

HOW CAN I USE WORK INCENTIVES TO ENCOURAGE EMPLOYMENT FOR WELFARE RECIPIENTS?

Answer: Research suggests that policies providing financial incentives to make work pay can both increase employment and reduce poverty among welfare recipients. Early results from programs in Minnesota and Canada found employment and earnings gains that, especially for long-term welfare recipients, were among the largest found in any previously evaluated welfare-to-work program. These two programs also produced unprecedented income gains and poverty reductions.¹ A program in Milwaukee also had positive results for individuals who were unemployed when they




entered it. On the other hand, past welfare-to-work programs — even those that successfully increased employment — generally did not result in increased family income; paychecks simply replaced welfare checks.²

The initiatives were also very efficient. In Canada's Self-Sufficiency Project (SSP), every extra dollar spent on work incentives produced more than \$2 in increased earnings, for a total increase of more than \$3 in income. For long-term recipients in Minnesota's Family Investment Program (MFIP), every dollar spent on incentives yielded approximately \$1.67 in increased earnings and a bit more than \$2.67 in total income. The increased

income translated into greater expenditures for food, children's clothing, and housing and also reduced reliance on food banks.³ Moreover, people took steps to increase their assets by opening savings accounts and taking other actions. Additional benefits can result from work incentives. A special study in Milwaukee's New Hope Project found that children of program participants had better educational outcomes and greater social competence and that boys showed fewer behavioral problems in the classroom.

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THE THREE PROGRAMS

-  **1 The Minnesota Family Investment Program (MFIP)** increased the “earned income disregard” — the amount of earnings not counted when calculating a family’s welfare benefits — and increased basic benefits by up to 20 percent for those who worked. MFIP required participation in employment-focused services for long-term welfare recipients not working at least 30 hours a week.
-  **2 The Canadian Self-Sufficiency Project (SSP)** offered a substantial monthly earnings supplement, for up to three years, to long-term, single-parent welfare recipients who worked at least 30 hours a week. Sponsored by the Canadian government, SSP was operated outside the welfare system by private agencies in the Vancouver area of British Columbia and parts of New Brunswick.
-  **3 Milwaukee’s New Hope Project** was a community initiative open to all low-income people living in two target areas. Its package of incentives included earnings supplements, child and health care subsidies, and — for people who could not find jobs — access to temporary community service jobs. Participants had to work at least 30 hours a week to receive the incentives, and they could be eligible for up to three years.

IMPLICATIONS FOR *POLICY* AND *PROGRAM PRACTICE*

The success of these three programs suggests that financial work incentives should be a key focus for state and local welfare-to-work efforts. The research and program experience suggest the following “best practices” for designing and implementing work incentives:

Promote full-time employment.

While financial incentives can promote both part-time and full-time employment, those conditioned on full-time work can affect a wider range of outcomes — employment, earnings, and income. Both

SSP and New Hope made their incentive payments only when someone worked at least 30 hours a week, and MFIP required anyone who was not working at least 30 hours a week to participate in employment-related services. The rules limited the extent to which those already employed reduced their hours, and they encouraged more people who would not have worked at all to work full time. Allowing part-time work will likely lead to larger impacts on *total* employment but smaller impacts on full-time work.

Combine financial incentives with participation requirements and employment services.

Combining financial incentives with other requirements and services can increase the effectiveness of work incentives. Both MFIP and SSP provided additional services to a subset of participants (in MFIP, to long-term welfare recipients; in SSP, to participants in a small-scale experiment). In both cases, results were stronger for participants with the extra services. The full-MFIP program — which required

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recipients not working at least 30 hours a week to participate in employment-related services — doubled employment and substantially increased earnings and income. SSP Plus — which provided employment counseling and job placement assistance along with the financial incentive — increased to 50 percent the share of recipients who *ever* worked full time, although the difference declined over time.



Target long-term welfare recipients.

Targeting incentives to long-term welfare recipients can minimize entry and windfall effects and maximize work effects. Without targeting, some individuals may be encouraged to enter the program in order to receive the incentives, and some benefits will go to individuals who would have worked even without the incentives. SSP required at least one year of prior welfare receipt, and MFIP mandated participation in employment-related services for those with two years or more of welfare receipt. These

rules were intended to concentrate resources on the recipients least likely to work on their own. The targeting appears to have paid off: in MFIP, long-term recipients who were subject to the participation requirement experienced the largest employment, earnings, and income gains; SSP achieved even larger effects by postponing eligibility until applicants had been on welfare for a year.



Clearly explain and aggressively market the incentives.

For incentives to make a difference, targeted recipients must know about and understand how the incentives will affect their total income. Without marketing, only people who would have gone to work anyway would receive incentive payments, reducing poverty but resulting in higher costs and not increasing employment. Staff worked hard at marketing and explaining the incentives, and their efforts likely played a central role in the three programs' success. For example, more than 95 percent of those eligible for

SSP participated in a two-hour-plus orientation session. New Hope's project representatives met frequently with participants and took as much time as needed to explain the program's benefits.



Don't rely on financial incentives alone.

Despite the advantages of financial incentives, they are only one component of welfare-to-work efforts. Many welfare recipients in these programs did not go to work in response to the incentives, and many remained on welfare or in poverty at the end of the follow-up period. In SSP, only about one-third of those eligible for the program took advantage of the earnings supplement. In MFIP, only about half of those eligible were working for the program's benefits in a given quarter.

SOME KEY DECISIONS

State and local policymakers interested in adopting financial incentives to encourage employment and make work pay should consider the following questions:

Will incentives be offered within or outside the welfare system?

Incentive programs can be implemented effectively either inside or outside the welfare system. MFIP was administered by the welfare department, while SSP and New Hope were administered by private social service agencies. Both approaches have advantages and disadvantages. Incentives within the welfare system may be easier to administer, and communication with recipients may be facilitated by their existing relationships with caseworkers. Programs outside the welfare system can avoid the stigma of public assistance and can be presented as an alternative to welfare.

Will participation be mandatory or voluntary?

Work incentive programs appear to be equally effective whether they have a mandatory participation requirement or condition the incentive on voluntary full-time work. SSP and New Hope both offered a carrot: they were voluntary programs that made work pay, but only if recipients worked at least 30 hours a week. MFIP used something of a stick: anyone not working at least 30 hours a week had to participate in employment-related services; failure to participate reduced welfare benefits by 10 percent.

Will incentives be temporary or permanent?

Both SSP and New Hope were temporary programs designed to make work pay during the transitional years, when recipients first took jobs.⁴ Longer-term follow-up will show the extent to which participants retained employment after the supplement ended. If they continued to work and also experienced earnings growth, then a case could be made for time-limiting work incentives. But if earnings did not grow, then the case for more permanent subsidies could be considered.

How will time limits affect individuals who take advantage of incentives?

Many states have implemented make-work-pay policies in conjunction with time-limited welfare — two policies that can send contradictory messages. By allowing people to more easily combine work and welfare, incentives within the welfare system actually encourage recipients to remain *on* assistance. Yet time limits are intended to push people *off* the rolls. Recognizing this contradiction, Illinois treats working and nonworking welfare recipients differently; the welfare time-limit clock does not tick for those who work at least 25 hours a week. The state accomplishes this by using segregated Temporary Assistance for Needy Families (TANF) funds to provide assistance to working families. These working families are still part of the state's TANF program, but their months of assistance do not count against the 60-month federal lifetime limit on welfare benefits.

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NOTES

1. These results are based on 18 to 14 months of follow-up; longer follow-up will determine whether these initial results hold up, what effects the programs have on job stability and earnings growth, and what the final costs are. Preliminary analyses of longer-term follow-up data give cause for optimism.
2. Examples include the Riverside (California) and Portland (Oregon) welfare-to-work programs. See Riccio, Friedlander, and Freedman, 1994, and Scrivener et al., 1998. Income calculations did not include federal and state Earned Income Credits; nor did they deduct work-related expenses and taxes.
3. Only the SSP study collected this information.
4. New Hope's designers envisioned a permanent program, but the demonstration was limited to three years.

FOR FURTHER INFORMATION Programs and Organizations

Canada's Self-Sufficiency Project: Social Research and Demonstration Corporation (SRDC), 50 O'Connor Street, Suite 1400, Ottawa, Ontario K1P 6L2, Canada; (613) 237-4311; www.srdc.org

Minnesota Family Investment Program (MFIP): Minnesota Department of Human Services, 444 Lafayette Road, St. Paul, MN 55155; (651) 297-3933; www.dhs.state.mn.us

New Hope Project: 2821 North 4th Street, Suite 516B, Milwaukee, WI 53212; (414) 267-6020; www.newhopeproject.org

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QUESTIONS from the Field

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