Executive Summary

Post-Exit Earnings and Benefit Receipt among Those Who Left AFDC in Wisconsin

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Executive Summary

From July 1995 to July 1996, single-parent AFDC caseloads in Wisconsin declined sharply, by 23 percent.¹ This is the third and final report in a series that explores the characteristics of those mother-headed families who left AFDC after July 1995 (“leavers”), compared to those who remained (“stayers”), and examines how they fared during the 15 months after they left the Wisconsin AFDC program.² Specifically, we ask:

- What proportion of leavers returned to AFDC, and what characteristics are most closely associated with that return?
- Did AFDC leavers and their families have incomes greater than (1) the maximum benefits they would have received under AFDC or (2) their incomes immediately before leaving AFDC?
- Did leavers and their families escape poverty after leaving AFDC?
- How much did leavers use other public assistance programs, and what household characteristics most affected the likelihood that they would do so?
- To what extent did leavers work and earn after they left AFDC, and how did these trends compare to the work and earning patterns of the stayers?
- Did the earnings of the leavers grow over time and, if so, to what extent?
- What family and economic characteristics among leavers were most closely related to the probability of working at all, and of obtaining relatively high earnings?
- What kinds of jobs did leavers find, and which jobs seemed to offer the highest wages?

The data. Our analysis is based on administrative data from the state of Wisconsin.³ Defining “leavers” as those who received no AFDC benefits for two consecutive months in the next year (between August 1995 and July 1996), we identified 26,047 leavers and 28,471 stayers. We tracked leavers for a period of 15 months from the date they left and stayers from August 1995 to December 1997.

These data allow us to study a substantial number of economic and social outcomes for both leavers and stayers. However, they reflect only public assistance and covered earnings received in

¹Wisconsin’s AFDC-Regular program (for single-parent families) provided benefits to 65,017 cases in July 1995 and to 50,166 cases in July 1996.
²The first and second reports are available from the Institute for Research on Poverty.
³The state’s CARES system (which includes data collected in the context of administering AFDC and related means-tested programs) and its predecessor, CRN, provide much information on these 55,000 cases when they were receiving AFDC: the mother’s age, education level, and race; the number of children in the household and the age of the youngest child; whether or not other adults were also in the household; whether the mother or a child received Supplemental Security Income (SSI); the mother’s AFDC status and whether or not she was an immigrant; and the county of residence. The state’s Unemployment Insurance system provides information on the mother’s quarterly earnings and employer.
Wisconsin. We have no measures for individuals who moved out of state, no measures of earnings for those who remained in the state but were self-employed or in other noncovered employment, and no measures of a spouse or partner’s earnings or other income. Furthermore, because we cannot accurately trace individuals who leave the state for all or part of the period, we cannot distinguish those who receive benefits outside Wisconsin from those who receive no benefits.⁴

I. How many of those who left AFDC returned?

Almost half (47.8 percent) of those receiving AFDC in 1995 left the rolls for at least two consecutive months during the next year. About 70 percent of this group did not return to the program during the 15 months following their exit; 30 percent did so, two-thirds of them within the first four months after they had left.

II. A comparison of leavers and returners

A. Who left AFDC?

One of the largest differences between leavers and stayers is geographical. Families in Milwaukee were less likely to leave AFDC (36.6 percent) than those in other urban counties (57.9 percent) and in rural counties (66.8 percent).

Families that leave AFDC tend to be those with access to alternative means of support; thus we would expect leavers to include those with the best work and marriage prospects. (See Figure 1.) Throughout the state, women were more likely to leave AFDC if (1) they had higher levels of education; (2) they were white, or to a lesser extent, Hispanic, and were U.S. citizens; (3) they had fewer children, and there were other adults in the household; (4) neither the mother nor any child was receiving SSI; and (5) the mother had more work experience and higher total earnings in the two years (July 1993–June 1995) prior to the July 1995 date when our sample was drawn. Mothers who had been “sanctioned” for some failure to comply with the AFDC program were also more likely to leave. The longer the current spell of AFDC receipt, the less likely a mother was to leave: 70 percent of those who had been on the rolls less than six months, but only one-third of those who had been on the rolls over two years, left AFDC during the year of study.

⁴Seventy-three percent of our sample appear in the data in each of the five quarters after they left AFDC, and about 8 percent never appeared in the database during the entire 15 months after they left. These “disappearers” may have left Wisconsin. They also may still live in the state but may, for instance, have married and be relying on a husband’s earnings or support from family and friends, or be in noncovered employment and not using public assistance. Nineteen percent of the sample are “partial disappearers” who appear in the administrative data in some, but not all, of the quarters. The disappearers have been excluded from the findings we present here; the partial disappearers have been included only in the quarters for which we have data on them. We are aware that their exclusion may affect some of our results and we expect to pursue this issue in the future.
B. Who among the leavers returned to AFDC?

As indicated, about 30 percent of the leavers returned to AFDC within 15 months of leaving. Overall, the characteristics associated with not returning to AFDC are the same as those associated with leaving it. There are, however, a few exceptions:

1. Legal immigrants and mothers receiving SSI were less likely to leave AFDC, but those who left were no more likely than others to return within 15 months.

2. Sanctioned mothers, more likely to leave AFDC, were also more likely to return.

3. Whereas women with more earnings and work experience were more likely to leave AFDC, they were also more likely to return. This is a puzzling finding.

III. The economic well-being of leavers

This is perhaps the most important issue regarding the Wisconsin reforms. To explore it, we asked the following questions, each of which reflects some concept of “success”:

1. To what extent did leavers and their families have cash incomes that exceeded the maximum benefit they would have received under AFDC?

   In answering this question, we paid particular attention to family size: did larger families score more poorly on this indicator of success?\(^5\)

   About one-half of all leavers had cash incomes greater than their likely maximum AFDC benefit. Larger families did less well than families with one child: among families with three or more children, about 45 percent had cash incomes greater than the likely maximum benefit.\(^6\)

2. Did leavers and their families have incomes that exceeded the income they received just before they left AFDC?

   The measured earnings of the average leaver exceeded her earnings while on welfare, but overall income fell. In essence, welfare benefits fell for these people by more than their earnings increased. Among continuous leavers and those with fewer children, only about one-half had incomes above those they had received immediately before they left welfare. If we add in food stamps, about 35 percent of all leavers increased their economic resources; the rest did not.

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\(^5\)An important caveat is that working requires most individuals to incur additional costs, in particular for child care, Social Security taxes, transportation, meals eaten outside the home, and appropriate work attire. These costs are not included in any measure in our data. Nor is potential income from the Earned Income Tax Credit, which is designed to defray some of these costs.

\(^6\)About 40 percent of women worked while on AFDC. But the stayers did only somewhat worse than the leavers; many stayers also had earnings, and between 45 and 55 percent had cash incomes above the maximum AFDC benefit.
3. To what extent did leavers and their families escape poverty after they left welfare? How did incomes of stayers compare?

All leavers were about twice as likely to have measured incomes above the poverty level as stayers. About 37 percent of those who left AFDC and did not return escaped poverty. Again, family size matters: only about 11.6 percent of all leavers with three or more children had incomes above the poverty line. (See Figure 2.)

4. Did leavers and members of their families remain dependent on welfare programs? What factors are most associated with continued use?

Use of public assistance is one measure of the degree of self-sufficiency achieved by former welfare recipients, and such use steadily declined among all groups of leavers. Fifteen months after they left AFDC, about 30 percent of all leavers and 40 percent of the continuous leavers were receiving no public assistance—not food stamps, nor Medicaid, nor AFDC. However, the majority of leavers continued to use some form of public assistance, mainly Medicaid. In general, we found that AFDC leavers who had greater human capital and fewer and older children, and who lived in an area where unemployment was lower were more likely to be independent of other public assistance programs.

5. Overall, how did leavers fare compared to the stayers?

Many leavers appear to have attained higher levels of living and economic independence than stayers. They were more likely to have incomes greater than the maximum AFDC grant and especially to have incomes that lifted their families above the poverty line. Others were in a more difficult situation—for instance, those with three or more children.

IV. The labor market experiences of the leavers

How have those who left welfare in Wisconsin fared in the labor market?

1. Did leavers work after they left welfare?

About two-thirds of leavers worked at some time in each quarter during the 15 months after leaving the rolls. Continuous leavers worked 75 percent of the time and those leavers who returned to the rolls worked about 85 percent as much as the continuous leavers.

2. How much did leavers earn after they left welfare, and how did this compare to the earnings of those who remained on welfare?

For all leavers, median annual earnings were about $7,800 (see Figure 3). Median earnings for continuous leavers were about $2,400 per quarter worked. Median earnings for leavers who returned to

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“Work” is defined as having earnings in a particular quarter that were reported to the Wisconsin Unemployment Insurance system. These calculations include only cases for which we have administrative records. Details on the sensitivity of results to alternative sample definitions are included in the full report.
the AFDC rolls were substantially less, about $1,750 per quarter. Median earnings for stayers with earnings were about $1,200–$1,400 per quarter worked.

3. Did the earnings of leavers increase over time?

For all leavers, median earnings among workers increased with the length of time off welfare. For those who worked, quarterly earnings increased from less than $2,400 to more than $2,600 over this period, an annual growth rate of about 10.4 percent.

4. What family and economic factors seem to influence working?

Significantly more likely to have earnings were women whose youngest child was older than 12 years and women who had earnings in the two years before they left welfare. Significantly less likely to have earnings were women on SSI, women who had been sanctioned, minority women, and women living in a county with a high unemployment rate, and, surprisingly, women who had shorter or fewer welfare spells.

5. What family and economic factors seem related to higher earnings?

Factors closely associated with work effort also affect earnings among leavers. Women who had greater human capital (i.e., more education and prior work experience) and who were living in a county with a low unemployment rate tended to have higher earnings. Among workers, legal immigrants and women with more children had higher earnings—although having very young children reduced earnings. Women who had been sanctioned or had a family member on SSI had lower earnings.

6. What kinds of occupations did leavers enter, and how stable were they?

In the first quarter after leaving AFDC, about one-third of leavers with earnings found employment in occupational classifications with median earnings ranging around $3,000 per quarter, including Financial, Insurance, and Real Estate; Manufacturing; Health Services; Transportation and Communications. Another 40 percent of leavers found jobs in classifications where median earnings were only about $1,600 per quarter, including Hotels and Lodging; Agriculture, Forestry, and Mining; and Temporary Agencies. Not surprisingly, women were least likely to leave the highest-paying occupational classifications and most likely to leave the lowest-paying. Over time, there is some evidence of movement from lower- to higher-paying occupations.

V. Conclusions

Most states have recently experienced substantial welfare caseload declines. The implications of these declines depend to a large degree on the ability of families who have left welfare to remain independent and move to self-sustaining employment. This analysis provides an initial indication of the economic well-being of individuals who left AFDC during the time of early work-based reforms in Wisconsin.

Compared to those who stayed on AFDC, those who left—and especially those who did not return—were better educated, had fewer children, and in particular were more likely to have had earnings during the preceding two years.
Even the one-third of all leavers who returned to AFDC worked a substantial amount after their return. For all leavers who worked, median earnings in the year after they left AFDC were about $7,800. Median earnings for leavers who did not return to AFDC were $9,100. Earnings for those who worked grew at a rate of about 10 percent per year.

Some groups of recipients—those on SSI, those sanctioned, and legal immigrants, for example—were less likely to work; however, the earnings of the immigrants were significantly higher than those of native-born leavers. Those with three or more children were less likely to work than those with fewer children but, among those who worked, earnings were no lower. Earnings were lowest for the youngest mothers (18–24), those with least schooling, and, to a lesser extent, those over 40.

A key question we set out to address concerned the economic well-being of those who left the AFDC rolls. The answer has many aspects. On the one hand, among those who remained off AFDC, more than 55 percent with one child and 45 percent with three or more children had more cash income than if they had remained on AFDC. On the other hand, fewer than half of all leavers achieved incomes greater than their income in the last AFDC quarter. And only about 36 percent of those with one child who stayed off AFDC—less than 14 percent of those with three or more children—generated incomes that exceeded the poverty line in the first year after they left welfare.
Figure 1. Selected characteristics of women leaving AFDC in Wisconsin, July 1995-July 1996.
Figure 2. Percentage of “leavers” and “stayers” escaping poverty during the year after exit from AFDC. Note: For stayers and all leavers, cash income includes AFDC payments.
Figure 3. Median earnings of families during the five quarters after exit from AFDC. Note that the composition of leavers may be different for each quarter after exit.