MDRC Executive Summary

September 2002

WRP
Final Report on Vermont's Welfare Restructuring Project

Vermont's Welfare Restructuring Project (WRP) was one of the earliest statewide welfare reform programs initiated under waivers of federal welfare rules granted before the passage of the 1996 federal welfare reform law. The program, which operated from 1994 to 2001, was designed to increase work and reduce reliance on welfare. WRP required that welfare recipients work in a wage-paying job after they had received cash assistance for a specified number of months (30 months for single-parent families and 15 months for two-parent families). Recipients received help finding jobs and were offered minimum-wage community service jobs if they could not find unsubsidized employment. If a recipient did not comply with the work requirement, the state took control of her grant, used the money to pay her bills, and required her to attend frequent meetings at the welfare office. The program also included a set of financial incentives that were intended to encourage and reward work. WRP served as a model for Vermont's current welfare program, which took effect in mid-2001.

This is the final report in a long-term evaluation of WRP conducted by the Manpower Demonstration Research Corporation (MDRC) under contract to the State of Vermont. The evaluation was also funded by the U.S. Department of Health and Human Services and the Ford Foundation. The evaluation used data from the entire state but focused in depth on 6 of Vermont's 12 welfare districts. The results from the WRP evaluation provide important evidence about one of the many diverse strategies that states adopted to reform welfare in the 1990s.

In order to assess what difference WRP made, parents who were applying for or receiving cash assistance in Vermont between July 1994 and December 1996 were assigned, at random, to one of three groups: (1) the *WRP group,* whose members received the financial work incentives and were subject to the work requirement; (2) the *WRP Incentives Only group,* whose members received the incentives but were not subject to the work requirement; or (3) the *Aid to Needy Families with Children (ANFC) group,* whose members remained subject to the pre-WRP welfare rules, which included neither the incentives nor the work requirement. MDRC followed all three groups for six years, using computerized records and a survey. Any differences that emerged over time in the groups' outcomes (for example, in their employment or welfare receipt) can reliably be attributed to WRP's policies; such differences are known as *impacts,* or *effects*.

The evaluation also included a study of the implementation of WRP and an assessment of its financial costs and benefits for the government and for participating families. The study mainly focused on single-parent families, who make up most of Vermont's welfare caseload.

Key Findings

Key findings from the evaluation include:

- **The full WRP program increased employment and reduced reliance on cash assistance for single-parent families, particularly in the period after some parents became subject to the work requirement.**

WRP was implemented in an exceptionally healthy economic climate; Vermont's unemployment rate was even lower than the national rate throughout the study period. As a result, a very large proportion of the ANFC group (87 percent) worked at some point during the six-year study period, even without any work requirements or special financial incentives.

Nevertheless, WRP increased employment. The employment gains were small early in the study period, before anyone had reached the work requirement, but they grew larger after the 30-month point. At the peak — in the beginning of the fourth year of the follow-up period — the employment rate for the WRP group was 10 percentage points higher than for the ANFC group (58 percent, compared with 48 percent). Employment gains persisted throughout the rest of the six-year period, although the size of the effects diminished over time. Over the six-year period, WRP increased average annual earnings by 9 percent ($508). Most of the people who went to work because of WRP worked full time or nearly full time, in jobs paying at least $7.50 an hour.

WRP had little effect on cash assistance receipt until the 30-month point, when it began to reduce the amount of assistance that families received. Later, the program began to reduce the number of families receiving any cash assistance. By the end of the follow-up period, only 18 percent of the WRP group were receiving assistance, compared with 24 percent of the ANFC group. WRP reduced cash assistance payments by 28 percent ($449) per year during the last two years of the study period.

- **WRP had little effect on family income, material hardship, children's school performance, or other family and child outcomes.**

The WRP group's higher earnings were largely offset by their lower cash assistance payments; as a result, except for a brief period during the third year of the follow-up period, average income for the WRP group was no higher than average income for the ANFC group. However, consistent with the program's goals, WRP group members derived a greater share of their income from earnings and a smaller share from public assistance.

A survey that was administered 42 months into the follow-up period examined WRP's impacts on a range of outcomes, including families' financial assets, neighborhood quality, food security, and children's school performance and behavior. Because such impacts are typically driven by changes in income, it is not surprising that WRP generated few effects on these outcomes.

- **The program's work requirement was needed in order to generate impacts. WRP's financial incentives alone did not lead to increases in em-**

ployment or income, probably because the incentives were not substantially different from incentives under the prior rules.

WRP included two types of financial incentives that were designed to encourage and reward work. First, WRP changed the welfare rules to allow recipients to earn somewhat more without losing eligibility for cash assistance (this is known as an *enhanced earnings disregard*). Recipients could also own a more valuable (and hence more reliable) car and could accumulate more savings from earnings without losing eligibility for assistance. Second, the program extended transitional supports for recipients who were leaving welfare for work — for example, by providing three years of transitional Medicaid coverage instead of the single year of coverage mandated under prior rules.

Other studies have found that financial incentives alone can increase work and income, but this was not the case in WRP. The WRP Incentives Only group was no more likely to work than the ANFC group and did not have higher income. However, in assessing this result, it is important to note that WRP's incentives — while probably important to many families — were not substantially different from the incentives and rules that applied to the ANFC group. For example, at most levels of earnings, WRP's enhanced earnings disregard during the first four months of work was actually somewhat less generous than the disregard available under the prior rules. Similarly, because Vermont provides unusually generous child care and health insurance subsidies for all low-income working families, the ANFC group was eligible for supports that were not dramatically different from WRP's transitional benefits.

- **WRP increased employment among most subgroups, but the increases were largest for the most disadvantaged sample members. WRP increased income for the least disadvantaged sample members.**

Among individuals who were long-term welfare recipients, had no recent work history, and did not have a high school diploma — some 9 percent of the study's participants — the WRP group earned an average of 31 percent ($870) more per year over the six-year follow-up period than the ANFC group. Because WRP increased earnings but did not reduce welfare receipt among sample members with the fewest barriers to employment (high school graduates with recent work history who were not long-term welfare recipients), the program raised their income (by an average of 7 percent, or $696, per year).

- **WRP's work requirement was implemented as planned, but, contrary to initial expectations, very few community service employment positions were needed.**

When WRP was designed, planners believed that its success would hinge on the state's ability to create a large-scale community service employment (CSE) program for recipients who could not find unsubsidized jobs after receiving benefits for 30 months. In fact, the work requirement was implemented largely as intended, but the maximum number of people working in CSE slots statewide never exceeded 70 in any one month. Only 3 percent of the single-parent

WRP group members (and 4 percent of the two-parent WRP group members) ever worked in a CSE position during the six-year study period.

Few CSE slots were needed for two main reasons. First, most recipients were never subject to the work requirement: Only 46 percent of the single-parent WRP group received cash assistance for 30 months or more. This figure was nearly the same for the ANFC group (45 percent), suggesting that the strong economy and broad changes in Vermont's welfare system that affected all three research groups were the key factors that spurred people to leave welfare sooner than anticipated. Second, of those who reached the 30-month point, most who were required to work found unsubsidized jobs; most single parents were required to work only part time, and jobs were readily available in most areas of the state. Some others were exempted from the work requirement or were sanctioned (penalized) for failing to comply with the requirement.

- **The net cost of WRP was quite low, and the government's spending on the program was more than offset by reduced public assistance payments; in other words, WRP saved money for taxpayers.**

The WRP group received few services that were not also available to the ANFC group. Both groups were eligible to participate in the state's welfare-to-work program (the WRP group was required to participate in Months 29 and 30 of benefit receipt), and both groups received child care assistance and other supports if recipients worked or participated in activities while on welfare. As noted earlier, supports for those who exited welfare were also similar for the two groups.

Thus, the main net costs associated with WRP — that is, costs over and above those incurred for the ANFC group — were for relatively inexpensive job search services provided to recipients who reached the work requirement and for support services for parents who were participating in activities or working while on welfare. (More WRP group members than ANFC group members worked and participated in activities.) Thus, the net cost of WRP was only about $1,300 per person over six years. The program saved about $1,700 per person in cash assistance and Food Stamp benefits over six years, more than offsetting its cost.

- **WRP generated few effects for two-parent families with an unemployed parent.**

WRP's work requirements for two-parent families with an unemployed parent were not substantially different from requirements under the prior rules. Even before Vermont implemented WRP, principal wage-earners in two-parent families were required to work or participate in employment activities throughout their time on welfare — although WRP required full-time work after 15 months of assistance. WRP eliminated most of the nonfinancial criteria that restricted eligibility for two-parent families under ANFC.

WRP did not affect employment or earnings for two-parent families with an unemployed parent. The financial incentives increased cash assistance receipt somewhat during the first four years of the follow-up period, but the effect did not last. WRP did not substantially affect income, material hardship, or outcomes for children among these families.

Conclusions and Implications for Policy

The results of the WRP evaluation illustrate that there are diverse paths to the broadly accepted goals of increased employment and reduced reliance on public assistance. Unlike other states, Vermont did not require single parents on welfare to work until they had received benefits for 30 months, did not use grant reductions or closures to enforce these requirements, did not require full-time work for most single parents, and did not set time limits on cash assistance receipt. Nevertheless, WRP increased employment and, eventually, reduced welfare payments. Because the program's net cost was low, WRP actually saved money for taxpayers — an unusual achievement for any social program. And, at least within a strong economy, Vermont was able to impose a work requirement for welfare recipients without creating a large subsidized employment program.

Although WRP increased work, it did not make families better off financially and did not substantially improve their material well-being. Like previously studied programs that have increased parents' employment levels but not their income, WRP also did not substantially affect participants' children. However, it is worth noting that low-income families in Vermont may be better off than those in some other states: Vermont's welfare grant levels are among the highest in the nation, and the state offers an unusually generous set of supports for low-income working families.

Vermont's new welfare program — implemented in mid-2001 — builds on WRP and remains distinctive from programs in many other states. In response to WRP's small effects before any recipients reached the work requirement, the new program requires recipients to participate in work or work-related activities as soon as they are deemed to be "work-ready" or after 12 months of welfare receipt, whichever happens first. The program also uses financial penalties to enforce its requirements, although the penalties are less severe than in most other states. Vermont remains one of only two states that have not established a time limit on welfare receipt.