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Other SRDC reports:

*Creating an Alternative to Welfare: First-Year Findings on the Implementation, Welfare Impacts, and Costs of the Self-Sufficiency Project.* Tod Mijanovich and David Long (MDRC). December 1995.

*The Struggle for Self-Sufficiency: Participants in the Self-Sufficiency Project Talk About Work, Welfare, and Their Futures.* Wendy Bancroft and Sheila Currie Vernon (SRDC). December 1995.

*Do Financial Incentives Encourage Welfare Recipients to Work? Initial 18-Month Findings from the Self-Sufficiency Project.* David Card (Princeton University) and Philip K. Robins (University of Miami). February 1996.

*When Work Pays Better Than Welfare: A Summary of the Self-Sufficiency Project's Implementation, Focus Group, and Initial 18-Month Impact Reports.* March 1996.

*How Important Are "Entry Effects" in Financial Incentive Programs for Welfare Recipients? Experimental Evidence from the Self-Sufficiency Project.* David Card (Princeton University), Philip K. Robins (University of Miami), Winston Lin (MDRC). August 1997.

*Implementing the Earnings Supplement Project: A Test of a Re-employment Incentive.* Howard Bloom (New York University), Barbara Fink (MDRC), Susanna Lui-Gurr (SRDC), Wendy Bancroft (SRDC), Doug Tattrie (SRDC). October 1997.

*Do Work Incentives Have Unintended Consequences? Measuring "Entry Effects" in the Self-Sufficiency Project.* Gordon Berlin (MDRC), Wendy Bancroft (SRDC), David Card (Princeton University), Winston Lin (MDRC), and Philip K. Robins (University of Miami). March 1998.

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## Preface

Welfare reform is high on the domestic policy agenda, as provinces aim to reshape the Canadian social safety net while also controlling government expenditures. A central challenge is to achieve two often conflicting goals: making poor families less poor, while simultaneously helping them reduce their reliance on government transfer payments and achieve economic self-sufficiency. For some policymakers, fighting poverty is the main goal; for others, encouraging personal independence is paramount.

Historically, anti-poverty programs that were not tied to employment sometimes reduced people's work effort and increased their reliance on public assistance, whereas programs that increased employment and reduced welfare receipt often did not increase poor families' overall income. Compounding the difficulties has been the dearth of hard evidence to guide some of these policy choices.

Funded by Human Resources Development Canada and managed by the non-profit Social Research and Demonstration Corporation, the Self-Sufficiency Project (SSP) was launched to help fill this knowledge gap by testing an innovative approach to meeting both goals. Through SSP, single parents in British Columbia and New Brunswick who were long-term recipients of Income Assistance (welfare) were offered a substantial financial incentive — in the form of a temporary earnings supplement — if they left Income Assistance for full-time employment. They could receive the supplement each month, for up to three years, but only if they were off welfare and working full time. In this way, SSP was designed to avoid the classic trade-off between poverty and dependence.

This report presents early but encouraging results from a rigorous evaluation of the SSP program, building on a previous report that was based on data for only part of the 6,000-person main research sample. The report shows that, 18 months into the project, people who were eligible for SSP worked more, had higher earnings and incomes, and received less welfare than a control group of similar people who were not given access to the supplements. Furthermore, the positive results applied to a broad cross section of those in the program. In addition, for each \$1 increase in government payments (because of the earnings supplements), there was a \$2 increase in earnings and a more than \$3 increase in income for the SSP families. Thus, SSP is encouraging more participation in the labour market *and* having a significant anti-poverty effect, allowing participants to set aside some money for the future as well as to spend more on necessities.

Later reports will examine the longer-term effects of SSP — importantly, what happens after the three-year period of supplement receipt ends. It is our hope, however, that even this early information will prove useful to policymakers as they strive to design programs that better meet societal objectives and individuals' needs.

John Greenwood  
Executive Director



## Acknowledgements

Both the Self-Sufficiency Project and this report result from the collaboration of many people and organizations, who have brought a combination of research, data management, and operational experience to the effort. We are grateful to everyone who has contributed to this endeavour, and we would like to acknowledge some of the people whose guidance, support, and assistance were critical to the preparation of this report.

SSP would not have been possible without the sponsorship and extraordinary support of Human Resources Development Canada, where the idea to test earnings supplements originated. Jean-Pierre Voyer and Allen Zeesman of HRDC's Applied Research Branch continue to provide direction and invaluable advice on matters large and small.

Many staff members throughout the Income Assistance systems in British Columbia and New Brunswick have given valuable assistance and support. We thank Sharon Manson Singer and her staff at British Columbia's Ministry of Human Resources, and Karen Mann and her staff at Human Resources Development-New Brunswick.

Collecting and processing the survey and administrative records data for this report was a major effort involving the work of many people at Statistics Canada. Richard Veevers and Ann Brown, with Charlene Walker and many other staff members, devoted long hours to planning and implementing procedures for survey administration, data quality control, and complex data processing.

Paying SSP's earnings supplement accurately and promptly and maintaining the program's management information system have been the tasks of SHL Systemhouse Inc. in Nova Scotia. John Hayne, Melony McGuire, Trudy Megeney, and project manager Judy Sampson have been responsible for maintaining the system and for issuing cheques.

We would also like to thank the staff at the four demonstration sites, who made SSP an operational reality: Shelly Price, Linda Nelson, and their staff at Family Services Saint John, Inc., in New Brunswick; and Betty Tully, Elizabeth Dunn, and their staff at Bernard C. Vinge and Associates Ltd. in British Columbia.

Several researchers at various universities and Statistics Canada kindly fielded our queries about related literature: Garry Barrett, Howard Bloom, Miles Corak, Michael Cragg, Martin Dooley, and Guy Lacroix. We also thank Doug Willms for helpful comments.

At SRDC, Gordon Berlin directed the project and provided invaluable guidance at all stages of the analysis and writing for this report, from the initial framing of research questions to the final revisions of the text. John Greenwood reviewed outlines and drafts of the report and had a strong influence on its focus. Wendy Bancroft, Saul Schwartz, and Sheila Currie Vernon also reviewed drafts and contributed insights into program operations, participants' experiences, and the interpretation of the research findings. Dan Doyle and Musu Taylor-Lewis helped us understand changes in Income Assistance policies.

At MDRC, many people worked diligently and thoughtfully to help prepare the report. Judith Gueron, Barbara Goldman, Robert Granger, and Charles Michalopoulos reviewed

several drafts and helped us sharpen the analysis and presentation. Kara Balemian coordinated the document production, created the tables and figures, programmed many of the estimates, and checked the accuracy of the text and exhibits. Martey Dodoo, Andrew Harrison, Sarah Senesky, and Johanna Ward helped prepare the data files and conducted preliminary analyses, with guidance from Greg Hoerz. Alice Tufel edited the report, and Patt Pontevolpe and Stephanie Cowell did the word processing. Rosa De Los Santos and Gloria Diaz took care of scheduling and many other administrative matters. Other people who gave valuable advice and help include Judith Greissman, Jordan Kolovson, Laura Peck, Irene Robling, and Ruth Yun.

The Authors

## Executive Summary

Proponents of welfare reform have struggled for nearly three decades to design programs that would increase work, reduce poverty, and reduce dependence on welfare. Initiatives to increase work have reduced welfare dependence, but have often had little effect on poverty. Initiatives that reduce poverty by providing more income have made recipients better off financially, but have discouraged work. In an effort to address all three of these welfare reform objectives, the Canadian government is testing a new approach. The Self-Sufficiency Project (SSP) is a research and demonstration project that offers an earnings supplement to welfare recipients who leave welfare for full-time work. The primary objectives of SSP are to increase economic self-sufficiency through work and to reduce welfare dependence. A secondary objective is to reduce poverty.

Conceived and funded by Human Resources Development Canada (HRDC) and managed by the Social Research and Demonstration Corporation (SRDC), SSP offers a temporary earnings supplement to selected single-parent families receiving Income Assistance (welfare) in British Columbia and New Brunswick. To collect the supplement (a monthly cash payment based on actual earnings), a single parent must work full-time and leave Income Assistance. She can then receive the supplement for up to three years, as long as she continues to work full-time and remains off Income Assistance.<sup>1</sup> The supplement roughly doubles the earnings of many low-wage workers (before taxes and work-related expenses).

SSP addresses a dilemma faced by many welfare recipients: Although they are troubled by their continuing dependence on welfare, work is not a financially attractive alternative, because entry-level wages are too low to make them better off than they would be if they were receiving Income Assistance. Nor would combining work and welfare raise their incomes significantly, because Income Assistance benefits are reduced by nearly the amount they earn. This situation discourages welfare recipients from obtaining jobs and leaving welfare, and many of those who do leave welfare for work eventually return to welfare. By offering a substantial, temporary supplement to earnings, SSP provides an incentive for welfare recipients to enter the full-time labour force and acquire work experience that may eventually lead to higher earnings and economic self-sufficiency.

In developing this initiative, HRDC recognized the importance of testing the program prior to larger-scale implementation, since substantial program costs were at stake and, in times of tight budgets, the cost of a new program could be justified only if the program had significant benefits. Because many people leave welfare for work on their own, it was not known whether an earnings supplement program would lead to a significant increase in overall work effort above the level of employment that would have been reached without such a program. HRDC therefore decided to test the efficacy of an earnings supplement

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<sup>1</sup>The feminine pronoun is used throughout this report because the vast majority of single parents receiving Income Assistance are women.

program under real-world operating conditions, using a random assignment evaluation design.

Between November 1992 and March 1995, more than 6,000 single parents who were long-term Income Assistance recipients were invited to join the SSP research study. Each of those who accepted was assigned at random to one of two groups: Members of the *program group* were given the opportunity to participate in the earnings supplement program; members of the *control group* were not. Because the two groups are similar in all respects except whether they were allowed to participate in the program, the “impact” or effect of SSP can be measured by the difference between the program and control groups’ subsequent experiences. This report examines SSP’s impacts on employment, earnings, Income Assistance receipt, family incomes, poverty, and living conditions during the first 18 months after random assignment (that is, after sample members were randomly assigned to the program and control groups).

## THE FINDINGS IN BRIEF

During the first year and a half after program group members were first offered the supplement, SSP successfully increased work, reduced poverty, and reduced welfare dependence. These early results are encouraging but, because they cover a relatively short follow-up period, it is uncertain how long they will persist. In fact, the program’s impacts on employment and welfare receipt are expected to decline somewhat as some new job takers leave their jobs. Furthermore, it is too soon to know whether the higher employment, higher earnings, and reduced welfare benefit and receipt rates for program group members relative to control group members will persist after the supplement ends.

The major findings of this report can be summarized as follows:

- **SSP doubled the full-time employment rate of the program group.** In the fifth quarter (three-month period) after random assignment, the period of maximum impact, SSP had a 15-percentage-point impact on the full-time employment rate: 29 percent of program group members worked at least 30 hours per week, compared with 14 percent of the control group. The program achieved these impacts primarily by moving people from nonemployment to full-time employment.
- **The additional employment generated by SSP appears to be concentrated at wage rates between the minimum wage and \$2 per hour above the minimum.** At these wages, in the absence of the supplement, many single parents would be financially better off if they did not work and received welfare. Thus, after the temporary supplement ends, whether work remains more attractive than welfare may depend on the extent to which participants have experienced earnings growth or developed a stronger preference for work.
- **SSP reduced Income Assistance receipt.** In the fifth and sixth quarters after random assignment, SSP reduced the percentage of program group members receiving Income Assistance by 13 to 14 percentage points and reduced Income Assistance payments by about \$100 per month per program group member.

- **In the short run, SSP increased total transfer payments.** In the period covered by this report, SSP supplement payment costs exceeded, by \$55 per program group member per month, the savings from lower welfare benefit payouts and the increased revenue from the taxes that working participants paid.
- **Every \$1 the government spent on additional transfer payments bought more than \$2 of increased earnings and led to more than \$3 of additional income for program group members.** In the fifth and sixth quarters after random assignment, SSP increased government transfer payments by \$55 per month per program group member and increased monthly earnings by \$124. As a result, program group members' average income increased by \$179 per month.
- **SSP had a substantial anti-poverty effect.** In addition to raising average income substantially, SSP reduced the fraction of program group members with family incomes below Statistics Canada's low-income threshold by 12 percentage points and reduced the fraction in "extreme poverty" (incomes less than half the low-income threshold) by 3 percentage points.
- **SSP helped working-poor families meet their basic needs.** The increased income from SSP was used partly to increase spending on three necessities: food, children's clothing, and housing. The percentage of families using food banks (charities that distribute surplus food) was reduced. Families also appeared to be saving some of their additional income.

SSP's short-run ability to both increase work and reduce poverty is unusual and promising. Typically, programs designed to reform welfare have multiple and conflicting goals. As a result, reforms often achieve one goal at the expense of another. SSP shows some promise of being able to simultaneously increase work, reduce poverty, and decrease dependence on Income Assistance by creating a work-based alternative to the current "safety net" welfare system. In the short run, these accomplishments increase public transfer costs, because SSP payments exceed welfare savings. In the long run, however, because SSP's earnings supplement payments are limited to three years, if these impacts continue beyond the three-year cut-off point, then SSP would have the distinction of simultaneously achieving several of welfare reform's most difficult goals, possibly without increasing total costs.

## FEATURES OF SSP

SSP offers participants a voluntary, time-limited alternative to Income Assistance. For those who qualify, the combination of the supplement and earnings from full-time work provides a substantial monetary improvement over Income Assistance. Eligibility for the supplement is determined by the following conditions:

- **"Long-term" Income Assistance recipient.** Recruitment for SSP's main study was limited to single parents who had been receiving Income Assistance benefits for at least one year, and were therefore considered "long-term" recipients. This group was targeted because they face considerable barriers to full-time employment and because they account for a disproportionate share of

welfare costs. Restricting eligibility to people who have been on welfare for at least one year focuses the program on parents who are less likely to leave welfare on their own, and it also reduces the likelihood that many people who are not on welfare will join the welfare rolls in order to become eligible for the supplement.

- **One year to take advantage of the offer.** Shortly after random assignment, each program group member was informed that if she found full-time work within the next 12 months and agreed to leave Income Assistance, she could sign up for the supplement. If she did not sign up within 12 months, she became ineligible for the supplement. This requirement discouraged delay in responding to the supplement offer but gave people time to consider the offer and to find work.
- **Full-time work requirement.** In order to receive supplement payments, program group members have to work at least 30 hours per week, whether in one or more jobs. The 30-hour requirement was chosen because (1) participants will need to work at least that many hours to achieve self-sufficiency, (2) it prevents those who were already working full-time from substantially reducing their work hours (an effect that some earlier financial incentive programs had), and (3) it ensures that earnings are substantial enough so that the supplement and earnings together produce a large increase in income for most participants.
- **Supplement formula makes work pay.** The supplement is calculated as half the difference between a participant's gross earnings from employment and an "earnings benchmark" set by SSP. The benchmark was \$37,000 in British Columbia and \$30,000 in New Brunswick when the program began and has been raised modestly since then to adjust for inflation. The supplement approximately doubles the earnings of many low-wage workers, before taxes and work-related expenses. After taxes and tax credits are considered, SSP makes most families \$3,000 to \$7,000 per year better off than they would be if they worked full-time and remained on Income Assistance. Unlike Income Assistance, supplement payments do not vary with family size, so the work incentive for large families is less than the incentive for small families.
- **Three-year time limit on supplement receipt.** A person may collect the supplement for up to three years from the time she begins receiving it, as long as she is working full-time and not receiving Income Assistance. The three-year time limit precludes the possibility of long-term dependence on the program.

After beginning supplement receipt, participants may decide at any time to return to Income Assistance, as long as they give up the supplement and meet the eligibility requirements for Income Assistance. They can also renew their supplement receipt by going back to work full-time at any point during the three-year period in which they are eligible to receive the supplement.

## THE SSP EVALUATION AND THIS REPORT

A total of 9,300 single parents are participating in the SSP evaluation, in three different studies. The main study, which is the subject of this report, is testing the basic earnings supplement program and includes 5,686 long-term Income Assistance recipients in British Columbia and New Brunswick. Two other studies look at the effects of adding job search assistance and job counseling services to SSP and at whether SSP encourages new recipients to stay on welfare longer than they otherwise would in order to qualify for the supplement.

In British Columbia, SSP operates in the lower mainland, which includes the Vancouver metropolitan area as well as neighbouring areas to the north, south, and east. In New Brunswick, the program operates in a region covering roughly the lower third of the province, including the cities of Saint John, Moncton, and Fredericton. Sample members were recruited for SSP's main study and randomly assigned between November 1992 and March 1995 in New Brunswick and between January 1993 and February 1995 in British Columbia. The period studied in this report consists of the first 18 months after each sample member was randomly assigned (including the month of random assignment). For example, for the earliest sample members randomly assigned, the period studied is November 1992 to April 1994; for those who were randomly assigned last, the period studied is March 1995 to August 1996.

Because program group members were allowed to qualify for the supplement during the first year after random assignment and can receive the supplement for three years after qualifying, the 18-month period studied in this report ends too early for a full assessment of the program. The long-term benefits and costs are still unknown. However, because the one-year qualifying period has ended, it is possible at this point to assess how effective the SSP offer was in getting people to begin full-time work and leave Income Assistance. The report also provides an early look at SSP's effects on family incomes, poverty, and living conditions and at the cost of the supplement payments compared with the savings to the government in reduced Income Assistance expenditures.

The findings in this report are based on data for the 5,288 single parents in the main study who completed a follow-up survey. An earlier report presented a limited number of preliminary findings for the subset of about 1,900 single parents who were randomly assigned between November 1992 and December 1993.<sup>2</sup> This report updates those preliminary results and presents many new ones.

The report uses data from four sources: a baseline survey administered at the time of random assignment, a follow-up survey approximately 18 months after random assignment, Income Assistance administrative records, and records from SSP's Program Management Information System, which tracks program activities and supplement payments.

As will be explained, SSP's maximum impacts on employment and Income Assistance receipt were expected to appear during the first 18 months after random assignment. The extent to which impacts persist or decline during the remainder of the supplement period and afterward will be seen in future reports that present estimated impacts up to 36 months and 54 months after random assignment. Those reports will also examine SSP's impacts on a wide range of outcomes related to the well-being of sample members' children, and the

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<sup>2</sup>David Card and Philip K. Robins, *Do Financial Incentives Encourage Welfare Recipients to Work? Initial 18-Month Findings from the Self-Sufficiency Project* (Vancouver: SRDC, February 1996).

54-month report will include a comprehensive analysis of SSP's benefits and costs from the perspectives of long-term Income Assistance recipients, government budgets, and society as a whole.

## **CHARACTERISTICS OF THE RESEARCH SAMPLE**

Most of the single parents in the research sample are female and have relatively low levels of education. Two-fifths were raised by a single parent and about one-fourth grew up in families receiving some form of welfare.

Almost all sample members reported that they worked for pay at some time in the past. However, during the period just prior to random assignment, employment among sample members was relatively low. At the time of random assignment, less than one-fifth of the sample reported any employment, and only 7 percent were working 30 hours or more per week. Thus, more than 90 percent of the sample would have to increase their work effort to qualify for the SSP supplement.

Sample members also faced what appeared to be substantial barriers to full-time employment. More than one-fourth of the sample reported having an activity-limiting physical condition. More than half had a child age five or younger in their household, and over 80 percent reported that they would need child care if they found a job. Over one-fifth of those who said they would require child care believed that they would not be able to find someone they trusted to take care of their children. The three most common reasons given for not taking a job in the four weeks before the baseline survey interview were personal or family responsibilities, lack of adequate child care, and illness or disability. When asked whether their "greatest need" was full-time employment, part-time employment, education or training, or something else, 47 percent chose education or training.

## **LEARNING ABOUT THE SUPPLEMENT**

Orientations to SSP were given to 98 percent of program group members, usually within one month after random assignment. These sessions described the earnings supplement's main features (the work requirement, the one-year clock, the three-year time limit, and the calculation of supplement payments). The central message conveyed was that the supplement could "make work pay," even if a minimum-wage job was all that could be found. Program group members were also informed of the range of community services available to them to assist them in their efforts to enter the world of work. However, the SSP staff acknowledged that the earnings supplement might not be the right choice for everyone, particularly those who preferred to stay home with their children or who wished to attend school full-time.

In a phone survey of the 700 program group members oriented through April 1993, over 90 percent said they recalled being told by SSP staff about the one-year clock, the 30-hour work requirement, how to calculate the supplement, and that they must leave Income Assistance to qualify for the supplement. Nine out of 10 respondents said they thought they would be financially better off on the supplement, and 8 out of 10 said they had no questions about the supplement.

After the orientation session, contacts between program group members and program staff were usually of modest duration (e.g., a 10- or 15-minute phone call). One or two additional workshops (e.g., one on money management) were offered. The program offers information and referrals to existing services in areas such as job search, education, and training, but does not directly provide these services. Doing so would make it impossible to determine the extent to which differences between the program and control groups' experiences could be attributed to SSP's financial incentive, as opposed to the services.

In order to "initiate" supplement payments, program group members who found full-time work within the one-year qualifying period had to come into the SSP office to provide evidence of their qualifying employment and sign a letter directing the Income Assistance office to end Income Assistance payments. After initiation, participants fill out a voucher (documenting the dates, hours, and wages of their employment) after receiving each paycheck and mail it, along with a copy of the corresponding pay stubs, to the SSP payment office. The supplement amount is then calculated according to the earnings received during a four-week or monthly accounting period. Payment system records are cross-matched with Income Assistance records every month to ensure that supplement takers are complying with the rules of the program and not drawing simultaneous benefits.

## **PARTICIPATION IN SSP**

- **Thirty-five percent of program group members went to work full-time, left Income Assistance, and successfully "took up" (qualified for) the supplement.**

Most of these "supplement takers" did not maintain full-time employment in every month and therefore forfeited part or all of a supplement payment at least once. The most frequently cited reason was that their employers could not give them enough hours of work. As a result, the percentage of program group members receiving the supplement in any given month was considerably less than the 35 percent who ever took up the supplement: no more than 25 percent received the supplement in any given month.

- **Most "nontakers" (those who did not take up the supplement) said they would be much better off financially if they were working full-time and receiving the supplement, but a variety of concerns and difficulties had kept them from doing so.**

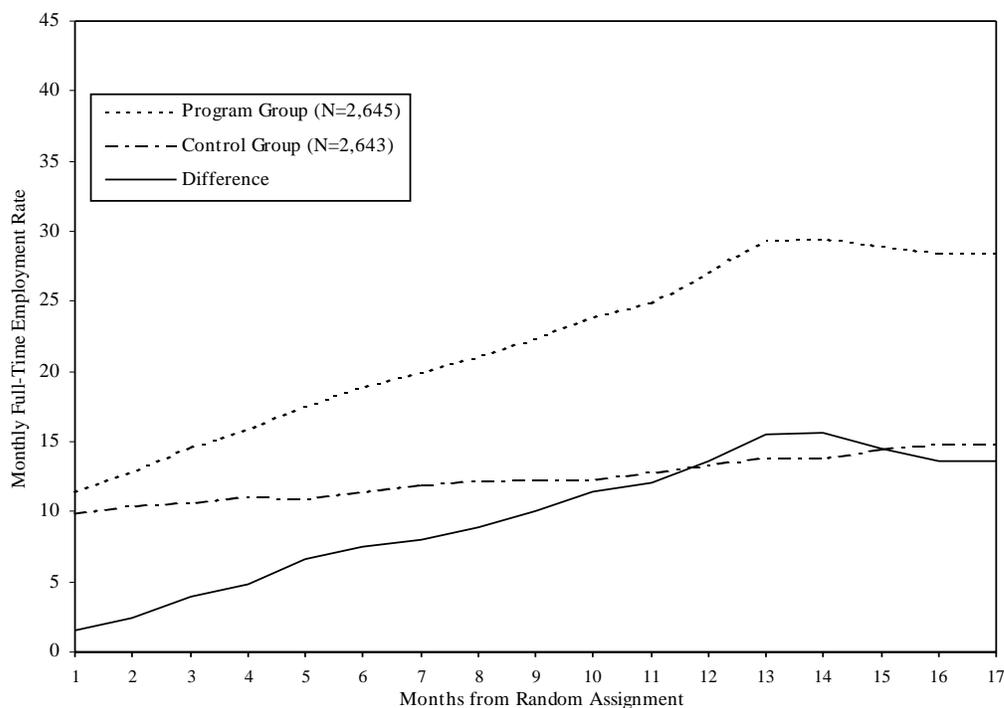
The most commonly mentioned reasons for not taking up the supplement were inability to find a job or to get enough hours of work (cited as the main reason by 43 percent of the nontakers), personal or family responsibilities (15 percent), and health problems or disabilities (14 percent). When asked, "If you could change one thing about SSP to make it a better program for you, what would it be?", 20 percent of the nontakers suggested that SSP should give people more than one year to find a job and qualify for the supplement, and another 12 percent suggested adding a job placement service.

## IMPACTS ON EMPLOYMENT AND INCOME ASSISTANCE RECEIPT

- **SSP increased full-time employment and reduced Income Assistance receipt among program group members. Estimated impacts were largest in the fifth and sixth quarters after random assignment. Impacts are expected to decline somewhat in the future.**

Figure 1 shows the full-time employment rates of the program and control groups and the difference between them — SSP’s estimated impact — during the first 17 months after random assignment. (The month in which random assignment occurred is labelled “month 1.” In this report, impacts on full-time employment are shown for months 1–17 because the employment data are incomplete beyond month 17; impacts on Income Assistance receipt are shown for months 1–18.) The control group line shows the gradual increase in full-time employment that would occur in the absence of SSP. The program group had substantially higher full-time employment rates; the estimated impact of SSP is shown by the solid line in the figure.

**Figure 1: Monthly Full-Time Employment Rates — Program and Control Groups**



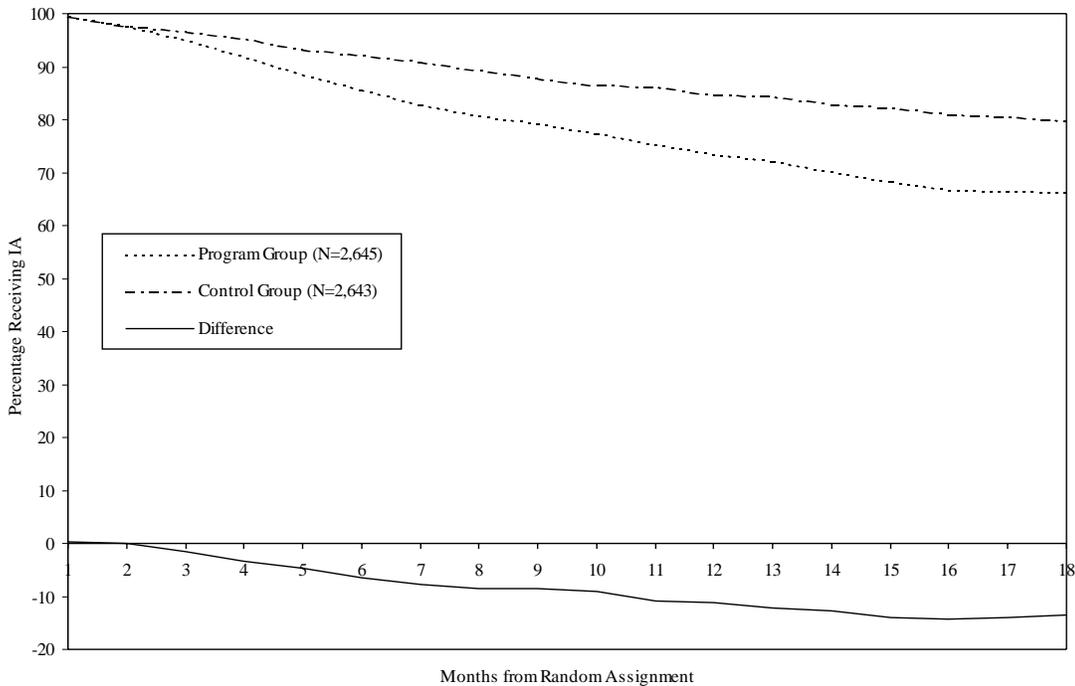
Source: Calculations from 18-month follow-up survey data.

During the first year after random assignment, SSP’s impact on full-time employment grew as an increasing number of program group members responded to the supplement offer. After the first year, no additional program group members could take advantage of the offer. SSP’s impact reached its peak in months 13 and 14 and then declined slightly, both because some people who had qualified for the supplement did not remain employed full-time, and because the control group’s full-time employment rate continued to rise — in other words,

over time, an increasing number of sample members would work full-time even in the absence of SSP.

Figure 2 shows the percentages of program and control group members receiving Income Assistance, and the estimated impact of SSP, during months 1–18. The percentage of control group members receiving Income Assistance declined steadily to 80 percent by month 18, illustrating the normal process of welfare dynamics: people leave welfare because they find work or increase their work hours, because they marry or reunite with their spouses, because their children grow up, or for other reasons. The percentage of program group members receiving Income Assistance declined even further. The solid line shows SSP’s estimated impact (i.e., the difference between program and control groups’ welfare receipt rate); the values are negative because SSP *reduced* Income Assistance receipt. Reductions in Income Assistance receipt tended to follow SSP’s impacts on full-time employment with a short lag, because Income Assistance payments were not terminated until after program group members had begun to receive both their paycheques from employment and their supplement cheques. As a result, the reduction in Income Assistance receipt due to SSP was largest in month 16, a few months after the impact on full-time employment reached its peak.

**Figure 2: Percentage Receiving Income Assistance — Program and Control Groups**



**Source:** Calculations from Income Assistance administrative records.

The remainder of this summary focuses on estimated impacts in quarters 5 and 6 (months 13–18) after random assignment. (Quarter 6 is represented by employment and earnings data for months 16–17 and Income Assistance data for months 16–18.) In future quarters, SSP’s impacts on employment and welfare receipt will probably not exceed those observed during quarters 5 and 6, because any program group member who wanted to take advantage of the supplement offer had to find full-time work by month 13 and leave Income Assistance shortly after. It is expected that impacts will decline somewhat as the control group continues to leave welfare for work, and thus begins to “catch up” with the program

group. At this point, it is not known how much of the impact will persist over time. Future reports will answer that question.

Table 1 presents the estimated impacts of SSP on full-time, part-time, and overall employment and on Income Assistance receipt in quarters 5 and 6.

**Table 1: SSP Impacts on Employment and Income Assistance Receipt, Quarters 5 and 6 After Random Assignment**

Outcome	Program Group (%)	Control Group (%)	Difference (Impact)
<b>Full-time employment rate<sup>a</sup></b>			
Quarter 5	29.3	14.0	15.2***
Quarter 6	28.5	14.8	13.7***
<b>Part-time employment rate<sup>b</sup></b>			
Quarter 5	11.7	13.9	-2.2**
Quarter 6	12.1	15.2	-3.2***
<b>Overall employment rate</b>			
Quarter 5	41.0	28.0	13.0***
Quarter 6	40.6	30.0	10.6***
<b>Percentage receiving Income Assistance</b>			
Quarter 5	70.2	83.2	-13.0***
Quarter 6	66.5	80.4	-13.9***

**Notes:** All estimates for quarter 5 are calculated by averaging the estimates for months 13, 14, and 15. Employment rates for quarter 6 are calculated by averaging the estimates for months 16 and 17. Percentages receiving Income Assistance in quarter 6 are calculated by averaging the estimates for months 16, 17, and 18.

A two-tailed t-test was applied to differences between the outcomes for the program and control groups. Statistical significance levels are indicated as: \* = 10 percent; \*\* = 5 percent; \*\*\* = 1 percent.

Rounding may cause slight discrepancies in sums and differences.

<sup>a</sup>"Full-time employment" is defined as working 30 hours per week in at least one week during the month.

<sup>b</sup>"Part-time employment" is defined as having some employment but no full-time employment during the month.

- **SSP doubled the full-time employment rate in quarter 5 and had almost as large an impact in quarter 6.**

In quarter 5, SSP increased the full-time employment rate by 15 percentage points: 29 percent of program group members were working at least 30 hours per week, more than double the control group rate of 14 percent. The estimated impact in quarter 6 was somewhat smaller but still substantial (14 percentage points).

- **Some of those receiving the supplement would have worked full-time anyway.**

Twenty-three percent of program group members worked full-time and received SSP supplement payments in quarter 5 (not shown in the table). However, the *impact* of SSP on full-time employment was smaller, 15 percentage points, implying that some of those who received the supplement would have worked full-time even in the absence of SSP. For them, the supplement can be termed a “windfall” — a reward for doing what they would have done anyway. Any program that offers financial rewards to promote work effort will give some people a windfall, in addition to possibly increasing the work effort of others. Windfall payments add to the cost of a program, but they also increase the incomes of the working poor and help make it more attractive to continue working than to depend primarily on welfare.

- **The size of SSP’s impact on full-time employment reflects the net result of two effects: more full-time employment among people who would otherwise not have worked at all and more full-time employment among people who would otherwise have worked only part-time. It appears that most of the impact on full-time employment was due to the first effect.**

In quarter 5, SSP increased the percentage who worked at all by 13 percentage points (moving people from nonemployment to full-time employment) and reduced the percentage working part-time by 2.2 percentage points (moving people from part-time to full-time employment). These two effects together resulted in a 15.2 percentage point increase in the full-time employment rate.

- **Impacts on employment in British Columbia and New Brunswick were generally similar.**

In quarter 5, the estimated impact on full-time employment was 15.2 percentage points in British Columbia and 15.3 percentage points in New Brunswick (not shown in Table 1). These results show that SSP was able to produce substantial impacts on full-time employment in two very different provincial settings and that welfare recipients could respond to financial incentives to work even in a region with high unemployment (New Brunswick, where the unemployment rate was 11.7 percent in 1996).

- **Most of the additional employment generated by SSP occurred at relatively low wages and at hours of work between 30 and 40 hours per week.**

The additional employment due to SSP — employment of people who would not have worked otherwise — appeared to be concentrated at wages between the minimum wage and \$1 or \$2 above the minimum. The program increased the percentage who worked between 30 and 40 hours per week, but had no discernible effect on the percentage working more than 40 hours per week.

With wage rates mainly between the minimum wage and \$1 or \$2 above the minimum and weekly hours of work mainly between 30 and 40, most of the program group members who went to work in response to the SSP offer had relatively low earnings — between \$800 and \$2,000 per month in British Columbia, and between \$600 and \$1,200 per month in New Brunswick. SSP made work financially attractive to these people, but whether impacts persist after the supplement ends will depend on the extent to which, in comparison with the control group, program group members are more likely to experience the following: (1) enough progression in wage rates to make work financially attractive even without the supplement, (2) increases in the weekly hours of employment they are able to obtain, and/or (3) changes in attitudes that strengthen their inclination to work.

- **SSP reduced Income Assistance receipt.**

As shown in Table 1, the average monthly percentages of program and control group members receiving Income Assistance in quarter 5 were 70 percent and 83 percent, respectively. Thus, SSP reduced Income Assistance receipt by an estimated 13 percentage points. In quarter 6, the estimated impact was slightly larger (a reduction of 14 percentage points).

- **SSP benefited a wide range of Income Assistance recipients, although impacts were somewhat larger for more employable people.**

SSP's impacts on full-time employment were spread quite evenly across a broad range of socioeconomic and demographic subgroups. By making work pay better than welfare, SSP increased the full-time employment rates of high school graduates as well as dropouts, those with and those without health barriers, those with young children and those without, those with much prior work experience, and those without recent work experience. Still, the impacts tended to be larger among people who appeared more job-ready (such as those with a high school diploma) or faced fewer barriers to employment (such as those without physical conditions limiting their activity). Table 2 presents the subgroup impact estimates on full-time employment among those subgroups for which the differences between subgroup impacts were statistically significant. (A "statistically significant" difference in subgroup impacts is one that would be unlikely to occur by chance in the absence of a real difference. When differences between subgroup impact estimates are *not* statistically significant, those differences could easily be due to chance and should not be regarded as evidence that impacts actually differed between the subgroups.)

**Table 2: SSP Impacts on Full-Time Employment, by Subgroup, Quarter 5**

Status at Baseline	Average Monthly Full-Time Employment Rate		
	Program Group (%)	Control Group (%)	Difference (Impact)
<b>Education and training</b>			
Has high school diploma or equivalent			
Yes	35.9	18.8	17.1***
No	23.6	10.1	13.5***
Enrolled in education/training at random assignment			
Yes	36.6	16.4	20.2***
No	28.1	13.7	14.4***
<b>Employment status at random assignment</b>			
Full-time	64.2	50.8	13.4***
Part-time	46.9	23.7	23.2***
Not employed, looking for work	32.0	15.1	16.9***
Neither employed nor looking for work	20.5	7.0	13.5***
<b>Availability of child care</b>			
If got job, could find trustworthy care			
Yes	31.8	14.6	17.2***
No	21.9	8.5	13.4***
No child care required	28.1	17.6	10.4***
<b>Work limitations</b>			
Reported physical condition that limited activity			
Yes	21.3	9.2	12.1***
No	31.9	15.7	16.2***
Working at random assignment	52.5	33.3	19.2***
Not working at random assignment and:			
Couldn't work due to illness/disability	14.7	5.4	9.3***
Illness/disability not a reason for not working	25.8	10.2	15.6***

**Notes:** The subgroups are defined according to characteristics at random assignment. Persons answering "don't know" to a particular question that contributed to defining a subgroup are excluded from the analysis of that subgroup. Average monthly full-time employment rate in quarter 5 is average of the percentages employed full-time in each of months 13–15. "Full-time employment" is defined as working 30 hours or more per week in at least one week during the month. A two-tailed t-test was applied to differences between the outcomes for the program and control groups. Statistical significance levels are indicated as: \* = 10 percent; \*\* = 5 percent; \*\*\* = 1 percent. Rounding may cause slight discrepancies in sums and differences.

## IMPACTS ON EARNINGS, NET TRANSFER PAYMENTS, AND INCOME

- **SSP generated an increase in net transfer payments.**

SSP reduced government spending on Income Assistance payments, but these savings were more than offset by the cost of the supplement payments. The main reason is that some people receiving the supplement would have left Income Assistance even in the absence of SSP. The program did not reduce Income Assistance payments to this group (since these would have been zero anyway) but did incur the cost of the supplement payments they received.

Estimated impacts on government transfer payments are shown in Table 3. In quarters 5 and 6, SSP reduced average Income Assistance payments by \$103 per month, while the cost of the supplement payments averaged \$196 per month. (The average includes zero amounts for program group members who did not receive supplement payments.) SSP also increased income tax revenue by a projected \$39 per month, because it added both the supplement payments and \$124 of increased monthly earnings to program group members' taxable income. (Supplement payments are taxable income, while Income Assistance is not.) As shown in row 5 of Table 3, the net increase in government expenditures on transfer payments was about \$55 per month per program group member (\$196 minus \$103 minus \$39).

**Table 3: SSP Impacts on Monthly Earnings, Net Transfer Payments, and Income, Quarters 5 and 6**

Outcome (in dollars per month)	Program Group (\$)	Control Group (\$)	Difference (Impact)
1. Earnings	347	222	124***
2. SSP supplement payments	196	0	196***
3. Income Assistance payments	621	723	-103***
4. Projected income taxes <sup>a</sup>	53	14	39***
5. Net transfer payments (i.e., public expenditures on SSP and IA payments, net of income tax revenue): row 2 + row 3 - row 4	764	709	55***
6. After-tax income from earnings, SSP, and Income Assistance: row 1 + row 2 + row 3 - row 4	1,111	932	179***

**Notes:** A two-tailed t-test was applied to differences between the outcomes for the program and control groups. Statistical significance levels are indicated as: \* = 10 percent; \*\* = 5 percent; \*\*\* = 1 percent.

Rounding may cause slight discrepancies in sums and differences.

<sup>a</sup>Income taxes were projected from federal and provincial tax schedules and data on earned and unearned income and SSP supplement payments; the actual taxes paid by sample members may differ from these projections.

- **Each dollar of additional net transfer payments from the government generated more than \$2 of increased earnings, adding up to more than \$3 of increased income for program group members.**

As noted above, SSP led program group members to earn an additional \$124 per month on average and provided supplement payments of \$196 (see Table 3). When this additional income was reduced by the \$103 of Income Assistance that program group members gave up and the additional \$39 in income tax that they had to pay, program group members gained about \$179 per month, on average (\$124 plus \$196 minus \$103 minus \$39), as shown in

row 6 of Table 3. This means that, during this period, every \$1 spent on additional transfer payments bought more than \$2 of increased earnings and led to more than \$3 of additional income for program group members. SSP thus stands in contrast to most income support programs, which carry a “leaky bucket”: a dollar spent on transfer payments typically results in less than a dollar of increased income for poor families, as the transfer income allows people to cut back on work, reducing their earnings.

These estimates provide only a short-term and incomplete picture of SSP’s effects on government budgets and program group members’ incomes. First, SSP also incurs other operational costs and is expected to have some effects on expenditures and revenues of other government programs. Second, SSP’s impacts on public expenditures and incomes are likely to change over time.

During the remainder of the three-year supplement period, the net cost of SSP to government budgets may rise or fall, depending on factors such as the size of reductions in Income Assistance payments and the fraction of supplement takers who continue to work full-time. After the three-year supplement time limit expires, SSP will no longer incur a cost to the government. If reductions in Income Assistance payments or increases in tax revenue persist, then the program will produce savings for the government that offset some, or possibly all, of the costs incurred during the supplement period. Thus, whether SSP increases or reduces government expenditures in the long run — and by how much — depends in large part on the extent to which supplement takers continue working and remain off welfare after the supplement expires.

SSP should continue to have a positive impact on program group members’ incomes during the remainder of the supplement period. After the supplement expires, the program’s impact on incomes could be positive, zero, or negative. The program could continue to have a positive impact on incomes if supplement takers’ earnings grow enough to make work pay better than welfare even without the supplement. On the other hand, SSP could have a negative impact on incomes if supplement takers remain off welfare but do not earn enough to make up for the loss of welfare payments.

Thus, the long-term benefits and costs of SSP are not known at this point. A benefit-cost analysis later in this evaluation will assess the cost-effectiveness of SSP from the perspectives of government budgets, program group members, and society as a whole, taking into account the issues discussed here.

## **IMPACTS OF SSP ON POVERTY, EXPENDITURES, AND LIVING CONDITIONS**

As seen earlier, SSP increased both the labour earnings and transfer income of participants. Table 4 shows that SSP increased program group members’ average family income (before taxes) by \$199 per month. (Family income was measured for the six months that immediately preceded the 18-month follow-up interview — approximately quarters 5 and 6 — and includes earnings, supplement payments, Income Assistance, other transfer income such as the Child Tax Benefit, and earnings of other family members.)

**Table 4: SSP Impacts on Monthly Income, Poverty, and Expenditures and on Assets at 18-Month Follow-Up Interview**

<b>Outcome</b>	<b>Program Group</b>	<b>Control Group</b>	<b>Difference (Impact)</b>
Family income per month <sup>a</sup>	\$1,486	\$1,286	199***
Percentage with low incomes <sup>b</sup>			
Below low-income cut-off	77.5%	89.8%	-12.2***
Below 50% of low-income cut-off	18.3	21.6	-3.3***
Monthly expenditures on			
Food	\$413	\$389	25***
Children's clothing	48	44	4***
Rent	470	461	9
Used food bank (last 3 months)	19.1%	21.1%	-2.0*
Asset holdings			
Saving account	50.8%	46.5%	4.4***
Chequing account	62.4	62.1	0.3
Registered Retirement Savings Plan	2.4	1.2	1.2***
Car	26.2	24.6	1.6

**Notes:** Sample sizes vary for individual measures because of missing values.

A two-tailed t-test was applied to differences between the outcomes for the program and control groups. Statistical significance levels are indicated as: \* = 10 percent; \*\* = 5 percent; \*\*\* = 1 percent.

Rounding may cause slight discrepancies in sums and differences.

<sup>a</sup>Family income includes earnings, Income Assistance and SSP payments, and all other sources of individual cash income (tax credits, other transfers, etc.), as well as earnings of other family members.

<sup>b</sup>Calculated by comparing annualized family income with the low-income cut-off defined by Statistics Canada for the sample member's location and family size.

- **SSP generated a significant anti-poverty effect.**

Among the control group members, 90 percent had incomes below Statistics Canada's low-income threshold, an indicator of family income needs that varies with family size and the population of the area of residence. By comparison, 78 percent of the program group had incomes below the threshold. Thus, SSP reduced the fraction of families with incomes below the low-income threshold by 12 percentage points — a significant anti-poverty effect. SSP also reduced the fraction of “very poor” families (those with incomes below 50 percent of the threshold) by 3 percentage points, as shown in Table 4. The reduction in the fraction of very poor families is a significant accomplishment, and suggests that SSP conveys measurable benefits even for families that would otherwise fall very far down the economic ladder.

- **Much of the additional income was used to increase spending on necessities.**

Program group members and their families spent about 20 percent of the additional income generated by SSP on three basic necessities — food, housing, and children's clothing — that together account for most household spending among single-parent families on Income Assistance. Another 20 percent was spent on higher taxes (not shown in Table 4). SSP also reduced the fraction of families who used a food bank to supplement their food spending.

As one might expect, spending patterns differed between different types of families. Larger families in New Brunswick, who are relatively disadvantaged in the absence of SSP, spent 22 percent of their SSP-related income gains on food alone. This rise in the food budget was accompanied by a 9 percentage point drop in the use of food banks, from 32 to

23 percent. These findings suggest that SSP helped working-poor families meet their basic needs.

- **Families appear to have saved some of the additional income.**

Given the time-limited nature of the supplement offer, one might expect families whose food and shelter needs were reasonably satisfied to save a portion of the extra income generated by SSP. Estimated impacts on asset holdings, shown in Table 4, support this expectation: SSP increased the fractions of program group members with a savings account and a registered retirement savings plan (RRSP).

## **POLICY IMPLICATIONS**

The early SSP findings have several important implications for policymakers interested in using financial incentives to encourage welfare recipients to go to work and eventually achieve economic self-sufficiency.

- **When tied to a substantial work requirement, financial incentives can help address three often conflicting goals of welfare reform: to increase work effort, to reduce poverty, and to reduce welfare dependence.** In the fifth and sixth quarters of follow-up, SSP approximately doubled the full-time employment rate, reduced the fraction of families living below the low-income cutoff by 12 percentage points, and reduced Income Assistance receipt by 13 to 14 percentage points. It should be kept in mind, however, that these estimates probably represent the peak of the program's impacts on employment and welfare receipt. Longer follow-up is needed to determine whether SSP's impacts persist through the remainder of the supplement period and after it ends.
- **Financial incentives are not a quick fix.** The additional employment generated by SSP occurred primarily at low wage rates. Supplement takers will need to achieve significant earnings growth in order for SSP's impacts on family income and poverty to continue after the supplement ends. Thus, it remains to be seen whether a temporary earnings supplement can have the long-run effects of increasing work and reducing poverty. If not, it is still possible that a longer-term supplement program could achieve these goals. The attractiveness of such a program would depend on whether the public views its costs as justified by the benefits of reducing poverty and moving people from traditional welfare programs to a work-based supplement.
- **Financial incentives cost money in the short run.** SSP incurred a net increase in government expenditures on transfer payments, mainly because it rewarded some people who would have left welfare anyway. It is not yet known whether part or all of these costs will be offset by reductions in welfare payments and increases in tax revenue after the supplement ends.
- **Financial incentives' increased costs buy a substantial improvement in well-being.** Participants used their increased income to buy food, children's clothes, and housing improvements, all basic necessities. They were able to reduce their dependence on food banks, and begin accumulating some assets.

- **Specific features of program design and implementation may be important to the effectiveness of a financial incentive program.** The objectives of providing a substantial work incentive, preventing reductions in work hours, and containing costs are reflected in SSP's benefit formula, 30-hour work requirement, one-year period to take advantage of the offer, three-year limit on supplement receipt, and restriction of eligibility to people who had been on welfare for at least 12 months. Most program group members were aware of and understood SSP's basic features. The program would not necessarily achieve the same results if its features were changed or if program group members were not as well-informed.

Future reports containing longer-term follow-up of sample members will determine whether SSP's early success in increasing earnings and income, reducing welfare receipt, and improving the well-being of single parents and their children can be sustained.

