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Work, Income and Material Hardship after Welfare Reform

Sandra Danziger, Mary Corcoran, Sheldon Danziger, and Colleen M. Heflin

The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 ended the federal entitlement of cash assistance for needy families with children and created the Temporary Assistance to Needy Families Program (TANF). TANF replaces the former Aid to Families with Dependent Children program and provides transitional assistance conditional on work or the performance of work-related activities; it requires most recipients to go to work within two years of entering the program. The number of individuals receiving assistance has declined sharply since the passage of PRWORA. The employment and earnings of welfare recipients have increased, however, PRWORA's impact on the economic and non-economic well-being of recipients and their families is not yet well-established (Danziger, S. 1999). Although preliminary evidence does not find increased rates of homelessness or foster-care placement among recipients and their children, there is some early evidence that many families who have left welfare remain poor, and that some of the poorest single-mother families may be experiencing reductions in income (Cancian et al., 1999; Loprest, 1999, Primus, 1999).

A key goal of welfare reform is for recipients to establish stable, long-term work patterns under the assumption that regular involvement in work will eventually improve their well-being. Past research provides little information about the determinants of employment over time for women who were welfare recipients, either pre- or post-PRWORA, and little information about how work affects their economic well-being and experiences of material hardship. After a review of the relevant literature, we address the following questions in this paper:

(1) To what extent does a sample of women who received cash assistance in early 1997 establish work attachment over time? How is the proportion of time worked over the 1997-1998 period associated with income and poverty at the end of this period?

(2) How is the amount of time spent working associated with experiences of material hardship and subjective well-being?

Studies of recipients' employment and income outcomes

Analysts using national longitudinal data sets to track the transition from welfare to work pre-PRWORA report that a sizable minority of recipients are unable to keep jobs and tend to cycle between work and welfare (Bane & Ellwood, 1994; Harris 1996). Evaluations of welfare-to-work demonstrations typically report that while most participants get jobs, a large proportion, often a majority, lose those jobs within a year (Hershey & Pavetti, 1997; Berg et al., 1991; Friedlander & Burtless, 1995; Gueron & Pauly, 1991). Also, wages are low among welfare recipients, and recent research suggests that their wages grow over time, but only for the minority of former recipients who established regular, stable full time work patterns (Corcoran et al.,

forthcoming; Pavetti & Acs, 1996). Certain characteristics enhance recipients' ability to remain employed once they leave welfare -- high school graduates, those with prior work experience and women with fewer than three children are less likely to return to welfare (Bane & Ellwood, 1994; Harris, 1996). Even among recipients with the same schooling, the same work experience and the same number of children, however, there is considerable variation in the probability of remaining at work and staying off welfare. When recipients are compared to non-recipients with the same schooling and family characteristics, recipients leave jobs at higher rates and have lower wages than do non-recipients (Hershey & Pavetti, 1997). These findings suggest that unmeasured personal attributes, in addition to low schooling, lack of work experience and large families, constrain recipients' employment and wage growth.

One unmeasured factor that discourages work may be work-related expenses. Edin & Lein's (1997) pre-reform qualitative study of current and former AFDC recipients emphasizes that the costs associated with going to work outweigh the benefits for many recipients. Most of their respondents could get jobs (83 percent had some formal work experience), but many had a hard time making ends meet because of increased costs for child care, transportation, medical care, housing, and work clothing. Earnings were not sufficient to cover these costs and leave them materially better off than when they were on welfare. Their respondents who worked steadily tended to benefit from special circumstances, including co-residence with relatives or boyfriends, free child care provided by relatives or friends, receipt of regular, substantial child support, and access to transportation.

Welfare mothers in the post-reform era now face a radically-different set of work incentives and constraints than did AFDC mothers. One way to predict recipients' future work effort under TANF is to examine the work effort of women with similar characteristics (race and ethnicity, education, basic skills, family characteristics) who did not receive welfare. Using the NLSY, Pavetti (1999) tracked employment paths of comparable women as they aged from 18 to 27 years and found that "women on welfare would work 30 percent more if their employment paths matched those of similar women who did not receive welfare." Although this increase is substantial, many recipients would still experience considerable joblessness; Pavetti predicts that only 61 percent would be steadily employed by age 27. This estimate might be too high, as welfare mothers tend to have unmeasured barriers to work. The estimate, however, might be too low, because in the 1990's economic changes increased the availability of work, and policy changes (e.g. the expansion of the Earned Income Tax Credit and the expansion of publicly-provided health care for poor children) increased the attractiveness of work (Ellwood, 1999).

Welfare, Work, and Economic Well-being Post-PRWORA

Studies of welfare mothers' work behaviors after August 1996 provide initial evidence on the employment consequences of welfare reform. Researchers have analyzed data from administrative caseload records, the Current Population Surveys (CPS), and surveys of women who left welfare. On two criteria, PRWORA has been declared a success to date by President Clinton and many governors and politicians -- caseloads have declined sharply, and the employment rate of single mothers has increased. Prior to 1996, more than half of the states had

instituted work requirements for some welfare recipients, and 31 states had received waivers to experiment with time limits. Between FY 1994 and FY 1996, the AFDC caseload dropped by 14 percent. Post-PRWORA, between August 1996 and March 1999, caseloads declined by another 40 percent (U.S. Department of Health and Human Services, 1999).

Based upon analysis of CPS data, Rolston (1999) concluded that welfare reform substantially increased work -- whereas 20 percent of women who received welfare in 1992 were employed in 1993, 34 percent of recipients in 1996 were working a year later. O'Neill (1999), using CPS data, found that employment rates of unmarried single mothers increased from 58.5 percent in March 1994 to 69.2 percent in March 1998.

Are these caseload reductions and employment increases due to welfare reform or the economic boom? Several econometric analyses of caseload data suggest that declines in unemployment rates accounted for about one-third to one-half of the caseload reductions between 1994 and 1996 (Blank, 1997; Council of Economic Advisors, 1997; Figlio & Ziliak, 1999; Levine & Whitmore, in press; Wallace & Blank, 1999; Ziliak et al., 1997). Wallace & Blank (1999) examine monthly caseload reductions over a longer period, 1994 to 1998, and find that declines in unemployment rates accounted for 8 to 12 percent of caseload reductions.

Evidence on changes in income and well-being following welfare reform is also mixed. On the positive side, CPS data indicate that the percent of people in female-headed families whose pre-welfare incomes were below the poverty line fell by 5.4 percent (0.8 million people) between 1995 and 1997 (Primus, 1999). On the negative side, caseload declines over this period far

exceeded declines in poverty: the percent of people receiving TANF/AFDC benefits dropped by 22.6 percent (3.0 million people). And, the average disposable income of the poorest 20 percent of single mothers fell by 7.6 percent; the average disposable income of the poorest 10 percent fell by 15.2 percent (Primus et al., 1999).

Many states have begun to study families who have left welfare or who have been sanctioned. These studies provide preliminary evidence about employment and well-being that are consistent across studies and with the CPS data (Brauner & Loprest, 1999). Combining sanctioned and non-sanctioned welfare leavers, point-in-time employment rates range from 51 to 69 percent. "Durational estimates" of employment rates (i.e., the percent of leavers who worked at any time during a given period following a welfare exit) range from 68 to 88 percent in the year after an exit. According to Tweedie et al. (1999), the work rate is 5 to10 percent higher than for recipients who left welfare for jobs under AFDC.

The most recent TANF studies, like earlier AFDC studies, indicate that most recipients can find a job, especially when the unemployment rate is low. Why someone leaves welfare, however, is strongly associated with subsequent employment status. Recipients who have been sanctioned (those whose benefits were cut off for failure to comply with program requirements) were not as likely to be employed as were other leavers -- their employment rates ranged from 20 to 50 percent. Studies in several states indicate that over half of employed leavers worked 30 or more hours per week, but most were not earning enough to lift their families out of poverty (Brauner & Loprest, 1999).

Leavers' economic well-being varied substantially across the states, reflecting in part, state benefit levels and earnings disregards. Rolston, in congressional testimony on the results of the welfare reform waiver demonstrations, reports that mandatory programs increased work and earnings, but that former recipients' average annual income was only greater after participation in states which had generous welfare benefits and disregards (Rolston, 1999).

A few studies have examined economic strain, but many of them suffer from low response rates and may have missed families in the worst shape. In telephone surveys in Wisconsin and South Carolina, over 50 percent of leavers claim to be "just getting by" (Brauner & Loprest, 1999). In three states, over a third of leavers reported problems providing enough food for their families, and three out of five studies reported that a third or more of respondents had problems paying rent or utility bills (Brauner & Loprest, 1999). In one study, former recipients were significantly more likely to report falling behind in house or rent payments and not having enough money to buy food, or pay for child care than when they received cash assistance. Some families who are leaving or being diverted from welfare may also not be receiving Food Stamps and Medicaid even though they continue to be eligible (Primus et al., 1999).

Brauner and Loprest (1999) note the lack of a "total income" picture for welfare leavers who are working and for those out of the labor market, as well as the inability of many studies to assess the broader, noneconomic aspects of well-being among both types of leavers. Our research in progress, the Women's Employment Survey (WES) is filling some gaps in this

literature. Analyses of the initial wave of this panel study of single mothers who were welfare recipients in an urban county in Michigan in February 1997 (Danziger et al., in press) found that in the year following welfare reform, approximately 75 percent were still receiving cash assistance and about three-fifths were employed at least 20 hours per week. One-fifth of those who had left welfare and were working reported having no health insurance (7.4 percent of all respondents).

A key finding was that employment status at the time of the initial interview was strongly associated with a broad range of personal characteristics, including human capital and skills (education, number and type of prior job skills, work experience), respondents' physical and mental health (mother's self-rated health status, health-related limitations in physical activities, and meeting the diagnostic criteria for major depression), transportation problems, and self-reported discrimination in the workplace. Some factors that were not significantly associated with employment at the first interview include race, prior years of welfare experience, children's health problems, knowledge of workplace norms, and exposure to domestic violence. The larger the number of problems a recipient experienced, the lower the probability she was employed.

The research reviewed provides little information on the extent of employment of women who had been post-TANF welfare recipients or on the consequences of employment over time for their economic and non-economic well-being. As mentioned above, TANF recipients face a radically different set of incentives for working and penalties for non work than AFDC recipients

did. All else equal, these economic and policy changes should contribute to increased work involvement.

On the other hand, welfare recipients and poor women and their children, compared to the general population, are more likely to be in poor health, to have mental health problems, and have greater exposure to acute and chronic stressors that can adversely affect work and well-being (Kalil et al, 1998; Olson & Pavetti, 1996). They are less likely than women in the general population to have access to the material and emotional resources that could buffer the impact of stressful life events and conditions, such as money for goods and services and the presence of a supportive partner. While analysts have documented that such problems are more common among welfare mothers than among women in general, Danziger et al. (in press) was the first study to directly link these problems to welfare mothers' employment. This study and that of Olson and Pavetti (1996) suggest that the presence of one personal problem may not be insurmountable, but the presence of multiple problems causes disjunctures in labor market experiences.

Moreover, the impact of mother's work on family economic well-being for former recipients is unclear. Does work improve financial well-being? How does it affect financial strains? A rationale for welfare reform is that as recipients establish regular and stable work patterns, their earnings will grow and they will become economically self-sufficient (Bonilla, 1995; also explained in Holcomb et al, 1998). Edin and Lein (1997), however, report that working single mothers actually experienced more economic hardship than AFDC mothers,

largely because work-related expenses outweighed the increased income from going to work. This paper makes use of the second wave of our panel data to analyze the relationships between work involvement and family income, material hardships and financial strains.

Data, variables, and methods.

The Women's Employment Survey (WES) allows us to analyze the associations between the extent of employment and objective and subjective measures of well-being for continuing and former welfare recipients. The first wave of interviews was completed between September and December 1997 with a random sample of 753 single mothers who were welfare recipients in an urban Michigan county in February, 1997. Michigan's Family Independence Agency (FIA), the state's TANF agency, provided names and addresses of all single parent cases; a stratified random sample was drawn; completed interviews represented an 86 percent response rate. The second wave of interviews was completed between September and December of 1998 with a response rate of 92 percent, 693 respondents.[1]

Figure 1 shows how the percentage of all women in this county who received cash welfare benefits (Family Independence Program, or FIP, benefits) and Food Stamps varied over a two year period. By definition, 100 percent of the women received FIP benefits in February 1997. The declines among this cohort in both welfare and Food Stamp receipt are consistent with national data and reports from other states. Of those who received cash assistance in February

[1] A third wave was fielded during Winter 1999/2000.

1997, only a third were still on the caseload by March, 1999; 56 percent were still Food Stamps recipients at that time.

This survey provides a rich source of policy-relevant data, including many measures not available in other studies, that allow us to investigate the broader economic and non-economic impacts of welfare reform. Whereas all survey respondents received cash assistance in February 1997, about one-quarter had left welfare by Fall 1997 and one-half by Fall 1998 (similar to caseload trends for the universe of recipients in the county in Fig. 1). Thus, we have large samples both of women who have left welfare and of those who remain.

Measure of employment involvement.

In Wave 1, respondents were asked to indicate whether or not they had worked 25 hours or more in each calendar month between February 1997 and the interview month in Fall, 1997. In Wave 2, work histories were collected for the months in which a woman reported any paid work between Wave 1 and Wave 2. We combine data from these two waves and define employment involvement as the proportion of months employed between February 1997 and the second interview in Fall 1998. For each respondent, this employment history covers from 20 to 23 months, depending on the month in which the second interview took place (September through December).[2] Of the 692 respondents with valid work history data for the entire survey period,

[2] The difference between wave one and wave two in the way we gathered the work history data were gathered suggests that work effort in wave one could be under-reported relative to that in wave 2. For example, a woman who worked just a few hours in September 1998 should have reported herself as working in that month; but if she had worked less than 25 hours in the month of September 1997, she would have reported herself as not working.

there is a wide distribution of this measure. For example, 9.7 percent of the sample did not work in any of the months, whereas 21.7 percent worked in every month.

Figure 2 shows the trend in the proportion of the respondents who had worked in each of the months between February 1997 and September 1998 (the beginning of the second survey period). Whereas 40 percent said they had worked at some point in the first month, the proportion grew to about 60 percent by September 1997, then fluctuated around 65 percent in the Summer of 1998.

This measure of employment attachment or involvement reflects the extent to which women are successful in staying employed. The policy goal of not just getting jobs, but keeping jobs and becoming self- sufficient, can only be assessed with such over time measures of employment. Although we can assess the extent to which the women are acquiring work experience, the survey does not gather information on hours worked or earnings in every month.[3] Regardless of how many times a woman changes jobs, the survey records whether she is actively employed at some point within each month.[4]

These results conform to the national pattern – a sharp decline in welfare receipt and an increase in employment. Rather then declare success, however, the remainder of the paper focuses on how women who had been welfare recipients in early 1997 were faring in late 1998.

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[3] We have, at each wave, a measure of earnings last month, annual earnings, and usual hours of work per week. Earnings and hours in every month were not measured.

[4] Even women whom we classify as working in every month may have experienced periods of unemployment. For example, a woman who works the first week of August, loses her job, and then starts a new job during the last week of September, will be classified as having worked in both months.

Methods

Our analysis proceeds as follows. First, how the relationshp between household income and poverty at the second interview varies with work involvement over the analysis period is evaluated. A variety of measures are examined -- sources of monthly income, work expenses, total income minus work expenses, and income minus work expenses and excluding earnings from other household members. This helps answer the question, "How is the proportion of time worked between February 1997 and Fall 1998 associated with income levels and poverty rates in Fall 1998?"

Second, three other aspects of economic well being are analyzed-- reports of recent experiences of material hardships, the extent to which the women have resorted to hardship-mediating activities to make ends meet, and subjective financial strains – with respect to how they vary with work involvement. We ask, "How much better off are women who have worked in a greater percentage of months than those who have worked less?"

Results

Table 1 classifies all respondents at waves one and two into one of four mutually-exclusive, point-in-time categories of work by welfare receipt status. By definition, 100 percent of the women in the sample received welfare in February 1997; Figure 2 showed about 40 percent were working at that time. There are several key findings. At both interviews, about 60 percent

of respondents were working at least 20 hours per week.[5] This is consistent with results from recent studies in other states which find post-welfare reform employment rates of 50 to 70 percent. That the percentage of this cohort who reported working 20 or more hours per week grew only slightly from 56.8 percent in Fall 1997 to 61.5 percent in Fall 1998 (the sum of categories working/ no welfare and working/received welfare) is somewhat discouraging, particularly because the unemployment rate in this county declined slightly over this period, to about 5 percent in December 1998.

On the other hand, there was a large increase in the number of women who were working and no longer receiving welfare (category 1), from 19.9 to 37.3 percent. These women tend to work full time – median usual hours of work per week was 40 at both waves. Thus, while the total percentage of women working at least half time remained constant, there was a shift away from part-time work combined with welfare receipt (category 2 has median usual hours of 30 and 34 at waves one and two, respectively) to full-time work without reliance on cash assistance (category 1). Among the entire sample, the percentage working 35 or more hours per week increased from 30.5 to 40.5 percent between the two waves.

The proportion of respondents who were welfare recipients (the sum of the working/welfare and not working/welfare categories) dropped by about 24 percentage points, from 71.9 to 48 percent between the two waves of our survey. About half of this reduction was due to the decline in the proportion who both worked and received welfare (category 2), about

[5] Whereas Figure 2 plots the percentage of the sample reporting any work, Table 1 focuses on women who worked at least 20 hours per week because that is the amount of work required for a welfare recipient to be in compliance in

half, to a drop in the proportion who received welfare but were not working (category 3). The proportion of recipients who had left the rolls and were not working almost doubled over this period, from 8.2 to 14.7 percent of the sample.[6] This group includes women who are having the most difficulty adjusting to the new welfare rules.

Now consider how the respondents were faring in Fall 1998, at the second interview, when they are classified by the percentage of the months they worked between February 1997 and the Fall 1998 interview. We classify all respondents into four categories of employment involvement -- those who worked in none (0), some (1-64 percent), most (65-99 percent), and all (100 percent) of the months covered by the study period.[7]

We document that as the extent of work involvement increases, women have more disposable income, less poverty, a lower probability of experiencing a number of material hardships and higher subjective well-being. However, the increases in well-being are not large on some indicators of material hardship and vulnerability persists for many of the most work-involved respondents. Some of those who are not succeeding in moving into work and are no longer receiving welfare are living in very precarious circumstances.

Table 2 documents the extent of work involvement and how total monthly income, monthly earnings and the monthly poverty rate (for all respondents) vary by work involvement.

1997 with the State's guidelines.

[6] Some of these women now receive SSI, some live with a partner who has earnings; but some have no regular income source.

[7] Any such classification may seem arbitrary, especially the two middle categories. The categories "none" and "all months" have obvious meaning. We split the sample at 64 percent, because it was roughly the sample median for the percentage of months worked. We also experimented with variations on these categories, but the results did not differ.

About one-tenth of the women did not work for pay in any of the months between February 1997 and Fall 1998;[8] 37.0 percent worked in less than two-thirds of the months; about one-third worked most of the time (65 – 99 percent); 21.7 percent worked in every study month.

The extent of work is clearly associated with economic well-being -- mean monthly household income from all sources and mean own monthly earnings were higher and poverty rates were lower for women with high levels of work involvement compared to those who worked some or not at all. For example, women who worked in every month since February 1997 had mean earnings of $862 in Fall 1998, whereas those who worked in some of the months (1 – 64 percent) had mean earnings of only $409.[9] Similarly, mean monthly household income from all sources was $1715 and $1480 for women who worked most and all of the time, compared to $1036 for women who never worked. Poverty rates fall as the extent of work involvement increases, from 85.1 percent for women who never worked to 61.3 percent for those

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[8] When the wage history data was gathered, respondents were asked whether they had worked in paid jobs, including babysitting, housekeeping, or irregular jobs. They were later asked to list things that they might do "when times are hard to make extra money, such as babysitting, housekeeping, styling hair or nails, selling things out of the house, or doing odd jobs. Because they reported both not holding paid jobs and receiving zero earnings in the month survey, they are treated as non workers.

Respondents were also asked how much cash welfare they received. After the data were gathered, we realized that some welfare recipients reported the amount of their welfare check, rather than the full grant amount, because a portion of their check was "vendored" (i.e. the state directly pays rent and/or utilities to the landlord and utility companies).

The extent of this problem is gauged by imputing welfare income to recipients who might have reported low welfare amounts because of vendoring We assumed that non-working respondents who reported receiving cash welfare and not receiving Supplemental Security Income and are not married receive the full welfare grant. This overestimates welfare income, in contrast to the tables, which understate it for vendored respondents.

This imputation increases mean total household income (Table 2) by 10% for each of the four groups. Poverty rates decrease slightly for the groups, by at most 3 percentage points for nonworkers.

who worked some of the time, to 38.8 percent for those who worked most of the time and 36.9 percent for those working in every month. We also computed extreme poverty rates (income less than half of the poverty line) for these four groups. They also decline rapidly with work involvement, from 37.3 to 24.2 to 10.5 to 6.7 percent as months worked increase from none, to some, to most to all (data not shown).

Table 3 compares monthly income by source and work expenses by the extent of work involvement. For each income source, we show the percentage of all respondents who received it and the mean for those with positive values. Row 1 reports respondents' own earnings in the month prior to the Fall 1998 survey. Both the proportions of women reporting earned income and the mean earnings of those who worked in that month increase with the extent of work. Only 55.1 percent of women who worked some of the time reported earnings, which averaged $743; 85.8 percent of those working most of the months reported earnings in late 1998, which averaged $918.[10]

Similarly, the likelihood of reporting cash welfare (TANF) benefits declines as work involvement increases -- from 74.6 percent of those with no post-PRWORA work history to 54.3 percent for those who worked in some of the months, to about 40 percent for those working most and all of the months. That two-fifths of women who worked in every month were receiving cash welfare and two-thirds were receiving Food Stamps shows that work attachment

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[9] The fact that the total household income level in Table 1, row 3, column 3 is slightly above that in row 3, column 4 is due to the inclusion of earnings from other household members

alone does not guarantee self sufficiency. Most of the women who worked in every month and received welfare or food stamps were working part-time and/or at a low wage rate.[11]

Table 3 also shows the extent to which respondents receive income from sources other than their own earnings and public assistance. Thirty-seven percent of the women who never worked reported SSI income for themselves or another household member; only 9-16 percent of the women in the other work effort groups reported SSI receipt. Health problems, either of their own or those of family members, are one reason some women did not work over the study period.

There are not large differences across the work involvement categories in the extent of receipt of other income sources. For example, about one-quarter to one-third of respondents lived with another household member who was working, and the earnings of these other household members, on average, exceeded those of the respondent. The receipt of child support varied from about one-fifth to one quarter of each group, with the amounts received ranging, on average, from $120 to $179 in the most recent month.

To derive more comprehensive measures of economic well-being, income from all sources, including food stamps, was summed for each respondent. Then the estimated earned income tax credit received was added and work expenses paid were subtracted.

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[10] Two women who worked in every month since February 1997 did not report their earnings last month and are thus coded as not reporting earnings. Thus, the percentage reporting earnings for the last category in Table 3 is 98.7.

[11] About half of these women usually worked less than 35 hours per week; 12.8 percent earned less than $450 in the prior month. Further, about 12 percent of the respondents who worked in every month reported working 48 or fewer weeks in 1997.

Working families with children that have annual family income less than $26,500 with one child and $30,095 with two or more children are eligible for the Earned Income Tax Credit (EITC). These income cutoffs are high enough that almost every respondent who works is eligible. The maximum EITC in 1998 was $3756 for a family with two or more children and $2271 for a family with one child. Because we are evaluating poverty based on earnings last month, the relevant EITC maxima are then $313 and $189 per month. We include our EITC estimates as an income source. Table 3 shows the estimated percent of women in each work-involvement group who would receive the EITC. This percentage increases with work effort, ranging from 53.1 percent for those working in some months to 97.3 percent for those who worked in every month.[12] The value of the EITC, however, does not vary much across the groups, ranging from $186 to 207.

The first two rows in the bottom panel of Table 3 report work-related transportation and child care expenses. Edin and Lein (1997) argue that work-related expenses substantially lower returns to work for their sample of AFDC recipients. In our sample, these expenses, on average, are not large enough to reverse the finding that economic well-being increases with the extent of

[12] We estimated the monthly EITC in 1998 by using monthly income sources as proxies for annual income (we multiply monthly income from own earnings, unemployment income, social security and pensions by 12 months). The credit was calculated using only earned income as the law requires and with our estimates of adjusted gross income (which includes unemployment and social security income). According to IRS rules, the EITC is the lesser value of the two amounts computed from these income definitions. Eligibility is determined by number of dependents and amount and source of income. We assume that untaxed earned income, interest and dividends, student loan interest or scholarship income, and IRA deductions are all not received or paid by respondents. We assume that all respondents file returns with themselves and their children as a single tax unit. We thus exclude other household members' income and assume that all of the respondents' children are their dependents and are not claimed by any other tax filer. For the 19 women who do not have children under age 18 living in their household, we assumed that they were eligible only for the much smaller EITC available to single persons between the ages of 25 and 64. This is a maximum annual credit of $341 or $28/month.

work involvement. The proportion of women who report work-related transportation expenses increases sharply with work involvement. Only 36.7 percent of women who worked in some months reported work-related transportation expenses, whereas 84.7 percent of those who worked in every month reported them. The average amount of transportation costs was modest, ranging from $66 to $76 per month.

The proportion of women reporting child care expenses also increases with the extent of work involvement – from 1.5 percent for women who did not work to 31.3 percent of those who worked in every month.[13] Out-of-pocket child care costs were higher than transportation expenses. For women who reported spending on child care, it ranges from $232 to $311 per month for the women who work some, most, or all of the time.[14] Some of the women who do not pay much out-of-pocket for child care are receiving state subsidies, which are paid directly to their child care providers.[15]

The bottom panel of Table 3 reports two measures of net monthly income, one that includes and one that excludes the earnings of other household members. Net income is computed as the sum of income from all sources shown in the top panel of the table, including the value of Food Stamps and the estimated EITC, minus the sum of work-related transportation and child care expenses, shown in the middle panel. Net income for both measures is higher for

[13] Because child care is necessary for a person to conduct job search or attend job training, we include child care expenses (which could be incurred by those not working) when we calculate net monthly income.
[14] One woman who did not work in any of the months (1.5 percent of this group) reported spending $645 in the month prior to the survey.
[15] In this wave of the survey, respondents were only asked about out-of-pocket spending. In the third wave, they are asked about receipt of the state subsidy paid directly to child-care providers.

the women who worked most or all of the time than for those who worked none or some of the time.

The first measure of net income ranges from $1026 for women who never worked to $1535 for those who worked in every month and $1731 for those who worked most of the time. The pattern is even stronger when we subtract earnings of other household members from net monthly income (bottom row).[16] This measure for women who worked in every month, $1288, is 66 percent higher than that of women who never worked, $776, and 28 percent higher than those who worked some of the time, $1,005.

Thus, in the aftermath of the 1996 welfare reform, work pays, at least on average, for women who were welfare recipients. The payoff to earnings relative to welfare, however, would be lower in states with shorter time limits, quicker and more aggressive sanctioning policies, or ones that make it more difficult to combine welfare and work than does Michigan. For example, if the group of women who worked in every month had not received any TANF benefits, the average monthly income (net of work-related expenses and the earnings of other household members) would have been $1212, instead of $1288, and their economic advantage relative to non-workers would have fallen from 66 to 56 percent.[17]

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[16] We subtracted the earnings of other household members because we are not certain that those members fully share their earnings with respondents.

[17] Although the text emphasizes increases in mean net monthly income as work involvement increases, there is substantial variation within each category. For example, although women who have worked all or most of the time are much better off on average than women who have not worked at all, about one-fifth of these women have net incomes below the mean of those who did not work ($776). About two-fifths of the women who worked some of the time fall below this amount; about half of those who did not work at all. The pattern is the familiar one – fewer women fall below this threshold as work involvement increases.

Table 4 explores the extent to which a variety of measures of material hardships reported in the 12 months prior to the second interview vary by work involvement. We examine the incidence of nine material hardships – food insufficiency,[18] lack of health insurance for either the mother or children, instances in which the mother or her child did not receive needed medical care, and experiences of a utility shut-off, eviction, or an episode of homelessness, and if she currently lacks a telephone. A general pattern emerges -- the two groups of women who have worked in most or all of the months are less likely than the others to report having experienced one or more of the nine hardships. For example, (first row), 28 to 31 percent of women who worked in none or some of the months reported sometimes or often not having enough food in the last year, compared to 16 to 19 percent for women who worked most or all of the time.

There is an important exception to this pattern. Lack of health insurance is highest among those who have worked in every month – 20 percent are not covered and 9.3 percent do not have coverage for their children.[19] The finding suggests that lack of access to health insurance remains a serious problem for recipients in the process of leaving welfare for work.

The bottom panels of Table 4 show that the cumulative number of experiences of material hardship decline with the extent of employment attachment. For example, 31 percent of women who never worked and 39 percent of those who worked some of the time experienced two or

[18] Respondents are coded as being "food insufficient" if they reported that they sometimes or often did not have enough food to eat when asked: "Which of the following describes the amount of food in your household – enough, sometimes not enough, often not enough." This measure is also used in the Current Population Survey and the Third National Health and Nutrition Examination Survey (NHANES III). See Alaimo et al. (1998) for a discussion of this measure.

[19] The percentage of respondents whose children do not have health insurance does not vary much by extent of work, perhaps due to Michigan's implementation of the Child Health Insurance Program (CHIP).

more hardships, compared to about one-fifth of those working most or all of the months. When we examine all hardships except medical insurance, the relative disadvantage of the women who worked least is even greater.

Table 5 reports the extent to which women had engaged in one or more of 6 activities to make ends meet during the 6 months prior to the Wave 2 interview. These activities range from pawning or selling personal items to engaging in illegal activities. Our interpretation is that women engage in these activities as a last resort, when they have difficulty getting by on the regular income sources listed in Table 3. Women who worked in every month are less likely to report engaging in these activities than were women who worked less. As the bottom row indicates, 26 percent of those who worked in every month resorted to one or more of these activities compared to 37.9 percent of those working most of the time, 49.2 percent of those working some of the time and 53.7 percent of those who did not work. Thus, women who work most or all of the time are better off than those working some or none of the time across all of the measures of economic well-being that we have reviewed – income, experiences of material hardship, and engagement in "last resort" activities.

Table 6 reports respondents' subjective appraisals of financial strain. We asked the women how difficult it is to live on their income and whether they anticipated experiencing hardships in the future. Two patterns emerge. First, recipients who work more are significantly less likely to report having difficulties living on their income. Slightly more than half of the two groups of women who worked in most or all of the months reported that it was somewhat, very

or extremely difficult to live on this income, compared to almost two thirds of those working some of the time and 70 percent of those who did not work. Second, the respondents perceive the future as being less difficult than their current situation. About 37 percent of women who had not worked anticipated experiences of hardships, such as inadequate housing, food or medical care, some, pretty much or a great deal, compared to about 21 percent of women who worked in every month. Although these differences are not very large and are not statistically significant, the women who worked most are better off. Taken together, these subjective appraisals of financial strain are high for most respondents, but lower for those who have worked in the greatest number of months.

Summary

Women who are accumulating the most labor market experience, measured by the proportion of months worked between February 1997 and Fall 1998, have higher levels of financial and subjective well-being. They have higher monthly earnings and income net of work-related transportation and child care expenses, have experienced fewer material hardships, (even though they are less likely to have health coverage than women who have not worked), and are less likely to report engaging in other activities to make ends meet, such as pawning possessions, seeking charity, or engaging in illegal behavior. They are also less likely to report subjective financial strains.

Nonetheless, a substantial proportion of respondents, regardless of their level of work involvement, report serious economic difficulties and subjective financial strain. For example, the

Fall 1998 poverty rate for those who worked in every month was 36.9 percent, about one-third received cash welfare, two-thirds received Food Stamps, and a fifth reported two or more experiences of material hardship, such as lacking health insurance and experiencing food insufficiency. In addition, one quarter resorted to at least one activity to help make ends meet, 56 percent found it difficult to live on their income, and 21 percent expected to experience additional hardships in future months. These respondents are successfully making the transition from welfare to work, but continue to rely on government for income supplements and subsidized access to medical care and child care.

The extent of material hardship and financial strain that we have documented, even among women who are working in every month, demonstrates that declining caseloads do not automatically translate into improved well-being. Working is associated with reductions in, but not elimination of, economic vulnerability and material hardships. When President Clinton first proposed welfare reform he spoke both of "making work pay" and of "ending welfare as we know it." PRWORA certainly "ended welfare as we knew it;" and, the expansion of the earned income tax credit and other policy changes have helped "make work pay more than welfare." But much remains to be done if we are to strengthen the post welfare-reform safety net and alleviate the continuing hardships documented here.

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Figure 1.
Trends in Welfare Use, February 1997 - March 1999
Female Single Parent Caseload, February 1997
(Urban Michigan County)

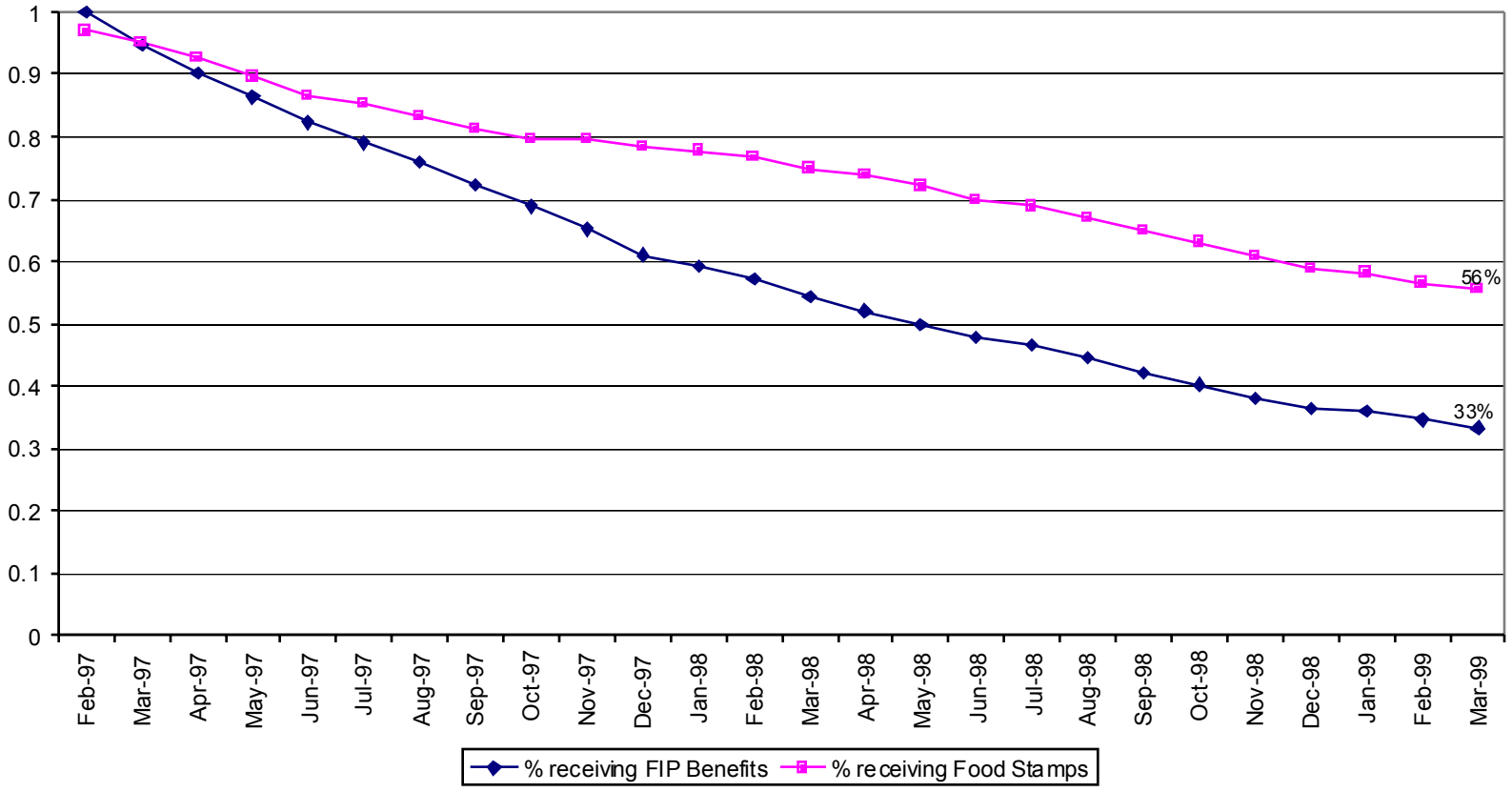


Figure 2
Percent of Respondents Working, February 1997-September 1998
(n=693)

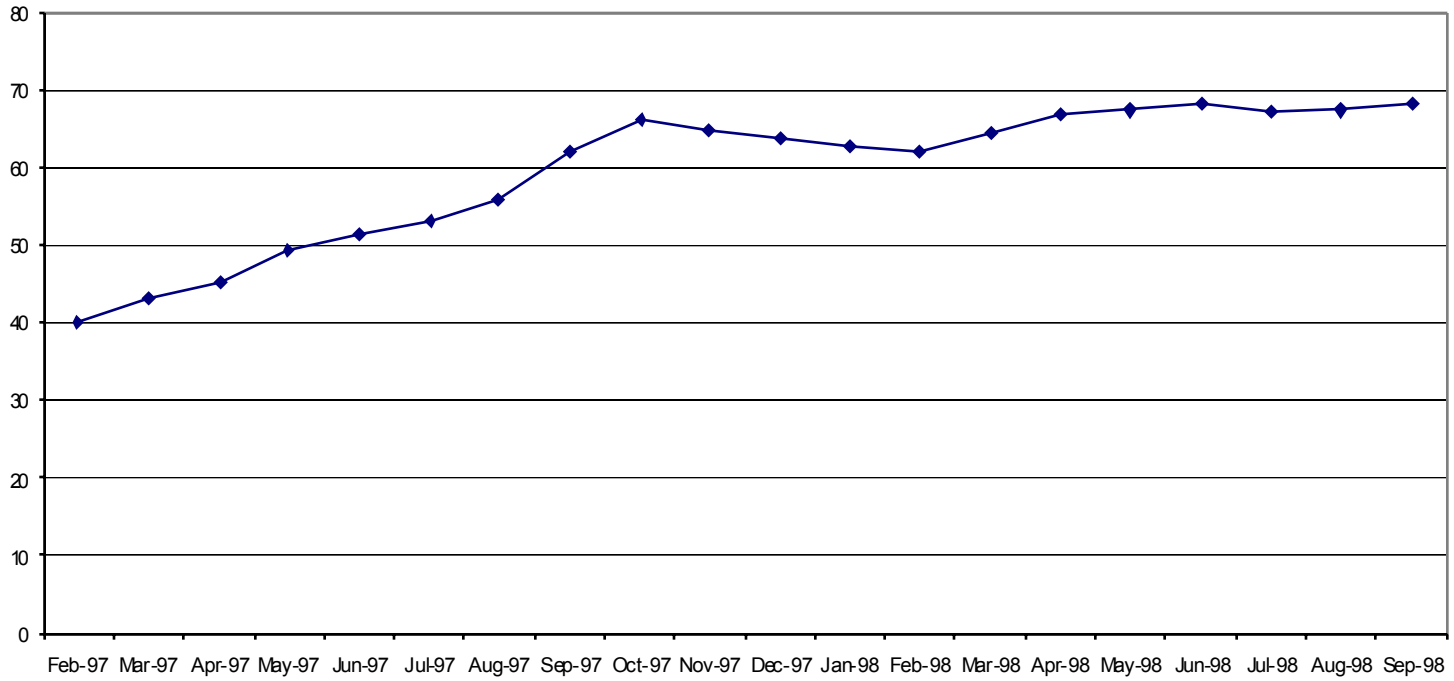


Table 1. Changes in Work and Welfare Status

Work/Welfare Status at Interview	Percent of Sample		
	Fall 1997	Fall 1998	Percentage Point Change
1. Working/No Welfare	19.9	37.3	17.4
2. Working/Received Welfare	36.9	24.2	-12.7
3. Not Working/Received Welfare	35.0	23.8	-11.2
4. Not Working/No Welfare	8.2	14.7	6.5
Total	100%	100%	

Respondents are categorized as "working" if they reported working at least 20 hours per week at the time of the interview. Women who work 1 through 19 hours are classified as not working. In Fall 1997, they were 3.9 percent of the total sample; in Fall 1998, 3.3 percent. The Fall 1997 sample includes all 753 respondents at wave 1; The Fall 1998 sample includes the 693 respondents who were interviewed again at wave 2.

Table 2. Monthly Household Income, Respondents' Earnings, and Poverty Status by Work Involvement, February 1997 to Wave 2

	Percentage of Months Worked			
	None	Some	Most	All
	0	1 - 64%	65 - 99%	100%
% of sample	9.7%	37.0%	31.6%	21.7%
Number of respondents	67	256	219	150
Mean monthly household income from all sources*	$ 1,036	$ 1,345	$ 1,715	$ 1,480
Mean own monthly earnings**	$0	$ 409	$ 788	$ 862
Poverty rate*	85.1%	61.3%	38.8%	36.9%

Note: Note: All income and earnings data are measured in the month prior to the Fall 1998 interview (wave two). The work categories distinguish between those with above and below average work experience. For our sample, the mean percentage of months worked is 59.7, and the median, 66.7. Sample size is 692

* Based on total household income from all sources last month, including Food Stamps and the Earned Income Tax Credit.

**For all women, including those reporting no earnings in the month prior to the interview.

Table 3. Monthly Income and Expenses by Work Involvement

	Percentage of Months Worked							
	None 0%		Some 1 - 64%		Most 65 - 99%		All 100%	
Receipt in Month Prior to Fall 1998 Interview:	% Reporting	Mean for % Reporting	% Reporting	Mean for % Reporting	% Reporting	Mean for % Reporting	% Reporting	Mean for % Reporting
Own earnings	0.0%	$0	55.1%	$743	85.8%	$918	98.7%	$874
Earnings of others in household	26.9%	$930	30.1%	$1,259	32.4%	$1,452	24.7%	$995
TANF	74.6%	$340	54.3%	$306	36.5%	$235	40.0%	$170
Food Stamps	82.1%	$212	69.5%	$228	65.3%	$207	68.0%	$200
Child support	22.4%	$140	18.8%	$120	21.9%	$179	24.7%	$161
SSI income from any in household	37.3%	$574	16.0%	$511	10.5%	$611	8.7%	$422
Unemployment insurance	1.5%	$1,200	0.8%	$796	0.9%	$425	0.7%	$186
Money from others in household	14.9%	$282	13.3%	$449	11.9%	$591	10.7%	$408
Money from outside friends/family	13.4%	$133	19.1%	$129	16.4%	$173	13.3%	$186
Other income	4.5%	$764	2.3%	$1,608	2.7%	$1,062	1.3%	$949
Estimated earned income tax credit	0	0	53.1%	$186	81.3%	$189	97.3%	$207
Work-related transportation expenses	0	$0	36.7%	$76	66.2%	$72	84.7%	$66
Child care expenses	1.5%	$645	13.7%	$232	28.8%	$311	31.3%	$298
Net monthly income including earnings from others in household	100%	$1,026	100%	$1,384	100%	$1,731	100%	$1,535
Net monthly income excluding earnings from others in household	100%	$776	100%	$1,005	100%	$1,260	100%	$1,288

Table 4. Percentage of Respondents Experiencing Material Hardship, by Work Involvement

	Percentage of Months Worked			
	None 0	Some 1 - 64%	Most 65 - 99%	All 100%
Food insufficiency	31.0%	28.0%	19.0%	16.0%
No health insurance (mother)	7.5	16.4	15.1	20.0
Mother did not receive needed medical care	9.0	7.0	3.7	4.0
No health insurance (child)	7.5	10.6	9.6	9.3
Child did not receive needed medical care	1.5	2.7	1.4	1.3
Utilities cut off	10.0	15.0	9.1	5.4
Eviction	12.0	11.0	5.0	4.7
Homeless	4.5	5.4	5.9	0.7
No phone	31.8	30.9	17.0	8.7
Including medical insurance				
No hardships	31.3	34.0	49.8	60.0
One hardship	37.3	27.0	29.7	20.7
Two or more hardships	31.3	39.1	20.6	19.3
Excluding medical insurance				
No hardships	38.8	41.0	60.3	72.0
One hardships	34.3	30.9	26.5	19.3
Two or more hardships	26.9	28.1	13.2	8.7

NOTE: Hardships are measured over the 12 months prior to the Fall 1998 interview.

Table 5. Percentage of Respondents Engaging in Activities to Make Ends Meet, by Work Involvement

	Percentage of Months Worked			
During 6 months prior to Fall 1998 Interview	None 0	Some 1 - 64%	Most 65 - 99%	All 100%
Pawned or sold personal possessions	12.0%	18.0%	15.0%	9.3%
Received food, shelter or clothing from a charity	47.8	41.0	30.1	20.7
Searched in trash cans, asked for spare change, or begged for work	3.0	1.2	0.9	0.0
Taken food or items from stores without paying for them	0.0	0.8	0.5	0.7
Engaged in Illegal activity	3.0	2.4	0.0	1.3
Sold or traded food stamps	7.5	4.3	1.8	0.7
Percent engaging in one or more of above activities	53.7	49.2	37.9	26.0

Table 6. Subjective Financial Strain, by Work Involvement

At Fall 1998 Interview:	Percentage of Months Worked: None 0%	Some 1-64%	Most 65 - 99%	All 100%
How difficult is it to live on your total income right now?				
Not at all or a little difficult	29.9%	34.9%	46.6%	44.0%
Somewhat, very or extremely difficult	70.1%	65.1%	53.4%	56.0%
Chi-square=.014				
In the next two months, how much do you anticipate that you and your family will experience actual hardships such as inadequate housing, food, or medical care?				
Not at all or a little	62.7%	65.9%	72.7%	68.6%
Some, pretty much or a great deal	37.3%	34.1%	27.3%	21.4%
Chi-square=.317				