



# **An Examination of Welfare Caseload Dynamics in California Using Administrative Micro-Data**

*Executive Summary*

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March 30, 2001

## **Prepared for:**

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## Executive Summary

The large welfare caseload declines experienced nationwide since the mid-1990s have stimulated a large body of research examining the determinants of caseload trends. In contrast to most of this research, which relies on *aggregate* caseload data, we use state administrative micro-data to examine California's welfare caseload trends since the late 1980s. This allows us to expand the analysis of welfare caseload trends in two important dimensions. First, we can identify the demographic characteristics of individual aid recipients, which will allow us to examine how the composition of California's welfare caseload has changed over the last 14 years, and help us to identify aspects of caseload dynamics that are hidden in aggregate numbers. In particular, we can assess whether under welfare reform certain groups are being "left behind" in the sense that they represent a growing share of the state's declining welfare caseload. Second, we can track individual aid recipients – and the cases they are associated with – over time, which allows us to broaden our understanding of welfare caseload dynamics by measuring entry and exit rates, changes in case composition, and intrastate migration of aid recipients.

These aspects of caseload dynamics have become more important in the context of welfare reform. For example, increased sanction activity under CalWORKs may cause changes in the composition of the state's welfare caseload, increasing the share of cases that are "child only;" and intrastate migration of aid recipients may have implications for the assessment of county "performance" in achieving welfare caseload reductions and in the ability of recipients to find jobs. Our analysis allows us to explore the effects of sanctions and intrastate migration on the caseload.

## Summary of Major Findings

Our review of caseload trends by ethnic groups provides evidence that the recession in the early 1990s may have had less of an impact on caseloads than we might have expected. Most of the increase in California's welfare caseload over the 1989-1995 period was due to increases in the child-only caseload. Most of the increase in the one- and two-parent caseload was due to a rise in Latino/Hispanic cases, which did not accelerate until two years after the state fell into recession in 1990. This acceleration, moreover, appears to be related to the end of the moratorium on aid receipt for individuals legalized under the Immigration Reform and Control Act (IRCA) of 1986.

One of the principal conclusions to be drawn from this report is that stratifying the aggregate welfare caseload into the three major sub-types reveals several important aspects of caseload dynamics that are hidden in aggregate numbers. Because the timing of the impact of IRCA coincides with the recession in the early 1990s, time series models of aggregate caseload trends that do not account for IRCA are likely to overstate the impact of the recession on caseload trends. Such models are then likely to overestimate the impact of improvements in economic conditions in the second half of the 1990s, and consequently *underestimate* the impact of welfare reform on caseloads during this period.

Since the mid-1990s, one-parent caseloads have fallen substantially, with reciprocity rates now below pre-recession levels for all ethnic groups. This finding suggests that the caseload declines observed since the mid-1990s cannot be entirely accounted for by improvements in economic conditions, given that unemployment and real low-end wages are currently comparable to levels observed in the late 1980s.

We argue that changes in real (inflation-adjusted) benefit levels and unwed birth rates, two factors that are known to influence welfare caseloads, are also unlikely to account for the historically low reciprocity rates achieved under CalWORKs. Although real benefit levels are currently below the levels observed in the late 1980s, the real earned income eligibility threshold for ongoing cases is now higher than in the pre-recession period because CalWORKs has a much more generous earned-income disregard than was in place under AFDC. Furthermore, California's unwed birth rate remained at historically high levels throughout the 1990s, which suggests that changes in fertility patterns are unlikely to have played an important role in causing welfare caseloads to decline in the second half of the 1990s.

In light of these considerations, it is likely that welfare reform has played an important role in reducing welfare reciprocity below historical levels in California. Of course, there are many potential mechanisms through which welfare reform may be affecting caseloads – by increasing the stigma associated with welfare receipt, by providing more effective employment services, by time limits encouraging adults to “bank” time on aid or discouraging potential recipients from applying for aid – and we cannot distinguish among these possible effects. We do note that sanction and time limit policies are unlikely to have had a large direct effect on caseload levels in California. This is because California has adopted partial rather than full-family grant sanctions, and has maintained CalWORKs eligibility for children beyond the five-year federal time limit on TANF receipt. Coupled with California's benefit structure, these policies result in a relatively small financial penalty, compared to most other states, for families under sanction or hitting time limits. Sanctions and time limits are likely to play a much more

important role in reducing welfare caseloads in states implementing full-family sanctions and hard time limits for all members of the TANF assistance unit.

Nevertheless, there is clear evidence of the effects of sanctioning policies under the CalWORKs Program. Specifically, we found a significant number of cases that shifted from aided-adult to child-only status in 1998 and 1999. In addition, we found an increase in child-only cases with very young children, which may be the result of sanctioning activity under CalWORKs, possibly because parents with very young children find it more difficult to participate in work programs.

In our review of the caseload trends as distinguished by cumulative time on aid, we found a trend toward a higher concentration of long-term recipients in the caseload between 1992 and 1999, supporting the hypothesis that short-term recipients tend to leave aid more rapidly than long-term recipients. Nevertheless, the number of long-term cases has declined since 1996, except among child-only cases where the number continued to grow until the beginning of 2000. We also noted an upturn in the number of long-term child-only cases in mid-1998, and evidence that long-term recipients are somewhat more likely to be sanctioned than other recipients.

Lastly, with respect to changes in caseload demographics, we found a trend toward a higher concentration of cases with older children. From the perspective of future program expenditures, this finding is significant. This trend would tend to result in lower expenditures as a higher proportion of cases “age out” of the program, and families remaining in the program have less of a need for child care.

In our review of entry and exit trends, we found that a disproportionately large share of the net case inflow between 1989 and 1995 was due to the net inflow of child-

only cases. The net inflow of one-parent cases – the largest segment of the total caseload – was relatively small during this period.

Since 1995, after we remove the effect of case-type transitions, there has been a net outflow of child-only cases, which was led initially by a decline in the number of entries into the program. This may have been due to several factors, including improvements in the economy, undocumented immigration patterns, and a behavioral response among immigrants to concerns about eligibility for cash aid after federal welfare reform. There was also a net outflow of cases among the one-parent and two-parent families, which – like the child-only cases – was led initially by a decline in the number of entries into the program.

In reviewing the migration pattern of cases between regions of the state, we found that the Bay Area and Los Angeles have had net outflows, particularly in the early and mid-1990s. This was probably due in part to high levels of immigration during this period, since Los Angeles and The Bay Area serve as major immigration receiving centers and many of these families subsequently relocate to other areas. We also found that child-only cases – which are primarily citizen children of undocumented immigrants – accounted for approximately 25 percent of the net outflows from Los Angeles. Another likely reason for the movement out of Los Angeles County and the Bay Area, particularly in recent years, is the relatively high cost of living (especially housing) in these areas.

### **Policy Implications**

The net outflows from Los Angeles and the Bay Area raise some concern from a policy standpoint in that unemployment has been relatively low in these regions,

compared to the rural areas. The key issue, in this respect, is the extent to which families on welfare are moving to areas where they do not have jobs and where their employment prospects are worse than they would be if they had stayed in their former county or moved to a different area where jobs are easier to find. Our findings provide some support for increasing the regional CalWORKs grant differentials, given that the high-grant/high-cost counties tend to be in those areas where unemployment has been lower. We note, in this respect, that the current grant differential (about 5 percent) does not come close to covering the differences in the cost of living between the large urban and the rural counties.

We also note, in conclusion, that further research would be warranted in some of these areas. For example, the trend toward a higher concentration of long-term recipients in the program is not a surprising one but raises questions as to how best to serve these families. What specifically are the characteristics of these cases and what are their barriers to employment? Do we need to allocate more resources on a per case basis to address their problems, or allocate existing resources in a different way?

Finally, with respect to our findings on the intrastate migration of cases, it would be helpful to document the lines of movement between migrating cases, in order to focus on the families moving to the rural counties (where unemployment is relatively high) and to determine whether program sanctions played a role in motivating their decisions to move and whether they obtained employment in their new location. We intend to explore these issues in future research.