recouped by savings in welfare and other benefit expenditures and increased tax revenues. The additional costs per person that were incurred by the government exceeded the savings by $1,041 in Corpus Christi, by $2,376 in Fort Worth, and by $2,527 in Chicago. The Riverside PASS program essentially broke even (with a slight gain of $70). The additional costs of operating the ERA program in Riverside were offset by increases in tax payments and savings from reduced public assistance for program group members. In Chicago and Fort Worth, besides the increased costs of operating the ERA programs, the government incurred additional costs from higher public assistance (food stamps and Medicaid) and from financial incentive payments.

- **The ERA programs in the four sites produced financial gains from the social perspective.**

As discussed above, the social perspective encompasses both net gains from the ERA programs for the program group and net losses for the government budget. The four sites implemented ERA programs that led to financial increases for society as a whole. Net financial benefits to society ranged from $738 in Fort Worth to $4,125 in Riverside. Gains to society occurred because the earnings gains among program group members exceeded the cost to the government of operating the ERA programs.

- **For each dollar that the government invested in these ERA programs, the program group members gained from $1.38 to $3.53 (depending on the site).**

The net values shown in Table ES.2 suggest that the ERA programs in these four sites were cost-effective. The cost-effectiveness ratio is calculated by dividing the net financial gain to the program group members by the net cost of ERA to the government. Using this method, for each additional dollar spent by the government (including all net costs to the government budget), ERA program group members gained $3.53 in Corpus Christi ($3,673 divided by $1,041), $1.38 in Fort Worth, and $1.39 in Chicago. In Riverside, the program group experienced a net financial gain while the government broke even. In other words, providing services and benefits to the ERA program group in Riverside was no more costly than providing services to the control group, *and* the ERA program group members were better off financially.

Conclusion

These various ERA programs led to increases in program group members' employment and earnings, which was a primary goal of the ERA project. From the program group perspective, these programs also led to net financial gains. However, with the exception of Riverside PASS, these ERA programs did not result in a net return or breakeven situation from the government budget perspective — a secondary goal of ERA that is not often achieved by welfare-to-work programs. This result reflects that the ERA programs increased expenditures on food stamps and Medicaid in two sites. Additionally, the Texas ERA program provided financial incentives that were not provided to the control group, which increased the government's costs. Overall, the ERA programs were financially beneficial to society in all four sites because the earnings gains for program group members exceeded the costs to the government of operating the programs.

The ERA project rigorously tested a diverse set of innovative models designed to promote steady work and career advancement among current or former welfare recipients or other low-income groups. As part of the project, over a dozen different ERA programs have been evaluated, and most did not produce consistent increases in employment retention or advancement, suggesting that it is difficult for these types of programs to attain positive effects. While the ERA programs in three of the four sites that achieved this primary goal did so at a cost to the government, all of them were able to increase program group members' income, and they did so by more than the government spent to provide the services, suggesting that some types of employment retention and advancement programs can be cost-effective.