Abt Associates Inc.

The Indiana Welfare Reform Evaluation:

Five-Year Impacts, Implementation, Costs and Benefits

Cambridge, MA
Lexington, MA
Hadley, MA
Bethesda, MD
Washington, DC
Chicago, IL
Cairo, Egypt
Johannesburg, South Africa

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Administration
Division of Family and Children
402 West Washington Street
Indianapolis, IN 46207

Prepared by
Erik Beecroft
Wang Lee
David Long
Abt Associates Inc.

Pamela A. Holcomb
Terri S. Thompson
Nancy Pindus
Carolyn O'Brien
Jenny Bernstein
The Urban Institute

Executive Summary

Nearly a decade has passed since Indiana began planning its approach to welfare reform. In January 1994 Governor Evan Bayh announced an initial plan, called the "Partnership for Personal Responsibility." The U.S. Department of Health and Human Services approved a revised plan in December 1994 and, in May 1995, Indiana randomly assigned its entire welfare caseload (more than 60,000 families) to one of two groups for purposes of evaluation. The first was subject to the State's new welfare reform rules and the other to its previous welfare policies. The goals of the program, as specified in 1995, were to increase clients' employment and decrease their reliance on welfare, to make work more financially rewarding than public assistance, and to encourage responsible parenting.

Since 1995, Indiana's welfare reform goals and approach have been consistent. Under Governor Frank O'Bannon, the Family and Social Services Administration (FSSA) made policy changes in 1997 and 2000 intended to strengthen welfare reform, but these changes were consistent with the program's original goals and most of the original policies remain in place. Relatively minor changes were required as a result of enactment of welfare reform at the federal level, in the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA).

Despite the consistency over time in goals and approach, both Indiana's welfare caseload and the State's economy have fluctuated substantially since 1995. Indiana's welfare caseload dropped precipitously in the early phase of welfare reform and continued falling until mid-2000, when it began to increase sharply. The economy has gone from very low levels of unemployment in the early years of welfare reform to a current recession and State budget difficulties.

In the face of these changes, and given the time that has passed, it is important to assess Indiana's approach to welfare reform. The key question is: How has Indiana's welfare reform program affected participating families, and have those effects changed over time? Especially relevant given the current budget situation is a second, related question: Has the program been cost-effective?

The answer, provided in this report, is that the program has had real effects on participants, increasing employment and decreasing their use of welfare. The size of these effects is generally in the middle range of impacts found for welfare reform programs in other states. Indiana's program also has been cost-effective, with the savings in welfare payments outweighing the costs of providing additional child care and employment services. The observed impacts, however, have not on average resulted in increased income for families. By that measure, therefore, the program has not made families substantially better off financially.

Evaluation Design, Sample, and Data Sources

Indiana's welfare reform was evaluated through a classic experimental design in which each family was assigned randomly to one of two groups: the Welfare Reform group, which was subject to the new welfare reform policies, and the Traditional Welfare group, which faced the policies of the pre-reform AFDC program in Indiana. These two groups correspond to the "treatment" and "control" groups, respectively, as those terms are commonly used in experiments. Randomly assigning families in this way provides the strongest known method for establishing a valid comparison group.

This report presents impact estimates for two samples of welfare reform families. The primary sample is all single-parent families statewide who received welfare at some point during the first year of Indiana's program, between May 1995 and April 1996. This first-year cohort includes 66,440 families: 63,223 in the Welfare Reform group and 3,217 in the Traditional Welfare group. Chapter 4 presents program impacts for the first five years after each family was randomly assigned.

Chapter 5 presents two-year impacts for a later and smaller cohort of welfare families, made up of all single-parent families in twelve counties (rather than statewide) who received welfare at some point between March 1998 and February 1999. The later cohort includes 4,954 families: 3,863 in the Welfare Reform group and 1,091 in the Traditional Welfare group. Results for the later cohort are of interest primarily because of differences in the policy environment, and improvements in the random assignment process designed to better insulate the Traditional Welfare group from exposure to welfare reform messages.

Different data sources were used for different components of the evaluation. Implementation findings are based on several rounds of site visits to local offices and the central office, telephone interviews and mail surveys of administrators and case workers, and focus groups with participants in IMPACT (the work component of Indiana's welfare program). Analyses of clients' experiences and impacts and the benefit estimates for the benefit-cost analysis are based on administrative records from FSSA's TANF eligibility computer system, quarterly earnings records from the State Unemployment Insurance system, and a five-year client follow-up survey. Cost estimates for the benefit-cost analysis are based on detailed expenditure data from FSSA's financial management office.

Findings on Implementation

Indiana implemented a strong work first program. The Central Office's clear articulation of welfare reform goals relating to employment, coupled with strong emphasis on meeting county-level job placement goals, greatly contributed to the widespread acceptance and implementation of the work first approach. The program's emphasis on unsubsidized employment marked a significant departure from the education and training model that characterized Indiana's welfare-to-work program prior to welfare reform.

The switch to an integrated worker model posed challenges. When welfare reform was initially implemented, the Division of Family and Children continued to use a front-line staffing model common to most welfare offices prior to welfare reform. Under this model, one type of specialized worker handled eligibility for public assistance and another type handled work requirements. Taking a more employment-oriented, individualized, and holistic case management approach, Indiana in 1998 began to consolidate responsibilities for TANF eligibility and IMPACT under a single type of worker. Although staff generally agreed that the integrated worker model was likely to benefit clients, case workers found that balancing eligibility and welfare-to-work functions presented significant challenges and that eligibility work typically took precedence over other case management activities.

Welfare reform led to increased local control over service delivery and reliance on contracting for services. The service delivery system under welfare reform was marked by the introduction of performance-based contracts, heavy reliance on a range of contracted providers, and local-level control over IMPACT contracting decisions. Local offices ultimately assumed responsibility for most decisions on the IMPACT contracting process, including determining the types of IMPACT services that would best meet the needs of a changing client population, shaping the performance payment structure and schedule, selecting and negotiating with contractors, and monitoring and overseeing contracts. The Central Office continued to influence the types of services and activities that received the greatest emphasis and resources.

Indiana made ongoing changes to its performance-based contracting process. Over time, in a continuing effort to meet clients' needs and provide incentives to contractors, FSSA changed the types of services and outcomes for which IMPACT contractors were eligible for payment. FSSA initially based contractors' payments mainly on the number of job placements made by service providers. However, basing payment on job placements failed to give providers any flexibility or incentive to provide up-front assistance to hard-to-serve clients and job retention services to others. Consequently, starting in 1998, FSSA encouraged local offices to contract for a larger variety of services and pay for job retention and up-front services, such as more intensive assessments of barriers to employment.

Findings on Clients' Experiences

For both the first-year and later cohorts, Indiana's program produced positive and statistically significant impacts on overall IMPACT participation rates and on rates of participation in each of the three IMPACT activity types: unsubsidized employment, job search or job readiness, and education. The largest impact was for job search or job readiness. Unsubsidized employment was by far the most frequent activity.

Only about 7 percent of Welfare Reform group members reached the 24-month adult time limit within five years of follow-up. The percentage is low because most individuals subject to the time limit left welfare before reaching the 24-month limit and because prior to June 1997, the time limit applied to less than one-fifth of the Welfare Reform group.

Compared to their likelihood of reaching the time limit, Welfare Reform group members were twice as likely to have had a family cap birth. This impact understates the relative effect of the family cap somewhat because close to 25 percent of families with a family cap birth had more than one such birth.

For the first-year cohort, Personal Responsibility Agreement (PRA) sanctions were more likely to be applied than the family cap or the 24-month time limit. For the later cohort, families were as likely to have a PRA sanction as a family cap birth.

Impact Findings for the First-Year Cohort

Indiana's program reduced receipt of TANF and food stamps. Indiana's program reduced TANF payments and TANF receipt for all single-parent families in the first-year cohort and for every subgroup examined. Impacts grew in size over the five-year follow-up period. The program also reduced food stamp payment and receipt, but the impacts were smaller and did not grow over time. The TANF payment and receipt impacts are probably due mainly to higher earnings among Welfare Reform group members and the two-year time limit on adults' receipt of TANF. The family cap likely also contributed to the impact on TANF payments.

Indiana's welfare reform program increased earnings and employment rates in each of the follow-up years. In percentage terms, earnings impacts were smaller than TANF payment impacts, and roughly in the middle of the range of earnings impacts found in welfare reform random assignment studies in other states. Impacts grew slightly over the five-year follow-up period. The results demonstrate that it is possible for work first programs to increase earnings and employment even under the traditional AFDC disregard and with relatively lenient sanction and time limit policies.

Welfare reform did not affect total income. Over the five-year follow up, Indiana's program did not produce a statistically significant increase in participants' income, measured either by administrative records or from a client survey. (For two-parent families, however, the program did increase income; see Appendix A.) The reason for the absence of impacts on income was that earnings gains were not large enough to offset reductions in TANF and food stamp payments.

Welfare reform did not affect health insurance coverage rates for adults or children. The Welfare Reform and Traditional Welfare groups did not differ significantly either in the proportion with any insurance or in the proportion with each type of insurance (Medicaid versus other). Adults were much less likely than children to be covered by Medicaid, a consequence of Indiana's low-income ceiling for adult Medicaid eligibility.

Indiana's program did not affect reported child maltreatment. Over the full follow-up period, Welfare Reform and Traditional Welfare groups in the first-year cohort did not differ significantly in rates of substantiated maltreatment reported to child protective services, or in out of home placements resulting from such maltreatment (Appendix B).

Impact Findings for the Later Cohort

TANF payment impacts were larger for the later cohort than for the first-year cohort in years 1 and 2. TANF *receipt* impacts for the later cohort were larger than those of the first-year cohort in year 1 but faded by the end of year 2, perhaps because of the enhanced disregard that took effect in July 2000.

Indiana's program increased the average employment rate across the eight follow-up quarters but did not significantly increase earnings. Compared to impacts for the first-year cohort, the later cohort's earnings and employment impacts were similar in year 1 and smaller in year 2.

Indiana's program did not produce impacts on income (measured as the sum of earnings, TANF payments, and food stamp benefits). This finding is similar to the result for the first-year cohort.

Welfare reform may have decreased substantiated child maltreatment reports. For the later cohort, a smaller proportion of Welfare Reform group families than Traditional Welfare families had substantiated reports of child maltreatment (Appendix B).

Findings on Costs and Benefits for the First-Year Cohort

The economic benefits of welfare reform to families—resulting mainly from increased employment—slightly outweighed the losses in welfare payments and other income. While changes in income varied across families, the typical family's economic position was very modestly improved.

Welfare reform benefited taxpayers because savings more than offset welfare reform expenditures. Savings occurred primarily because clients spent less time on cash assistance, reducing benefit payments for the TANF, Food Stamp, and Medicaid programs. These reductions more than offset increased spending on employment and training services and child care subsidies. The budget savings were shared by Indiana and the federal government.

in the hands of caseworkers.) If feasible, further streamlining of administrative processes would help.

It may also be desirable to test whether alternatives to the current integrated case worker model would enable more case management. For example, a specialist model might have clerks to handle eligibility determination, trained employment counselors to focus only on job placement, and a separate category of counselors to focus on earnings advancement and job retention for clients who have achieved stable employment at entry-level wages. Such specialization would eliminate the tension between time spent on eligibility determination and case management, and would provide clearer goals for each category of staff. Clearer articulation of staff goals would make it easier for managers to measure staff performance, and would allow managers to further empower case workers, which could improve both client outcomes and staff morale.

Given the longer-term goal of helping clients increase income, it is worth considering policy changes that would encourage further education and training. At least for some clients, additional investment in human capital is likely to increase earnings. It is possible to encourage education and training in a way that is consistent with a work first approach, for example by requiring clients to meet a threshold level of employment before referring them to an education provider.

federal waiver expired, Indiana began applying the federal five-year time limit (which, unlike the state's two-year limit, applies to the entire family), and scaled back the disregard somewhat in response to a budget shortfall (although the reduced disregard is still more generous than the traditional AFDC disregard). These policy changes mean that different clients have experienced somewhat different rules, depending on when they received welfare.

This section describes the policies experienced by clients on welfare during the first year of Indiana's program (May 1995 through April 1996), the cohort of primary interest for this report. For this first-year cohort, we contrast the rules applying to clients randomly assigned to the Welfare Reform and Traditional Welfare groups. We then discuss how the policy environment differed for a later cohort, which began receiving welfare between March 1998 and February 1999. The section then briefly describes Indiana's current welfare policy.

The Policy Environment for the First-Year Cohort

The impacts presented in this report are the differences in outcomes for the Welfare Reform group and the Traditional Welfare group. Because random assignment ensures that the two groups are, on average, alike in all respects, any significant differences in outcomes can be attributed to the different policies applied to the two groups.

Exhibit 1.1 lists the specific policy differences that together are responsible for the impacts presented in this report. For each policy area, the exhibit shows the policy that applied to the Welfare Reform group and the policy that applied to the Traditional Welfare group.

For families that enrolled in Indiana's welfare reform program during its first year (the subject of this report), the policy environment changed somewhat over time. Initially, between May 1995 and May 1997, most of the program's welfare reform policies applied only to the most job-ready clients, who were identified through the use of a standardized assessment. These clients were assigned to a "Placement Track," comprising about one-fourth of the adults in the Welfare Reform group. Effective June 1997, Indiana made all work-mandatory clients in the Welfare Reform group subject to Placement Track policies

and was narrowed in December 1997 to apply only to parents with children younger than age one.

Compared to most states, Indiana has a mild sanction policy for noncompliance with work requirements. For the first violation, the TANF grant is reduced by the adult's portion ($90 per month) for two months; for the second and third violations, it is reduced (by the same amount) for twelve and 36 months, respectively.[4] Indiana's sanction policy is milder than most states' in two respects: it includes no full-family sanction, and the sanction amount never exceeds $90 per month.

Adults randomly assigned to the Traditional Welfare group initially were required to participate in work activities but were less likely to be referred to IMPACT (the Indiana Manpower Placement and Comprehensive Training program, the work component of Indiana's welfare program). Beginning in the fall of 1997, the State stopped referring Traditional Welfare group clients to IMPACT.

Time limit. Indiana had a 24-month lifetime limit on TANF receipt for adults who were required to participate in work activities. The time limit affected only the adult's portion of the grant; children continued to be eligible for assistance.

Initially, Indiana defined the number of months an adult was receiving TANF as the number of calendar months that elapsed after an individual was assigned to the Placement Track. That is, the "clock" started running immediately upon assignment to the Placement Track and did not stop, regardless of the number of months the client was on welfare during the 24-month period. Upon reaching the time limit, the adult's portion of the grant was eliminated for 36 months (although the adult retained eligibility for Medicaid).

In June 1997, Indiana expanded the time limit to apply to all mandatory clients in the Welfare Reform group, not just those assigned to the Placement Track, and changed the calculation of the time limit by counting only months in which a client *received* TANF benefits. In addition, the time limit became a *lifetime* limit, so adults could no longer resume TANF eligibility after 36 months.

[4] A separate $90-per-month sanction is imposed for 6 months on adults who quit their jobs.

Indiana chose not to implement the federal five-year time limit until its federal waiver expired in April 2002.[5]

Clients in the Traditional Welfare group were not subject to a time limit.

Family cap and personal responsibility requirements. Like many states, Indiana required all eligible adult TANF recipients to sign a Personal Responsibility Agreement (PRA) with a number of provisions. The most important provision, in terms of the number of families affected, was the family cap policy: no additional TANF benefits were paid for children who were born more than 10 months after a family began receiving TANF. Other PRA policies required that:

- Preschool children be immunized;
- School-age children attend school regularly;
- Parents raise children in a safe and secure home; and
- Parents not use illegal drugs.

The sanction for noncompliance with a PRA requirement was a $90 per month reduction in TANF benefits until compliance.

Traditional Welfare group members were subject to neither the family cap policy nor other PRA requirements.

How The Policy Environment Differed for the Later Cohort

Although this report focuses primarily on clients enrolled during the first year of Indiana's welfare reform program, it also presents (in Chapter 5) impacts for clients who first received cash assistance between March 1998 and February 1999, roughly three to four years after welfare reform began. Because of their later enrollment, only two years of follow-up results are available for this cohort.

[5] Prior to the 1996 federal welfare reform law, states could implement welfare reform policies if they received a waiver of the AFDC law from the U.S. Department of Health and Human Services. Under the federal welfare reform law, states are allowed to continue preexisting waivers, even if they are inconsistent with the federal law. Such "waiver inconsistencies" are limited to the duration of the waiver.

Compared to the first-year cohort, the later cohort experienced a somewhat different policy environment, because a larger proportion of the Welfare Reform group was immediately subject to the full set of welfare reform policies, and because the Traditional Welfare group was not required to participate in IMPACT (the work component of Indiana's welfare program). Sample members in the later cohort began receiving welfare after the July 1997 policy changes, which made all work-mandatory clients subject to Placement Track policies. Because of this, and because in 1997 Indiana narrowed the exemption for age of the youngest child to one, most of the later cohort was immediately subject to the full set of welfare reform policies. In addition, in late 1997, Indiana stopped referring mandatory Traditional Welfare group members to the IMPACT program.[6]

Prior to enrollment of the later cohort, FSSA made several changes to the random assignment process to strengthen distinctions between Welfare Reform and Traditional Welfare group experiences. Random assignment of new applicants shifted from statewide to twelve of Indiana's 92 counties, and FSSA simultaneously increased the ratio of Traditional Welfare to Welfare Reform group assignment in the twelve counties from about five percent to about 20 percent. Specialized case workers were designated in each of the twelve counties to deal only with clients in the Traditional Welfare group, to ensure that those clients were not informed of welfare reform policies. Finally, the point of random assignment was moved up from approval for cash assistance to application for cash assistance, so that applicants assigned to the Traditional Welfare group could be sent immediately to a specialized case worker. The result of these changes was to strengthen the distinction between the welfare reform and traditional welfare environments.

More Recent Policy Changes

Although the general work first approach of Indiana's welfare reform program has been consistent since 1995, the program has continued to evolve. In response to early evaluation results showing that welfare reform did not increase clients' income—because higher earnings were offset by reductions in welfare and food stamp benefits—Indiana substantially increased the TANF earnings disregard effective July 2000. Prior to that date, both Welfare Reform and Traditional Welfare group clients were subject to the traditional AFDC disregard, under which clients' TANF grants are reduced by $1 for each additional dollar of earnings. Under the AFDC

6 As shown in Chapter 3, the effect of the IMPACT "embargo" was to produce larger impacts on participation in employment and training activities for the later cohort than the first-year cohort, with the exception of unsubsidized employment.

disregard, the welfare cash grant for a single mother with two children reached zero when her earnings reached $378. In contrast, the revised disregard enabled Welfare Reform clients to have earnings up to the federal poverty level with no effect on their TANF grant. Therefore, most clients received the maximum TANF grant for their family size and continued to receive this grant until their monthly earnings reached, for example, about $1,180 for a single mother with two children. The revised disregard strengthened work incentives and increased the likelihood that working would enable clients to increase their income.[7,8]

Partly because the revised disregard enabled clients to stay on TANF longer as their earnings increased, Indiana's welfare caseload began to increase in 2000. Since then, a weakening economy has contributed to continuing caseload increases (through 2002), and created a fiscal crisis in Indiana (and many other states). In response to budget shortfalls, FSSA scaled back the disregard in late 2002 and introduced other policy changes intended to cut costs. Instead of disregarding all earnings up to the poverty line, FSSA now counts 25 percent of earnings in determining TANF benefits. Although reduced, the disregard is still substantially more generous than the policy in effect before July 2000. Other changes implemented in late 2002 include lowering the income eligibility ceiling for subsidized child care (and increasing co-payments), reducing the availability of employment and training services through the IMPACT program by decreasing the value of contracts with service providers, and implementing a full-family sanction for continued non-compliance with employment and child support rules.

Beginning in May 2002, when its federal waiver expired, Indiana began counting months of cash assistance against a five-year full-family time limit, consistent with PRWORA. Given this relatively late start, the first families would not reach the time limit until April 2007.

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7 However, the ability of the disregard to increase income is somewhat limited by the fact that Indiana is a low-grant state (the maximum monthly payment for a family of three is $288), and because the disregard does not apply to food stamp benefits. A $3 increase in earnings leaves the TANF grant unchanged, causing a $3 increase in income that triggers a $1 reduction in food stamps. Higher earnings, therefore, are partly offset by reductions in food stamps.

8 The disregard change occurred during follow-up year 5 for the first-year cohort, and during follow-up year 2 for the later cohort. However, the impacts observed in these years likely capture only a portion of the effects of the disregard, because 80 percent of the first-year cohort and 60 percent of the later cohort left welfare before the disregard took effect.

Analysis of adult impacts. The impact study assesses the effects of Indiana's welfare reform on the economic well-being of families receiving assistance, focusing primarily on adults. Among the principal questions it addresses are the following:

- Did welfare reform affect welfare and food stamp receipt?
- Did welfare reform affect employment and earnings?
- What impact did the program have on household income?
- Did impacts differ for particular subgroups of clients?

The impact study measures impacts for various outcomes, follow-up intervals, and client subgroups. Comparing impacts for clients with different characteristics helps in inferring where and why the program may or may not have had its intended effects.

Chapter 4 presents five-year impact results for clients who were randomly assigned during the program's first year, and Chapter 5 presents two-year impacts for a later cohort.

Benefit-cost analysis. The benefit-cost study looks at welfare reform's effects from a financial standpoint. It asks whether the benefits of the reform outweigh the costs. Benefits and costs can vary depending on key actors' relationships to the welfare system. The analysis measures and contrasts benefits and costs from the perspectives of welfare families, state and federal government, and society in general.

The Experimental Design for the Impact Analysis

Indiana's welfare reform was evaluated through a classic experimental design in which each family was assigned randomly to one of two groups: the Welfare Reform group, which was subject to the new welfare reform policies, and the Traditional Welfare group, which faced the policies of the pre-reform AFDC program in Indiana. These two groups correspond to the "treatment" and "control" groups, respectively, as those terms are commonly used in experiments. Randomly assigning families in this way provides the strongest known method for establishing a valid comparison group.

Most families receiving welfare in Indiana were assigned to the Welfare Reform group, with the remainder randomly assigned to the Traditional Welfare group. When the first reform policies took effect in May 1995, slightly less than five percent of all ongoing cases statewide—in all 92 counties—were selected for the Traditional Welfare group. A similar fraction of new applicant cases were randomly assigned to the Traditional Welfare group from May 1995 through February 1998.[9] Beginning in March 1998, only new applicant cases in 12 selected counties (rather than all 92 counties) were randomly assigned, and approximately 20 percent of the cases were assigned to the Traditional Welfare group, a higher proportion than previously.[10] Once a case was randomly assigned, it retained its assignment status through the follow-up period.

Although random assignment is the most reliable way to measure program impacts, the impacts presented in Chapters 4 and 5 may underestimate the full effects of Indiana's program, for two reasons. First, by design, impacts measured in this study do not include effects of the program on decisions to apply for welfare; the more rigorous program rules might have deterred some families from applying for welfare. Second, evidence from the process study and client surveys suggests that some Traditional Welfare group members mistakenly believed they were subject to some of the same requirements as Welfare Reform group members. To the extent that this belief affected the behavior of Traditional Welfare group members, estimated impacts will be smaller than if all Traditional Welfare group members understood they were not subject to welfare reform policies.[11]

The Sample and Time Frame

This report presents impact estimates for two samples of welfare reform families. The primary sample is all single-parent families statewide who received welfare at some point during the first year of Indiana's program, between May 1995 and April 1996. This first-year cohort

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[9] From May 1995 until June 1996, approximately 2.5 percent of new cases were randomly assigned to the Traditional Welfare group; FSSA increased this percentage to five percent beginning in June 1996.

[10] The 12 counties were chosen to be a representative set of small, medium, and large counties, in terms of the number of families receiving welfare. The counties are: Marion, St. Joseph, Vanderburgh, Madison, Allen, Vigo, Clark, Henry, Miami, Cass, Jefferson, and Gibson.

[11] It is important not to exaggerate the significance of any such "contamination." The experiment achieved clear distinctions between the Welfare Reform and Traditional Welfare groups in the policies likely to matter most—employment and training requirements, sanctions for noncompliance, and the treatment of earnings. In addition, the "hard-wiring" of most policies in the Indiana Client Eligibility System (ICES), such as time limits and sanctions for noncompliance with the Personal Responsibility Agreement, ensured that case workers did not apply these policies to Traditional Welfare group members.

includes 66,440 families: 63,223 in the Welfare Reform group and 3,217 families in the Traditional Welfare group. Chapter 4 presents program impacts for the first five years after each family was randomly assigned. The calendar period covered by these impacts is May 1995 through June 2001.[12]

Chapter 5 briefly presents impacts for a later and smaller cohort of welfare families. The later cohort comprises all single-parent families in twelve counties (rather than statewide) who received welfare at some point between March 1998 and February 1999.[13] The later cohort includes 4,954 families: 3,863 in the Welfare Reform group and 1,091 families in the Traditional Welfare group. Because this cohort began receiving welfare approximately three years later than the early cohort, only two years of post-random assignment outcomes are available. The calendar period covered is March 1998 through June 2001.

Compared to the first-year cohort, results for the later cohort are of interest because of differences in the policy environment, differences in characteristics between the cohorts, and the strengthened experimental distinction for the later cohort. Because the later cohort began welfare after Indiana's July 1997 policy changes, a larger proportion of Welfare Reform group families in the later cohort (compared to the first-year cohort) experienced the full set of Indiana's welfare reform policies and experienced those policies after any initial implementation difficulties had been addressed. In addition, the later cohort is made up entirely of new applicants to welfare, while the first-year cohort is made up mostly of clients who were already on welfare when Indiana's welfare reform program began. For both of these reasons, impacts for the later cohort may better represent the "steady-state" effects of Indiana's program. Finally, prior to the later cohort's entry, FSSA made changes to the random assignment process to strengthen distinctions between Welfare Reform and Traditional Welfare group experiences (as described above in section 1.1). Other things equal, the strengthened experimental distinction and the application of the full set of welfare reform policies to a larger proportion of Welfare Reform clients would lead us to expect larger impacts for the later cohort than the first-year cohort.

[12] For purposes of measuring impacts, the first calendar month for each family is the month after they were randomly assigned. Families in the first-year cohort were randomly assigned between May 1995 and April 1996.

[13] Both the first-year and later cohort samples exclude cases that were "child only" at the time of random assignment; that is, cases with no welfare-eligible adult, because such families were not subject to any significant welfare reform provisions. Child only cases accounted for 19 percent of the single-parent (AFDC Regular) caseload as of May 1995.

Data Sources

The implementation findings in Chapter 2 are based on a number of data sources, including local office and state-level site visits (in fall 2001, fall 1998, and spring 1996); telephone interviews with local FSSA administrators and case worker supervisors; mail surveys of local FSSA administrators and case workers; focus groups with IMPACT participants; and a large number of State documents relating to welfare reform.

Chapter 3's analyses of employment and training experiences are based on administrative records from FSSA's TANF eligibility computer system, the Indiana Client Eligibility System (ICES). ICES was also the data source for Chapter 3's analyses of sanctions, the time limit, and baseline characteristics. Data from the five-year client follow-up survey were used in Chapter 3 to estimate impacts on alternative measures of participation in education and training, and receipt of education credentials.[14]

The impacts presented in Chapters 4 and 5 are based on administrative records and the five-year client survey. ICES provided data on AFDC/TANF receipt, food stamp receipt, and Medicaid eligibility. To estimate impacts on employment and earnings, we used quarterly earnings records from the State Unemployment Insurance system. The five-year client survey provided information on clients' job characteristics and for estimating impacts on income and health insurance coverage.

The cost estimates for the benefit-cost analysis in Chapter 6 are based on detailed expenditure data from FSSA's financial management office. The benefit estimates are based on the impact results in Chapter 4.

Approach to Estimating Impacts

Impacts are calculated as the difference between average outcomes for the Welfare Reform and Traditional Welfare groups at various points after they entered the experiment. At the time of random assignment, except for small chance differences, the Welfare Reform and Traditional Welfare groups resembled each other in every way (on average). Subsequently, the

[14] The client survey was administered between March and November 2000 to a representative statewide sample of single-parent families. A total of 2,359 interviews were completed, mostly in person with the remainder completed by telephone. The survey achieved a 70-percent response rate. The survey data also were the primary data source for the report on children's wellbeing (Beecroft, Cahill, and Goodson 2002).

two groups experienced the same social and economic conditions, except for exposure to Indiana's welfare reform program. Consequently, any post-random assignment significant differences in outcomes between the two groups can confidently be attributed to welfare reform.

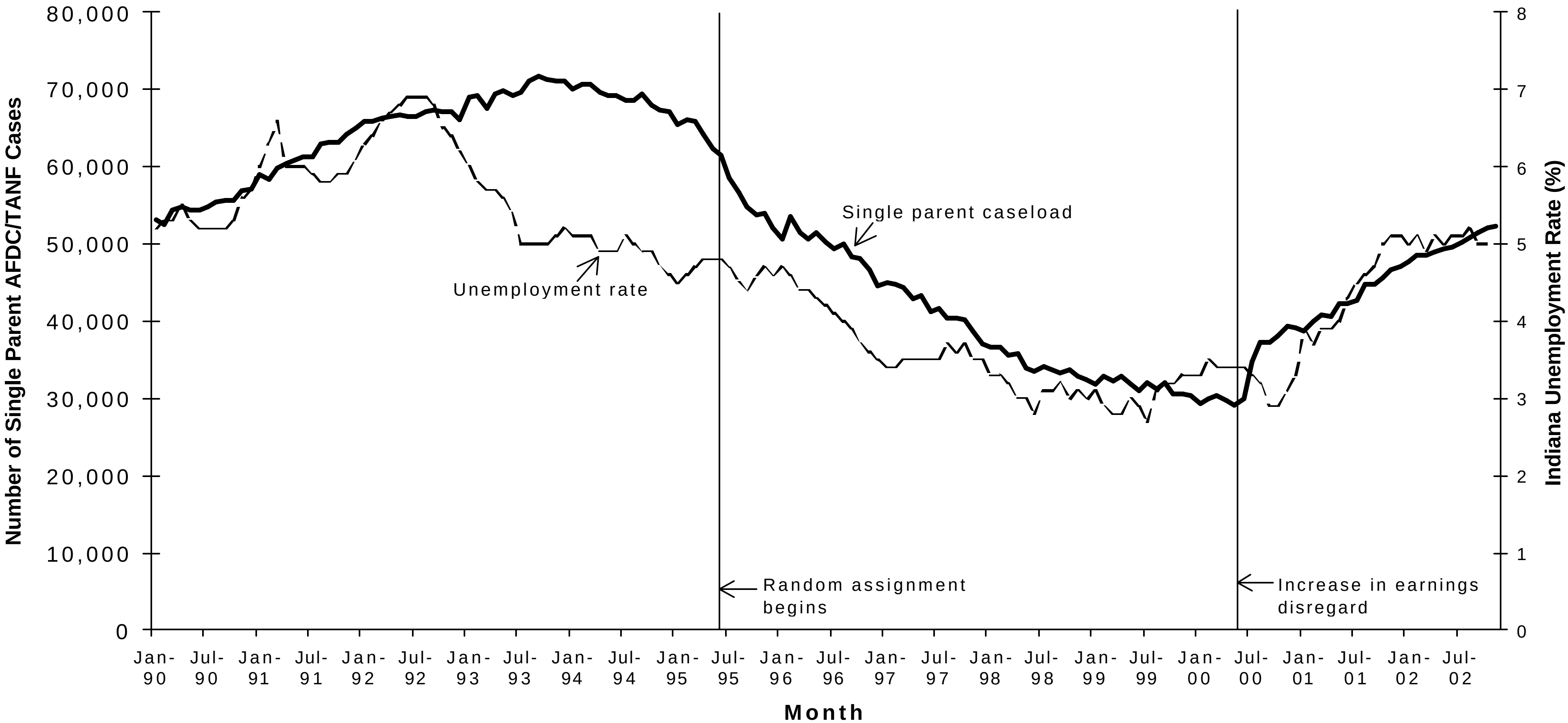
In estimating program impacts, we used regression models to adjust for small chance differences in baseline characteristics, providing more accurate impact estimates. Outcomes were adjusted using the following baseline characteristics: age; gender; ethnicity; education; county of residence (Lake, Marion, or other); number and age of children; family size; marital status; employment status and earnings prior to random assignment; begin date of respondents' most recent welfare spell; and whether respondents were required to participate in work activities.

Impact estimates are obtained by including a dichotomous indicator for assignment to the Welfare Reform group in the multivariate model described above. In this framework, the relationships between the covariates and the outcome measure are set to be identical for the Welfare Reform and the Traditional Welfare groups, and the impact measure is given by the coefficient on the dichotomous indicator. Differences across subgroups of the main sample, such as previous participation in the welfare program or employment status prior to random assignment, are computed similarly, using interactions between indicators for subgroup status prior to random assignment and indicators for Welfare Reform and Traditional Welfare group status.

Sample members in both groups were weighted to account for changes over time to the Welfare Reform: Traditional Welfare assignment ratio. The impact estimates also take into account stratification of the sample between ongoing clients and new applicants.

Impact estimates at the 10-percent level are considered statistically significant, and significance levels are indicated at the 1-, 5-, and 10-percent levels. The statistical analyses were based on two-tailed tests, because for most outcomes positive or negative impacts were possible.

Exhibit 1.2
Indiana Single-Parent AFDC/TANF Caseload and Unemployment Rate, 1990-2002



Sources: Indiana FSSA; U.S. Department of Labor, Bureau of Labor Statistics.

Chapter 2
The Implementation of Indiana's Welfare Reform Program

Indiana's Family and Social Services Administration (FSSA) dedicated a substantial amount of energy and effort to making its welfare reform program effective. The central office provided strong leadership to local offices, and when working with clients, case workers consistently emphasized the importance of work. FSSA also recognized the central role of supportive services and shifted substantial funding into child care. However, the changes produced by Indiana's welfare reform were untested and required modification over time. Not all challenges were easily solved. This chapter describes how Indiana implemented welfare reform, how the program evolved, and what major challenges the program faced.

Indiana's program had a strong focus on unsubsidized work for clients, with relatively little emphasis on education and training (E&T). FSSA supported work by providing clients with child care and other supportive services. Although Indiana intended to enable case workers to provide intensive case management, for the most part this did not occur. Indiana's program relied heavily on contractors to provide services and, in the later part of the study period, case management. Compared to other states' programs, Indiana's program was also fairly lenient, relying more on cajoling clients than on punitive policies.

More recently, deterioration in the State budget poses risks for maintaining an effective IMPACT program and continuing to provide the support and services clients need. It remains to be seen how this will be resolved.

Summary of Key Findings

The specific policies tested by the random assignment design evaluation took place within a larger programmatic and organizational context that has evolved over time. Key highlights from the process study are as follows:

The major waiver provisions were implemented as intended. Indiana implemented the key work and personal responsibility provisions of its welfare reform waiver package. Some non-waiver changes, such as applicant job search and enhanced intake, were implemented in a

the policy change would be “helpful” or “very helpful.” FCCs were less supportive of an immediate full-family sanction—over half (54 percent) characterized an immediate sanction as “not helpful,” while another 20 percent thought it would be “somewhat helpful.”

Time Limits

Even though Indiana grants few extensions to its 24-month case head time limit and the time clock is automatic in ICES, only a small proportion of adults have reached the time limit. As shown in the next chapter, by the end of the fifth year after random assignment, only about seven percent of Welfare Reform group members in the first-year cohort (4,300 out of 63,233) had reached the time limit.

The primary reason such a small percentage of adults reach the limit is that a large majority of adults spend less than two years on the rolls. For example, approximately half of the early cohort and 60 percent of the later cohort had left welfare by the end of the first year. (The proportion was higher for the later cohort because it included a smaller percentage of clients at risk of long-term receipt.)

FCCs reported that they discussed the time limit policy with clients at eligibility determination and again at each six-month eligibility redetermination. A little over one-third (36 percent) of FCCs surveyed in 2001 also noted “sometimes” discussing with clients the option of voluntarily closing their TANF case in order to save months on the clock, and about one-fourth (24 percent) reported “rarely” or “never” discussing this option with clients. Some IMPACT providers said they talked about the time limit with clients in hopes of motivating them to take advantage of the services available.

Although DFC intended time limits to be a key element of welfare reform, local-level staff and supervisors interviewed during the first round of site visits (in spring 1996) reported that the time limit did not appear to motivate clients to move off welfare. In subsequent site visit interviews and in a fall 1999 staff survey—at which time more than 1,000 clients had reached the time limit—staff still believed that the time limit neither motivated clients to participate in work activities nor added a sense of urgency for clients or staff. Only 22 percent of FCCs in the 1999 survey “agreed” or “strongly agreed” that the time limit motivated clients to leave welfare.

Personal Responsibility Provisions

The Personal Responsibility Agreement (PRA) signed by Welfare Reform group members included school attendance and immunization requirements, a family cap, and rules concerning minor parent living arrangements.[13] Failure to sign or comply with the PRA resulted in a partial sanction of the family grant. Unlike the IMPACT work-related provisions, the "personal responsibility" provisions did not require a significant change in program operations, staff responsibilities, or client flow.

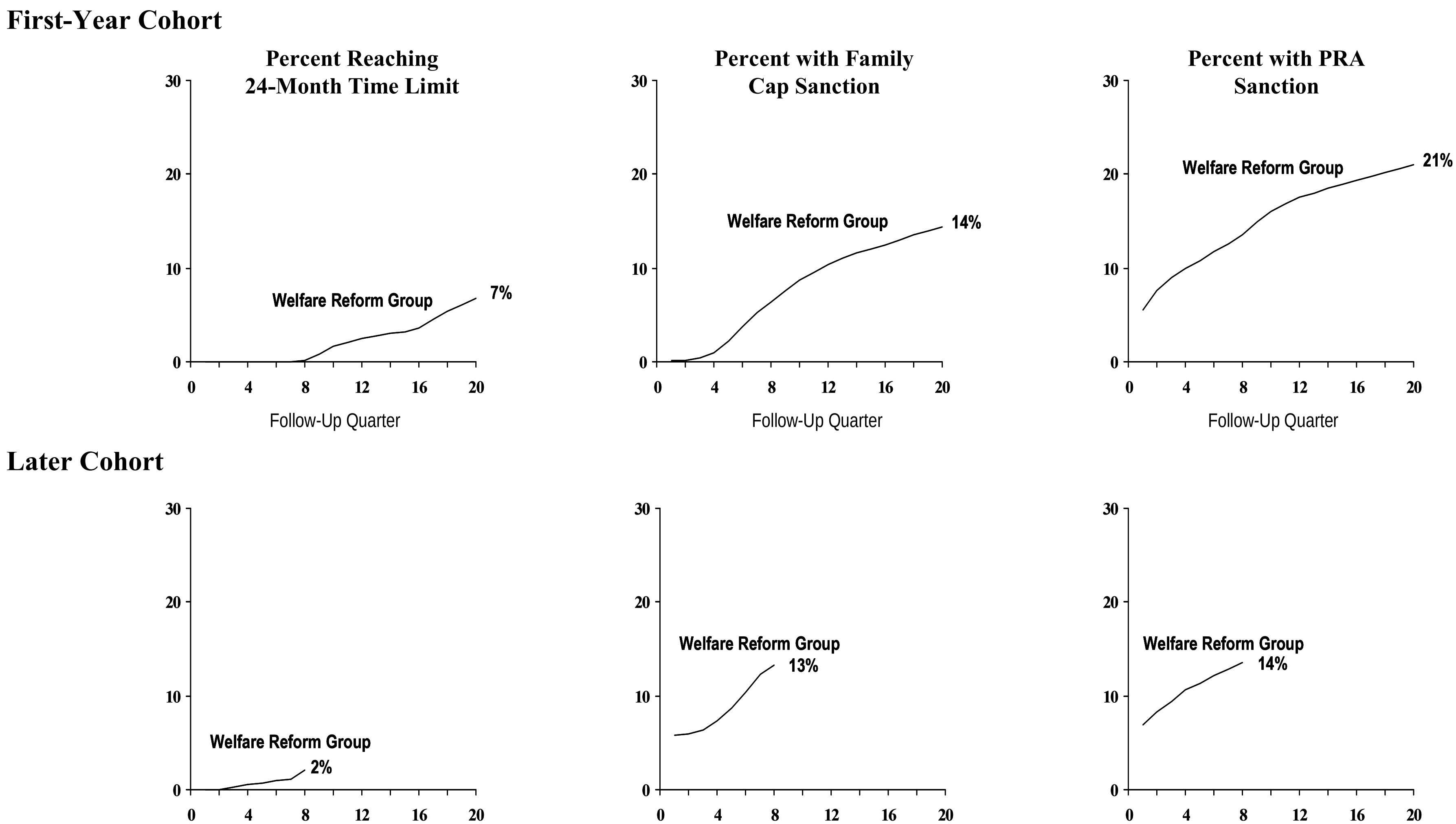
Personal Responsibility Agreement. The PRA is intended to make clients aware that in exchange for receiving assistance they are expected to meet certain responsibilities. The agreement emphasizes self-sufficiency and outlines the welfare reform program requirements. As of June 1997, the terms of the PRA were broadened to include a requirement that parents provide a safe and secure home environment—one free of domestic violence, child abuse or neglect, and use of illegal drugs or other substance abuse. Parents were required to sign the PRA within 30 days of authorization for cash assistance. Because the eligibility determination process involves a significant amount of information and paperwork for clients and staff, the PRA typically received little attention from either staff or clients. Most workers reported spending only a few minutes on the PRA during the eligibility interview.

School attendance. Because of the large number of school districts in the State and the wide variation in school attendance policies across districts, the central office gave local offices considerable flexibility in designing procedures to implement the school attendance requirement. Local offices varied in the extent to which they established procedures to coordinate with schools to exchange information and provide guidance on verification and monitoring practices. In June 1997, the State helped standardize implementation of the school attendance requirement by defining excessive absences as more than three unexcused absences in a grading period and strengthened sanctions for failure to comply.

Immunization requirement. To improve child well-being and promote parental responsibility, the PRA requires adult recipients to submit proof that the standard childhood immunizations of their young children (aged six and under) are up-to-date. Medical

[13] Effective May 1995, to be eligible for cash assistance, minor parents under the age of 18 were required to live with a parent, legal guardian, or other related adult or in an adult-supervised living arrangement Effective May 1997, eligibility was no longer extended to minors living with a non-related adult in a supervised, supportive living arrangement. Unlike the other personal responsibility provisions discussed in this section, eligibility provisions relating to minor parents were not part of the experiment and applied to all minor parents, not just those assigned to the treatment group.

Exhibit 3.6
Cumulative Percent of Welfare Reform Group Members Reaching the Time Limit, Having a Family Cap Birth, and Sanctioned for PRA Noncompliance



Source: Indiana Client Eligibility System administrative records.

Notes: a. S ample size is 63,233 Welfare Reform group members for first-year cohort, and 3,863 Welfare Reform group members for later cohort.
b. A 2-tailed t-test was applied to differences between the treatment and control groups. St atistical significance levels are indicated as: ***=1 percent; **=5 percent; and *=10 percent.