EXECUTIVE SUMMARY

Acting under federal waivers authorized by Section 1115 of the Social Security Act and Section 17(b) of the Food Stamp Act, Iowa implemented a comprehensive package of welfare reforms on October 1, 1993. These reforms replaced Aid to Families with Dependent Children with the Family Investment Program (FIP) and made complementary changes in the Food Stamp Program. The reforms encourage and require welfare recipients to take steps toward self-sufficiency. These steps, which are specified in the Family Investment Agreement (FIA), may include participating in education programs, engaging in job search and job readiness activities, and obtaining employment. The reforms stop short of requiring FIP participants to achieve self-sufficiency; however, it is expected that by following the required steps most of them will eventually leave cash assistance.

The Limited Benefit Plan (LBP) is an alternative assistance program for FIP participants. Adult members of FIP cases who are able-bodied and are not caring for infants are required to develop and carry out FIAs under the auspices of the PROMISE JOBS program, which provides employment and training services to welfare recipients in Iowa. If those individuals do not comply with this requirement, they and their associated FIP cases are assigned to the LBP. These assignments are most often perceived as sanctions for failing to develop and carry out an FIA, but some reflect the wishes of the individuals. LBP assignments may be canceled if the individuals come into compliance with the FIA requirement or, less frequently, on appeal. The original LBP provided three months of cash benefits at the same level as under FIP, followed by three months of reduced cash benefits, and then six months of no cash benefits. The initial period of level benefits was eliminated in February 1996, resulting in a modified LBP that provides three months of reduced benefits, followed by six months of no cash benefits. LBP cases may reapply to FIP at the end of the period of no cash benefits, but those who do so are again subject to the FIA requirement.

This report presents findings from a study of the original LBP conducted by Mathematica Policy Research and the Institute for Social and Economic Development for the Iowa Department of Human Services (DHS). The data analyzed in this study are from DHS records on over 4,200 cases assigned to the LBP during six months in 1994 and 1995, a survey of 137 cases whose cash benefits had been terminated under the rules of the LBP, and case studies of 12 LBP families. The findings provide a comprehensive picture of LBP cases--who they are, why they are on the LBP, how the loss of cash benefits affects their financial status and family functioning in the short run, and what they are doing to cope.

ORIGIN OF THE STUDY

April 1994 was the first month in which FIP cases were assigned to the LBP. October 1994 marked month 7 of the LBP for the cases in this cohort whose assignments had not been canceled--the beginning of their six-month period of no cash benefits. Between October 1994 and June 1996, an average of 180 LBP cases per month entered the first

month of no cash benefits. This represents one-half of one percent of the average monthly FIP caseload (35,000 cases) during this period.

Under contract with DHS, the Iowa Department of Public Health visits LBP families shortly before and after their cash benefits are terminated. The primary purpose of these visits is to inquire into the well-being of the families and, if necessary, to refer them to service providers. The secondary purpose is to provide DHS with data on LBP families as they make the transition to no cash benefits. However, only about 40 percent of the visits are successfully completed, thus limiting the research potential of the data. (DHS is taking steps to improve the quality of the data from the visits.) By mid-1995, DHS perceived a need for more systematic and comprehensive data on LBP families whose cash benefits have been terminated--data on the characteristics of those families, why they were assigned to the LBP, and how they are faring in the temporary absence of cash benefits.

At about the same time, organizations with a national perspective on welfare policy, including foundations and major out-of-state newspapers, became aware that Iowa was terminating cash benefits for some welfare cases. Their interest in this new policy was sparked by the then-active debate on federal welfare reform and, more specifically, by the issues of time-limited cash benefits and work requirements that were central to that debate. Despite the temporary nature of the LBP benefit termination and its restriction to PROMISE JOBS-mandatory cases, these organizations saw Iowa's experience as an indication of how welfare recipients might be affected by the sudden loss of cash benefits, as would occur under broader time limits. They also viewed the LBP as a prototype sanction policy that other states might adopt to draw more welfare recipients into employment and training activities.

Interest in or concern about the LBP prompted the following four foundations and two U.S. government agencies to provide funding for this study:

- Annie E. Casey Foundation
- Ewing Marion Kauffman Foundation
- Charles Stewart Mott Foundation
- Northwest Area Foundation
- Administration for Children and Families,U.S. Department of Health and Human Services
- Office of the Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services.

RESEARCH OBJECTIVES AND DATA SOURCES

The objective of the LBP Study is to improve the understanding of FIP cases that have been assigned to the LBP, thus helping policymakers in Iowa and around the nation to make well-informed decisions about modifying or adopting the plan. This broad objective encompasses three specific objectives:

1. ***Document the Flow of Cases Through the LBP.*** The study's first objective is to document the administrative reasons for the assignment of FIP cases to the LBP, describe the characteristics of those cases, document the welfare benefits that they receive during and after their time on the plan, and describe their perspectives on their own entry into the LBP. This objective is achieved through the analysis of data from DHS administrative records and from a survey of LBP clients.
2. ***Describe the Experiences of LBP Families.*** This second objective constitutes the core of the study. It is to describe changes in the financial status of LBP families following their loss of cash benefits, their employment during the six-month period of no cash benefits, their coping strategies during that period, and their perceptions of the LBP. Data from the survey of LBP clients are used to achieve this objective.
3. ***Tell the Personal Stories of LBP Families.*** The study's final objective is to present the personal stories of diverse LBP families regarding their entry into the LBP, interactions with PROMISE JOBS staff, changes in family functioning after the loss of cash benefits, and how they are coping with that loss. Case-study interviews with LBP clients provide the basis for achieving this objective.

Data from three sources are used to address these research objectives:

1. ***Administrative Records.*** DHS administrative records on 4,224 FIP cases assigned to the original 12-month LBP between November 1994 and April 1995 provide case-specific data on demographics, monthly benefit amounts, and LBP administrative actions. Fifteen months of data are available for each case following its assignment to the LBP.
2. ***Client Survey.*** A survey of LBP cases that received cash benefits in month six of the LBP but not in month seven is the source of information on the changes in family composition and finances that accompany the termination of cash benefits, and on client perspectives on the LBP. Efforts were made to interview all 162 families in 19 eastern and central Iowa counties that entered month seven of the LBP between November 1995 and January 1996. Structured interviews were completed with 137 (85 percent) of the sampled families during LBP months eight through twelve.
3. ***Case-study Interviews.*** Semi-structured case-study interviews with 12 families that had earlier participated in the LBP client survey provide in-depth information on their experiences with the loss of cash benefits.

FINDINGS IN BRIEF

Most assignments to the LBP result from FIP cases not developing and signing FIAs, rather than abandoning signed FIAs. Slightly more than half of these assignments are subsequently canceled, thus allowing the cases to return to FIP before the scheduled end of the LBP. The characteristics of cases whose LBP assignments have been canceled suggest that they are somewhat more disadvantaged than those whose assignments have not been canceled. Fifty-seven percent of the cases with canceled assignments receive cash benefits in the third month after the scheduled ending date of the LBP. In contrast,

only 19 percent of cases that remain on the LBP for the full period receive cash benefits in the third month after the ending date.

There are distinct gainers and losers among LBP cases whose cash benefits have been terminated. About half of these cases are employed during the months immediately after cash benefits end, but the other half are not. Forty percent experience an increase in monthly income when cash benefits end, with the average increase being $496. On the other hand, 49 percent experience a drop in income, the average decrease being $384. Thus, the termination of cash benefits appears to act as a catalyst for some families to move toward self-sufficiency, while it removes an important financial safety net for others, resulting in a decline in their economic well-being. Even for the latter group, however, there is little systematic evidence of extreme economic distress, such as homelessness and the separation of children from their parents. Such distress might be apparent if the period of no cash benefits were longer than six months, such as under general time limits on welfare receipt.

Government programs other than FIP remain important sources of support for LBP families whose cash benefits have been terminated. For example, about two-thirds of these families continue to receive Food Stamps and Medicaid during the period of no cash benefits. Food Stamp benefit levels increase moderately with the termination of cash assistance, thus partially offsetting the loss. In contrast, the assistance offered by private, nonprofit organizations is used infrequently by these families. Thus, the LBP does not appear to shift the burden of dependency from the public sector to the private, nonprofit sector. However, this study reveals strong evidence that extended family, friends, and neighbors provide important emotional and material support to LBP families whose cash assistance has temporarily ceased. Case-study interviews with these families indicate that this support does not always endure, implying that these families might be more reliant on private, nonprofit social service providers if the LBP period of no cash benefits were longer than six months.

DISCUSSION

The LBP Study provides policy makers with valuable information regarding sanctions for nonworking welfare cases. The study is less relevant to the policy issues surrounding general time limits, such as the lifetime limit on the receipt of cash benefits mandated by the federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996. While the termination of cash benefits is a feature common to both the LBP and general time limits, two other features of the LBP suggest that the effects of benefit termination would be different under the LBP than under general time limits on welfare receipt. First, the LBP applies only to those families that are capable of participating in training and employment, and some of those families voluntarily enter the LBP after determining that their need for assistance is temporary. Second the termination of cash benefits is limited to six months under the LBP, whereas it is permanent under general time limits.

This study shows that families assigned to the LBP frequently leave welfare and increase their incomes. Two-thirds of families whose assignments to the LBP are never canceled

leave cash assistance before its scheduled termination. Presumably, these families either enter the LBP with the intention of leaving early, or are induced to leave by the reduction and imminent termination of benefits. Their early exit suggests that they are departing to financially viable situations. Further, among the families with never-canceled LBP assignments that do not leave the plan early, forty percent achieve higher incomes after the termination of cash assistance.

However, half of families with never-canceled LBP assignments experience reductions in income following benefit termination and present special policy concerns. To make it through the period of no cash benefits, many of these families rely on private support networks of extended family and friends. In states where these types of networks may be weaker than in Iowa, such familes might experience greater deprivation and could be expected to rely more on community service organizations for assistance. This might also occur if the period of no cash benefits were longer than six months, as these networks may wither over time.

This study also shows that lack of knowledge of program rules is widespread among LBP cases and is a factor in their assignment to the plan. Seventy percent of cases that fail to make required appointments with PROMISE JOBS attribute this failure to their inadequate understanding of program rules. Also, many are unaware that PROMISE JOBS can assist in resolving child care and transportation problems that pose barriers to participation in program activities.

It is clear from this study that, while many welfare families respond positively to the LBP, others do not. The following features of the LBP help to avoid extreme deprivation among the latter cases:

The LBP design includes a reconciliation period. During the reconciliation period, cases that were assigned to the LBP before signing an FIA may reconsider the actions or inactions that resulted in their assignment to the LBP and undertake alternate actions that bring them into compliance with program rules.

The period of no cash benefits is of limited duration. Six months without cash benefits is long enough to induce many cases to obtain employment or other means of support, yet short enough to permit cases that fail to respond more positively to get by with support from family and friends until they can reapply to FIP (and, presumably, participate in PROMISE JOBS).

Noncash assistance continues during the period of no cash benefits. Food Stamps, Medicaid, and other types of noncash assistance constitute a safety net for FIP cases that fail to respond positively to the LBP.

In the absence of safeguards such as these, an otherwise similar policy could result in the termination of cash assistance for many welfare cases that are actually willing to comply with program rules. In addition, the incidence of extreme deprivation among the cases whose benefits are terminated might be unacceptably high.