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Climbing the Ladder? Patterns in Employment and Earnings after Leaving Welfare

Lisa Thiebaud Nicoli

Self-sufficiency is the ultimate goal for clients who receive Temporary Cash Assistance (TCA), Maryland's version of the federal Temporary Assistance for Needy Families (TANF) program. For most clients, this means acquiring and maintaining employment that pays enough to meet their families' basic needs, at least combined with supports such as child care subsidies and food and medical assistance. In order to achieve this goal, clients participate in a variety of activities, including job search, work experience, and job skills training, that are intended to help them get the best jobs that are available to them.

Despite help from caseworkers, vendors, and other partners, clients who leave welfare for work in Maryland often face low wages in industries known for substantial job turnover. Temporary agencies, retail stores, and restaurants are among the most common industries in which Maryland leavers work, and leavers in those industries typically earn less than $3,500 in the first quarter after the exit (Hall, Nicoli, & Passarella, 2014). Furthermore, we know from other research that this type of employment is often unstable and earnings tend to be inadequate (Meyer & Cancian, 2001; Johnson & Corcoran, 2003; Cancian & Meyer, 2004; Wood, Moore, & Rangarajan, 2008).

However, leavers' employment prospects may improve over time. This is, in fact, the basis of the work-first philosophy underpinning welfare reform: the fact that leavers often find jobs that pay poorly is not concerning because that initial job can be a steppingstone to a better job. Once leavers have obtained some work experience, they can demand higher wages and should be able to support themselves at that point. There is little research to either confirm or contradict this philosophy, though, particularly research conducted with a sample drawn after the 1990s.

In order to better understand how individual leavers fare after exit, we examine what we call *employment and earnings trajectories* in this brief. This strategy, which was developed by Wu, Cancian, & Meyer (2008), follows individual leavers for several years after exit, focusing on how their employment and earnings change over time. Are leavers employed when they exit? Do they remain employed for the next few years? Do their earnings increase over time? This is in contrast to other approaches that examine employment or earnings at particular points in time, such as at one or two years after exit.

In addition to describing employment and earnings trajectories, we also discuss why these trajectories are important. While they provide information about how leavers are faring, and about whether the work-first philosophy fits the available evidence in Maryland, they also matter for outcomes like returning to TCA. The likelihood of returning to TCA varies markedly by clients' employment and earnings trajectories, providing further evidence that trajectories are an important tool in understanding leavers' experiences.

Data and Sample

Data comes from the Client Automated Resources and Eligibility System (CARES) and the Maryland Automated Benefits System (MABS), which are the administrative data systems for TCA and Unemployment Insurance (UI), respectively. We also use data on UI-covered employment for some states near Maryland including Virginia, the District of Columbia, West Virginia, Pennsylvania, Delaware, New Jersey, and Ohio. These data have been available through a data sharing agreement among participating states since 2003. Some of these states provide data for every quarter, and other states provide data for a much more limited period of time.

We use a 5% random sample of all families who left TCA in each month from December 2001 through March 2009. This is a subset of a larger sample of all families who left TCA from October 1996 through March 2014; we use the smaller sample to focus on families who left after the 2001 recession, which officially ended in November 2001, and to include only families who had five years of follow-up data. At the time that the data set was constructed, employment data was available through March 2014.

Because we are interested in cases in which the payee is required to work, we exclude child-only cases. We also exclude churners, which we define as families whose cases closed and reopened within one month, in order to focus on families who have intended to make a more permanent exit.

Following Wu, Cancian, and Meyer (2008), we omit families with both no earnings and no program receipt, which we define as no TCA, food assistance (Supplemental Nutrition Assistance Program, or SNAP), or medical assistance (Medicaid), for one year after exit. With limited data from states other than Maryland, this strategy is used as a proxy for changes families may have experienced, such as death and relocation to other states. This exclusion removed 694 families (12.7%), so the final sample size for the employment analyses is 4,767 cases. Earnings analyses do not include families that had no employment during the five-year follow-up period, so the final sample size for earnings analyses is 4,189 cases.

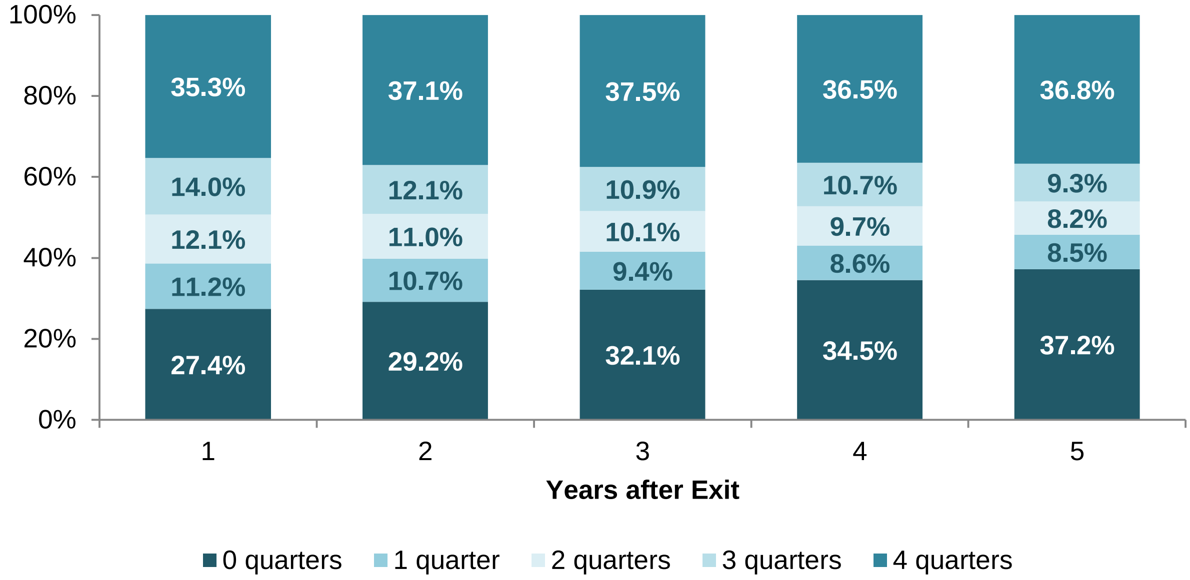
Employment Trajectories

To begin, we show employment as it is typically measured in Figure 1. In the first year after exit, slightly more than one in three (35.3%) leavers worked in all four quarters. This percentage increased modestly through the third year after exit, when it reached 37.5%. After that it hovered between 36% and 37%. Those who worked one (11.2%), two (12.1%), or three (14.0%) quarters during the first year after exit constituted just over one in three leavers as well. Each of these percentages declined over time; in the fifth year after exit, fewer than one in ten leavers worked either one (8.5%), two (8.2%), or three (9.3%) quarters.

In contrast to the minor changes in the percent working one to four quarters, the percentage of leavers who did not work in any quarters grew substantially over time. Over one in four (27.4%) leavers did not work any quarters in the first year after exit, making it the second most-common outcome in that year. In the fifth year after exit, working in zero quarters was the most common by a very small margin, as 37.2% of leavers did not work at all. This growth of almost 10 percentage points is troubling. However, it could reflect a variety of outcomes, such as returning to TCA due to difficulty maintaining employment, choosing to pursue higher education, or receiving federal benefits like Supplemental Security Income (SSI).

This static representation of employment does not address some of the most important possible outcomes for TCA leavers. For example, someone could work only one quarter in the first year after exit but work three or more quarters in subsequent years. We might view this as a successful outcome, but there is no way to know if this is happening with this view of the data. Conversely, an individual could work in all four quarters in the first two years after exit, then lose a job and be unable to find stable employment during the following three years. Arguably, an individual's path over time may be more important than point-in-time outcomes.

Figure 1. Number of Quarters Worked in each Year after Exit



In order to gain a better understanding of leavers' employment experiences after exit, we categorized their employment trajectories according to a schema developed by Wu, Cancian, and Meyer (2008). The box on the next page explains how the categories were defined.

At 22%, stable employment is the most common employment trajectory, as shown in Figure 2. This is heartening information, as it suggests that many clients are able to leave TCA for jobs that they are able to maintain for several years. An additional 8% have increasing employment, which means that about 3 in 10 leavers have stable or increasing employment. About 13% of leavers have an employment trajectory that is unstable but has a positive ending. While this group may have struggled in the first few years after exit, the leavers in this group finished strong, working as much as those in the stable employment category during the final two years. Combining all of these groups, 43% of leavers can be classified as employment successes.

Employment Trajectories

Stable Employment

Worked three or four quarters in each year

Stable Unemployment

Worked zero or one quarter in each year

Increasing Employment

Number of quarters of employment equal to or greater than the previous year, with at least one increase

Decreasing Employment

Number of quarters of employment equal to or less than the previous year, with at least one decrease

Unstable Employment with a Positive Ending

Does not fit previous category and employed for at least six of the last eight quarters

Unstable Employment with a Negative Ending

Does not fit previous category and employed for no more than two of the last eight quarters

Inconsistent Pattern

Does not fit any of the above categories

Trajectories based on typology developed by Wu, Cancian, and Meyer (2008)

Unfortunately, though, stable unemployment is the second most common trajectory at 18%. Leavers in this trajectory may have spent much of the five-year follow-up period either back on TCA or receiving other income supports, such SSI. More than 1 in 10 leavers (11.3%) had decreasing employment, and 13% had unstable employment with a negative ending. About 15% of the sample had a trajectory that did not fit any of the above patterns. These three trajectories may include leavers who want to work but who are unable to maintain consistent employment, perhaps because they need additional education or training to acquire good jobs. Alternatively, work supports such as child care subsidies may allow such leavers to work more steadily.

The employment trajectory that clients follow may have a significant impact on whether they return to cash assistance. As Figure 3 shows, having stable employment is associated with a substantially reduced likelihood of returning to TCA. Although just under 60% of the entire sample receives welfare again at some point in the first five years after exit, only 30% of those in the stable employment trajectory return. This is far lower than any other trajectory, signaling the importance of maintaining a high level of employment for leavers.

Some trajectories—increasing employment (61.2%), decreasing employment (62.2%), and unstable employment with a positive ending (61.9%)—are close to the total for the entire sample (58.5%). This includes the other two trajectories that could indicate employment success. While it is encouraging that increasing employment and unstable employment with a positive ending are lower than other trajectories, it also suggests that only consistent employment makes a difference in returns to TCA. There is a huge gap between stable employment and every other trajectory, rather than between trajectories that could be interpreted as positive and those that could be interpreted as negative.

Finally, it is worth noting that instability in employment seems to be related to returning to cash assistance. While two-thirds of those with stable unemployment (66.0%) came back to TCA, over 7 in 10 of those with unstable employment with a negative ending (72.8%) and those with a pattern that did not fit any other trajectory (70.7%) returned. It may be the case that those with stable unemployment found a different way to support their families, such as through SSI. Those in the negative ending and inconsistent pattern trajectories, however, may have been trying to work but never found a way to maintain employment for the long term.

Figure 2. Employment Trajectories for Five Years after Exit

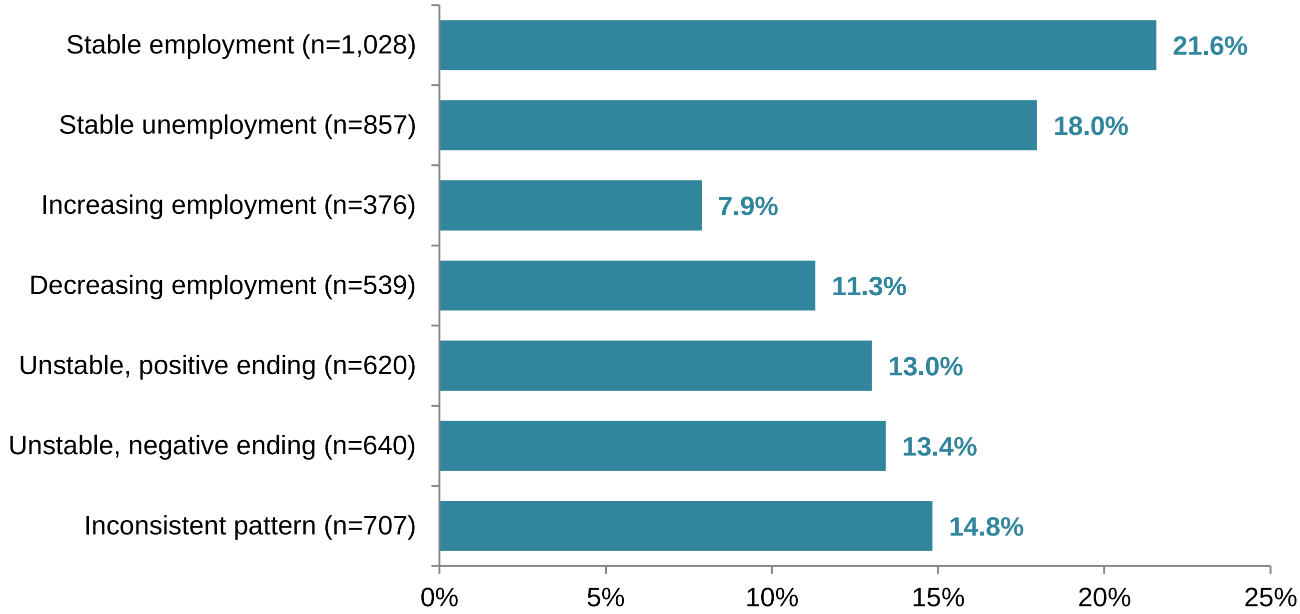
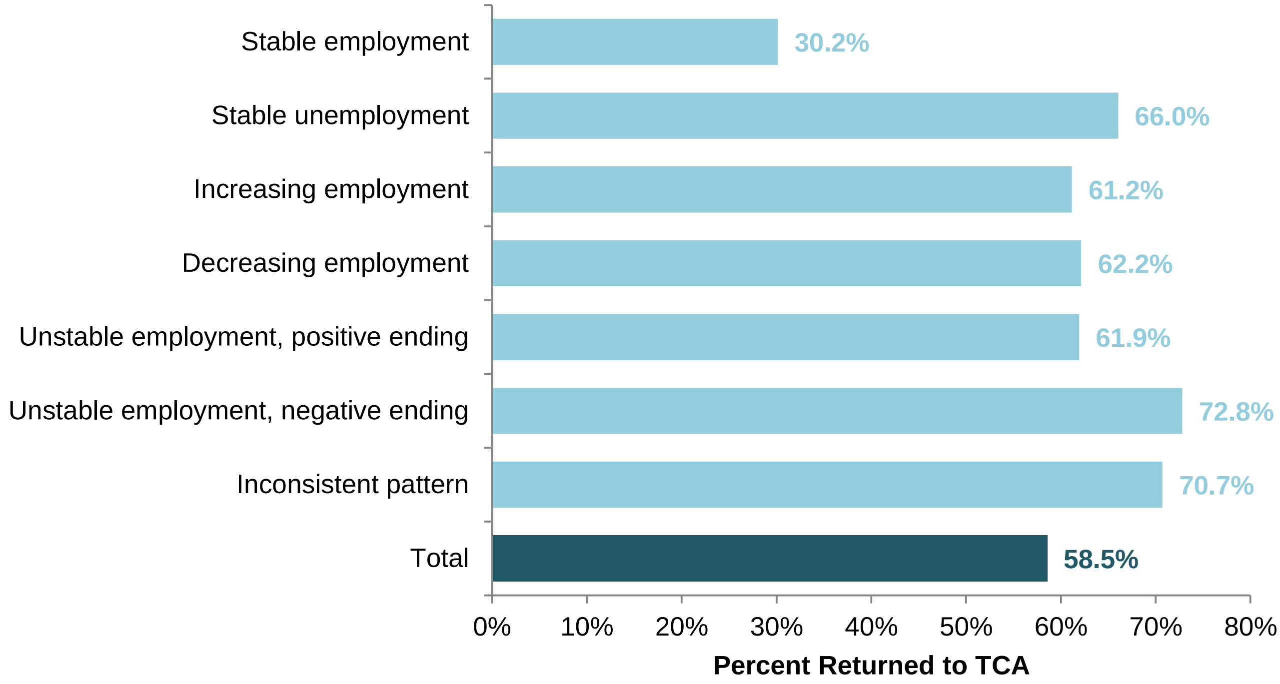


Figure 3. Percent Returned to TCA within Five Years by Employment Trajectory



Earnings Trajectories

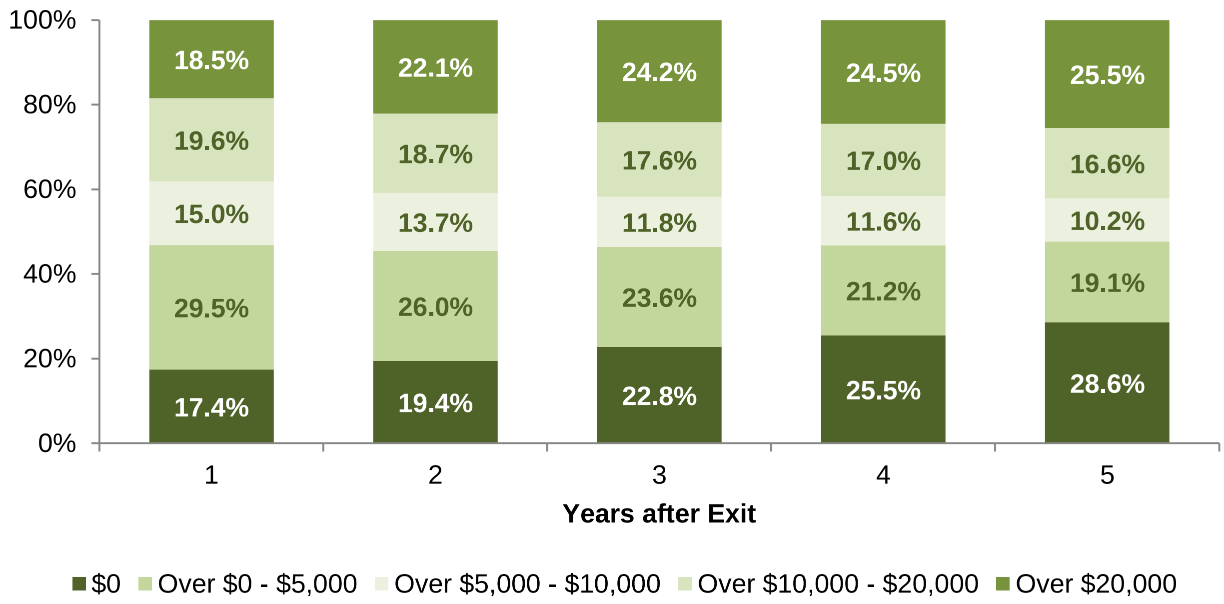
Similar to Figure 1, Figure 4 shows earnings as they are usually measured.[1] The pattern is largely the same as well. Leavers with over $20,000 in annual earnings rise from less than 20% in the first year after exit to just over 25% in the fifth year after exit. By five years after exit, then, one in four leavers is earning over the poverty level for a family of three.[2] The three middle categories of earnings all shrink. Most notably, those earning over $0 but less than $5,000 decreased from about 30% to about 20% of the sample. Leavers who earned more than $5,000 but less than $10,000 declined from 15% to 10%. The second-highest earning category, containing those who earned over $10,000 but less than $20,000, experienced the least change, dropping from 20% to 17%.

[1] All earnings are standardized to 2014 dollars.
[2] The 2014 federal poverty threshold for a three-person family is $19,790.

The biggest growth over time is in those who had no earnings. In the first year after exit, 17% of the sample did not have any earnings. In the fifth year after exit, however, 29% of leavers did not earn anything. This makes the no-earner group the most common earnings category in the fifth year after exit, as the group with the highest earners constituted just over 25% of leavers. Essentially, as with employment, earnings are concentrated in either the category with no earnings or the category with the highest earnings.

What this figure does not communicate is how earnings changed over time. In the first year after exit, the most common earnings category is over $0 but less than $5,000. Did these leavers go on to earn more over time, or did they stop working? Did everyone who started out in the highest earnings category stay there? What about those with no earnings? Did any of them improve over time?

Figure 4. Level of Earnings in each Year after Exit



To answer these questions, we explore earnings trajectories for five years after exit, as portrayed in Figure 5. The definitions of each earnings trajectory are in the box on the right.[3] Continuous low earnings is, by far, the most common trajectory at 27% of the sample. Unstable earnings with a negative ending and inconsistent pattern each contain about 20% of leavers, making them the next most common trajectories. Decreasing earnings was the smallest category, though, at just 6% of the sample. This paints a rather negative picture of leavers' earnings after exit. One in four leavers—and this excludes leavers who had no earnings in the entire five-year follow-up period—earns less than 20 hours per week at minimum wage consistently for five years, and an additional one in five earns that for the last two of those five years.

Leavers with positive earnings trajectories are definitely in the minority. Only 8% of leavers had continuous substantial earnings, meaning they earned enough to stay above the federal poverty threshold for a three-person family for each year after exit. Nine percent of the sample had earnings that increased over time, and 11% had unstable earnings with a positive ending. In total, 28% of the sample could be described as having a successful earnings trajectory.

Examining earnings trajectories reveals that the simple story of earnings consolidating at the extremes, which is what Figure 4 showed, does not capture the full picture of leavers' earnings after exit. Even though 18% to 26% of the sample earned more than $20,000 in each individual year after exit, only 8% earned that much in each of the five years we studied. Furthermore, the idea that welfare leavers should take any job because they can increase their earnings over time does not have much support in these data. About 10% of all leavers were able to do that, and another 10% were able to earn over $20,000 annually for two years after three years of instability. Considerably more leavers remained mired in jobs in which they never earned more than the equivalent of working 20 hours per week at the minimum wage in each year after exit.

In addition to providing information about how leavers fared after TCA, earnings trajectories can also help make sense of why some leavers return to cash assistance. Figure 6 shows the percent of leavers who returned to TCA within five years after exit by earnings trajectory. Not surprisingly, those in the continuous substantial earnings trajectory were overwhelmingly unlikely to return. Only about 12% came back to TCA, compared to 58% for the sample as a whole. Leavers who had unstable earnings with a positive ending were relatively unlikely to return at 42%, and those with increasing

[3] Following Wu, Cancian, and Meyer (2008), earnings are considered to increase or decrease only if they change by at least 10% and $1,000.

Earnings Trajectories

Continuous Substantial Earnings

Total earnings more than the federal poverty threshold for a family of three ($19,790) in each year

Continuous Low Earnings

Total earnings less than $7,540 (20 hours per week at minimum wage) in each year

Increasing Earnings

Each year has increased or stable earnings compared to the previous year, with at least one increase

Decreasing Earnings

Each year has decreased or stable earnings compared to the previous year, with at least one decrease

Unstable Earnings with a Positive Ending

Does not fit a previous category and earnings in last two years average more than $19,790 in each year

Unstable Earnings with a Negative Ending

Does not fit a previous category and earnings in last two years average less than $7,540 in each year

Inconsistent Pattern

Does not fit any of the above categories

Trajectories based on typology developed by Wu, Cancian, and Meyer (2008)

Figure 5. Earnings Trajectories for Five Years after Exit

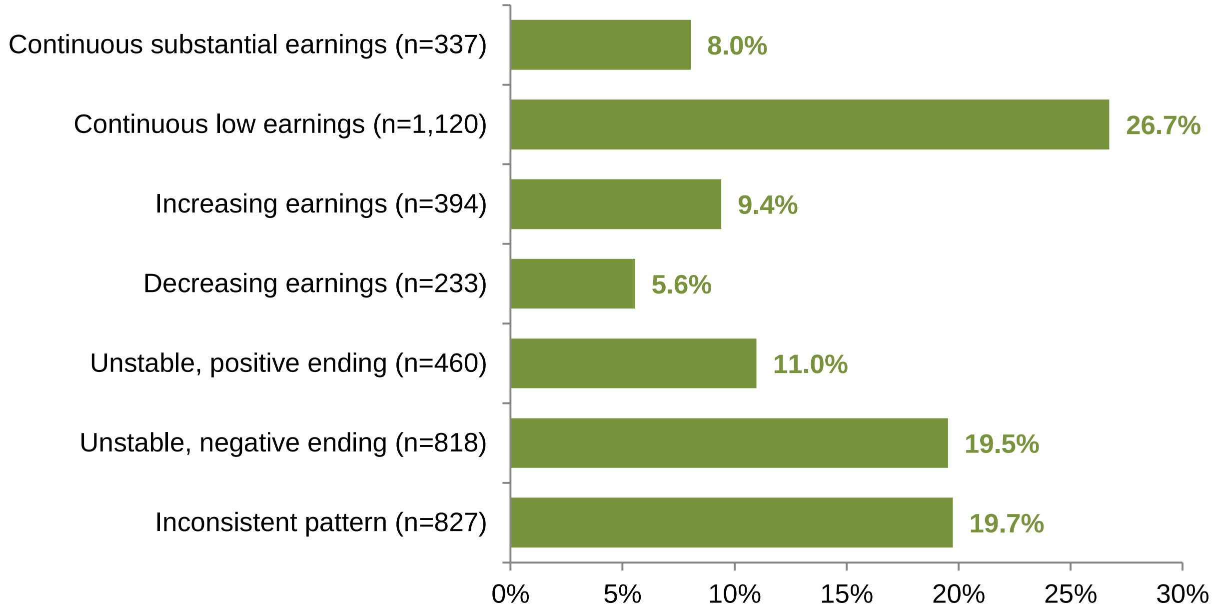
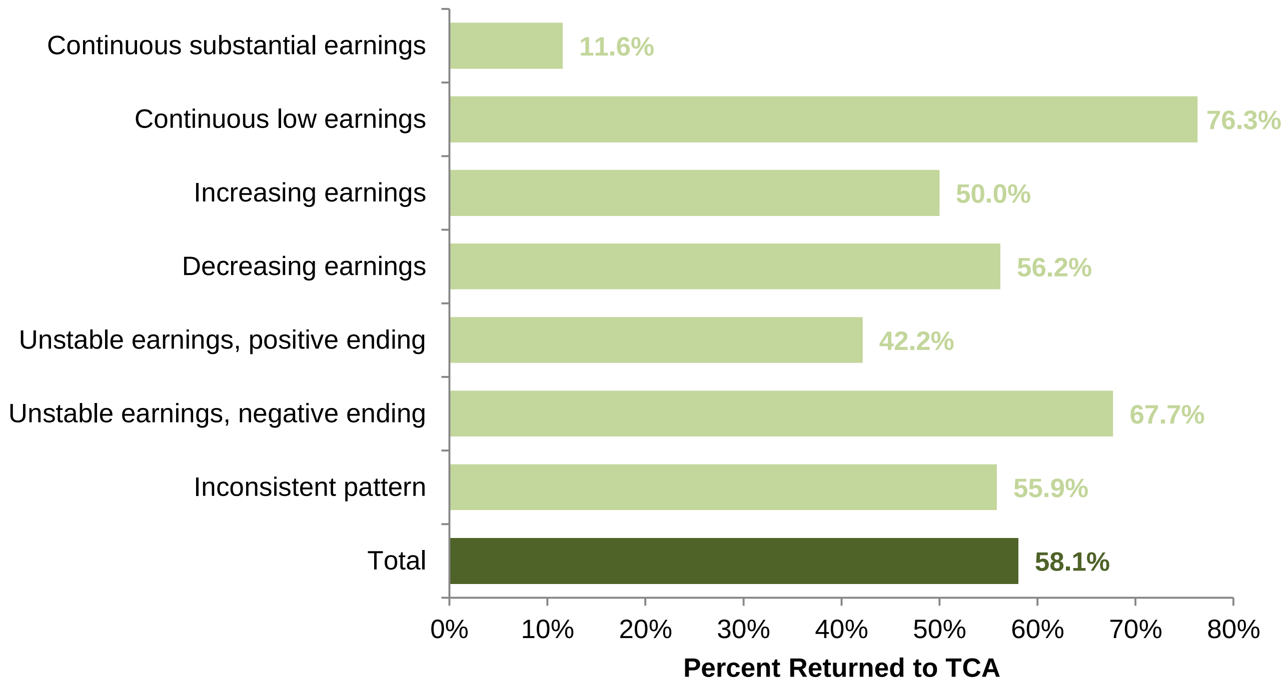


Figure 6. Percent Returned to TCA within Five Years by Earnings Trajectory



earnings were at 50%, several percentage points below the average for the entire sample. Thus, leavers in the three successful earnings trajectories were less likely to return than leavers in the other four trajectories.

Of the remaining four trajectories, two of the three most common have the highest rates of return. Continuous low earnings, the most common earnings trajectory, has the highest likelihood of returning to TCA. Over three in four (76.3%) leavers in that trajectory came back to cash assistance. Likewise, two-thirds (67.7%) of leavers who had unstable earnings with a negative ending returned to TCA within five years. Close to half (46.3%) of leavers were in one of these trajectories, meaning that leavers are disproportionately in earnings trajectories that have the greatest likelihood of returning to TCA. The last two trajectories, decreasing earnings (56.2%) and inconsistent pattern (55.9%), have rates of return that are slightly below the average for the entire sample, which implies that those trajectories do little to alter leavers' chances of coming back to cash assistance.

In terms of returning to TCA, earnings trajectories reveal that there is one path to success: continuous substantial earnings. There is a vast chasm between that earnings trajectory and the others. The next closest trajectory, which is unstable earnings with a positive ending, is fully 30 percentage points higher, suggesting that both the consistency of earnings as well as the level of earnings are important for avoiding returns to TCA.

Conclusions

By examining employment and earnings trajectories, we present a more dynamic picture of how leavers fare after exit. This allows us to see the overall pattern of change in leavers' employment and earnings during the first five years after they exit and provides another window into what may affect families' choices to return to cash assistance. These patterns give us clues about what can be done to facilitate permanent exits from TCA.

Stable employment, which means working three or four quarters in each year after exit, is the most common employment trajectory. While this highlights many leavers' serious commitment to work, it does not tell the full story. Unfortunately, continuous low earnings is the most common earnings trajectory, indicating that many other leavers struggle to earn enough to achieve self-sufficiency. Although there is very little overlap between these trajectories,[4] it illustrates the basic tension in leavers' post-welfare lives: many want to work, and make several attempts to do so, but they are unable to earn enough to make ends meet.

These analyses also underscore the instability in employment and earnings that characterizes many leavers' experiences after TCA. The inconsistent pattern category captured more leavers than the increasing, decreasing, unstable with a positive ending, or unstable with a negative ending categories for both employment and earnings trajectories. This suggests there is little logic or pattern to employment and earnings over time for many leavers.

In addition, these analyses show that this instability is problematic when it comes to preventing returns to TCA. In both analyses of returning to TCA by trajectory, there is

[4] Only 0.9% of those in the stable employment trajectory are also in the continuous low earnings trajectory.

one clear path to reducing the likelihood of return: stable and high employment and stable and high earnings. The difference between those trajectories and the remaining six is enormous, in particular for earnings. The stark reality is that continuous substantial earnings appear to be the best path to reducing leavers' likelihood of returning to TCA, but a very small portion of the sample was able to achieve this level of earning power.

A corollary to the importance of stable and high employment and earnings is that increasing employment and increasing earnings do not lead to a substantially decreased likelihood of returning to cash assistance. Those in the increasing earnings trajectory were 8 percentage points less likely to return than the sample as a whole, but this difference pales in comparison to the over 45 percentage-point reduction associated with the continuous substantial earnings trajectory. Additionally, increasing employment and increasing earnings are relatively uncommon as well, with 9% or less of leavers in each category.

One implication of this finding is that we should reexamine the work-first philosophy that undergirds welfare reform and most states' TANF programs. If few clients are able to increase their employment or earnings after exit, and these increases do not prevent clients from returning to assistance, then perhaps states should explore different strategies to encourage lasting self-sufficiency. Indeed, some states are already experimenting with sector-based training, apprenticeships, and other cutting-edge approaches to helping clients find and retain good jobs (Hamilton, 2012).

With the Workforce Innovation and Opportunity Act (WIOA), which was passed last year, many states are in the process of rethinking education, training, and workforce development for clients with significant barriers, including TANF recipients (Bird, Foster, & Ganzglass, 2014). Among the changes to the workforce system is a greater emphasis on education and training that is tailored to local labor markets and to what employers in those markets need. Because another change is more collaboration between TANF and workforce agencies, TANF clients can benefit from this targeted training and education.

In addition to deepening the connections between welfare and workforce agencies, WIOA also incentivizes the development of career pathways approaches. These approaches are a particularly strong fit for TANF clients, as they provide ladders for clients to advance their careers and increase their earnings over time. For example, TANF clients can use their 12-month lifetime limit on education to get credentialed as certified nursing assistants. While working, they can take classes to become licensed practical nurses, then registered nurses. At that point, their earnings should allow them to be self-sufficient.

Following individual clients' employment and earnings over time has clear advantages in understanding leavers' experiences. Furthermore, looking at the relationship between employment and earnings trajectories and returning to TCA provides some insight into how to help leavers remain off welfare. With this knowledge, policymakers and program managers are better able to craft a welfare system that helps leavers maintain their independence and earn enough to support their families.

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For additional information about this research brief, please contact Dr. Lisa Nicoli (410.706.2763; lnicoli@ssw.umaryland.edu) or Letitia Logan Passarella (410-706-2479; llogan@ssw.umaryland.edu) at the School of Social Work.

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UNIVERSITY of MARYLAND
SCHOOL OF SOCIAL WORK
RUTH YOUNG CENTER
FOR FAMILIES & CHILDREN

FAMILY WELFARE RESEARCH & TRAINING GROUP
525 W. Redwood Street
Baltimore, MD 21201
410-706-2479
www.familywelfare.umaryland.edu