

**Wisconsin Welfare Employment Experiments:  
An Evaluation of the WEJT and CWEP Programs**

by

**John Pawasarat  
Lois M. Quinn**

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**Employment and Training Institute, Division of Outreach and Continuing Education Extension,  
University of Wisconsin-Milwaukee, P.O. Box 413, Milwaukee, WI 53201. ~~(414) 229-4934.~~**

## Chapter Thirteen

### RACINE COUNTY'S VOLUNTEER EXPERIMENT

State legislation creating the original WEJT pilot project stipulated that one of the county-operated programs only enroll participants who volunteered. The original design of the Racine County experiment targeted single-parent AFDC cases with one child older than six months and under six years of age, where the client was not pregnant, not enrolled in school and not working more than twenty hours per week.<sup>1</sup> Initial efforts to recruit volunteers were less successful than anticipated and, as a result, WIN/WEOP participants already enrolled in training were incorporated into the WEJT population. Of the 1987 population, only two-thirds were volunteers while the balance were the WIN/WEOP participants previously enrolled in education and training programs.

Midway through the 1987 program year, staff changed the emphasis of the Racine program and instituted a system to offer financial rewards to county welfare income maintenance workers to increase the number of volunteers recruited from the target population. In addition to volunteers, mandatory WEOP participants enrolled in education and training programs were allowed to continue transferring to the WEJT voluntary program and all new AFDC recipients, regardless of WIN status, were recruited for participation in the program. These policy decisions resulted in a dramatic shift in the characteristics of the WEJT population. In 1987, 60 percent of the WEJT population consisted of one child, single-parent families as originally proposed, but by 1988 this population made up only 26 percent of the WEJT participants.

Racine County's heavy focus on investment in education and training programs was evident in both the percent of participants enrolled in education and training and in per-client costs which were by far the highest of any of the WEJT pilots. In 1987, 67 percent of participants were enrolled in education and training with a per-participant cost of \$2,060. By 1988, 73 percent of participants were enrolled in educational and training programs at a cost of \$2,703 per WEJT participant.

#### Statistical Testing Used

Multiple logistic regression was employed for the dependent variables OFF-AFDC (the percent of cases off AFDC) and OFF-EARN (the percent of cases off AFDC with quarterly earnings above \$2,500), which are discrete outcomes. The effects of the WEJT programs were estimated holding constant the control variables. Two logistic regression were performed, using the set of the population with no program and, where noted, using the set of participants in the traditional WIN/WEOP program. Because logistic regression does not provide estimates of the effect of an independent variable directly in units of the dependent variable, in the tables which follow the uncorrected percentages OFF-AFDC and OFF-EARN are presented. The asterisks which represent the significance test for program effect are presented next to the population

percents to which the WEJT program was compared. These significance tests are one tailed and based on the Chi Square statistics from the logistic regression.

Multiple linear regression was employed for the dependent variable EARNINGS (average quarterly earnings). The tables which follow present average earnings of WEJT participants and the two alternative comparison populations. These have an associated one-tailed two-sample t-test for difference in means. This test does not correct for the impact of the other independent variables. The regression estimate of the impact of the WEJT program in dollars, which does correct for the effect of the other independent variables, is presented in the tables as IMPACT EARNINGS for WEJT program participants versus each of the comparison groups. The significance test is a one-tailed t-test associated with the parameter in the multiple regression. In almost all cases, the test for IMPACT EARNINGS and the two-sample t-test lead to similar conclusions.

### **Impact Analysis of the Target Population**

The design of the Racine County program and recruiting techniques used during the second year of the program made it difficult to assess the impact of voluntary participation. Additionally, the introduction of AFDC clients already in training into the 1987 group may have influenced the effect of the voluntary program's impact. The evaluation attempted to correct for the contamination of the study population by applying the definition of the proposed target group population which focused on those not ordinarily required to participate in welfare work programs. To evaluate the impact of the program on the originally defined target group, analysis was limited only to those AFDC cases where there was a single parent with one child (ages one through five years) and eliminated WEJT participants with more than one child or older children, including most of the 1987 participants who had transferred into the program from WIN/WEOP and who had been already enrolled in education and training programs in 1986. The WEJT participants meeting the target population criterion (N=76) were compared against same population on AFDC but not enrolled in a welfare employment program.

A similar comparison was made for the 1988 AFDC population. It should be noted that in October 1988, state policy began requiring single parents with children ages two through five to be participants in AFDC employment programs. Starting in October 1988 single parents with younger children became subject to the mandatory requirement upon application for AFDC or at their six-month AFDC review, so that by March 1989, all single parent recipients with children aged two through five were required to participate in training or employment activities. As a result, 127 women fitting the target population were required to participate in mandatory WEOP activities, while almost half of the 115 WEJT program volunteers were in the newly mandatory population. As a second test of the impact of the voluntary WEJT program, the 1988 WEJT population was compared to those AFDC recipients enrolled in the regular WIN/WEOP program but meeting the single parent, one young child criterion. Comparisons between the WEJT and WIN/WEOP groups have several important limitations.

- Those clients volunteering to participate in welfare employment and training programs could be considered more motivated and as a result more likely to seek out employment as well.
- The October 1988 state change in rules for mandatory participation in employment programs resulted in most of the study population falling under the mandatory requirement subsequent to the phase-in of the policy.
- Increased funding levels through 1990 together with the elimination of the voluntary program in Calendar Year 1989 in Racine County made it likely that both the volunteer and comparison groups remaining on AFDC after 1988 would have been subject to similar treatments.

For the 1987 cohort, the WEJT target population showed significantly higher average earnings one year after the program and a significantly higher percent leaving AFDC with earnings above poverty level in Fourth Quarter of 1989. However, by the end of 1990, the 1987 WEJT target population showed no significant difference on any measure.

AFDC departure rates were substantially less for the 1988 WEJT population one year later when compared to WIN/WEOP mandatory participants and those not participating in any program. By the end of 1990, 1988 WEJT participants posted higher average earnings, with \$199 more in quarterly earnings than the comparison group of 1988 non-participants. However, when compared to 1988 AFDC recipients required to be mandatory participants under WIN/WEOP, there was no positive program impact on any of the measures.

**Test for Differences for Racine County Target Population  
(Single Parents With 1 Child Aged One Through Five)**

	1987 PARTICIPANTS		1988 PARTICIPANTS		
	<u>WEJT</u>	<u>No Program</u>	<u>WEJT</u>	<u>WIN/WEOP</u>	<u>No Program</u>
<b>4th Quarter 1988</b>					
Percent Off AFDC	32.9	32.9			
Percent Off AFDC With Earnings Greater Than \$2,500	9.2	8.6			
Average Earnings	\$982	\$754*			
Earnings Impact		\$146			
<b>4th Quarter 1989</b>					
Percent Off AFDC	48.7	46.2	21.7	36.2	40.0
Percent Off AFDC With Earnings Greater Than \$2,500	23.7	13.4**	7.8	15.0	10.3
Average Earnings	\$1,075	\$951	\$782	\$967	\$804
Earnings Impact		\$38		-\$89	-\$71
<b>4th Quarter 1990</b>					
Percent Off AFDC	55.3	53.9	44.3	53.5	45.5
Percent Off AFDC With Earnings Greater Than \$2,500	22.4	19.0	19.1	22.8	15.2
Average Earnings	\$1,333	\$1,208	\$1,285	\$1,340	\$1,038**
Earnings Impact		\$38		\$59	\$199*
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Number of Cases	76	781	115	127	585

\* Significant at the .10 level. \*\* Significant at the .05 level. \*\*\* Significant at the .01 level.  
Percent Off AFDC, Off AFDC With Earnings Greater Than \$2,500, and Average Earnings are unadjusted; Earnings Impact is a regression adjusted estimate. Significance levels are from the corresponding logit or regression models.  
Source: Analysis by Employment and Training Institute, University of Wisconsin-Milwaukee.

## **Analysis of Program Impact on the Larger Single Parent Population**

Decisions to shift the focus of the Racine County program to include AFDC cases outside the target group resulted in a much different population being served in 1988 than in 1987. The 1987 population included volunteers plus those AFDC recipients regardless of characteristics who were already enrolled in an education and training program in 1986 or 1987. This analysis examined the impact of the Racine County WEJT program on the broader population of all single parent households on AFDC in 1987 and 1988. When 1987 WEJT participants were compared to AFDC recipients in the regular WIN/WEOP program, the results were significant in follow-up periods in 1989 and 1990 on measures of increased earnings, but AFDC departure rates were not significantly different when compared to regular WIN/WEOP participants. Average earnings were \$285 and \$321 more for WEJT participants in 1989 and 1990 respectively when compared to regular WIN/WEOP participants. Average earnings for the 1987 single parent WEJT population were \$1,231 in Fourth Quarter of 1988, \$1,460 in the Fourth Quarter of 1989, and \$1,735 in the Fourth Quarter of 1990.

In 1988 Racine County expanded its WEJT population was expanded in three ways. First, all new AFDC applicants regardless of target status were recruited; second, a financial reward system for county workers was initiated to recruit more volunteers; and third, mandatory WEOP participants in training and education continued to be transferred to the program. Again, the evaluation compared the performance of 1988 WEJT participants to AFDC participants who were not active in any program and to clients active in the regular WIN/WEOP program.

The lack of positive outcomes for 1988 WEJT program participants are in stark contrast to the results for 1987 WEJT participants, and require further discussion. While the statistical analysis controlled for a number of important client characteristics (including last grade of school completed, number of children, race, age, AFDC history and in-migration to Wisconsin), it could not control for selection bias. The addition of WIN/WEOP populations outside of the target group who had already enrolled in education programs prior to 1987 may have been the reason the 1987 WEJT population performed well when compared to WIN/WEOP and to no treatment. 1987 WEJT clients, already in at least their second year of participation in education and training programs, could be expected to be more successful and more likely to leave AFDC with increased earnings, having had a much longer period of time to complete their training. By contrast, 1988 WEJT participants included those WIN/WEOP mandatory participants who were interested in pursuing training and transferred into WEJT to begin education or training services. This population could be expected to delay entry into the labor force in order to complete their training.

Recruitment techniques and selection policies may have also resulted in more difficult to serve clients being placed in WEJT training in 1988. A much larger percentage of the 1988 population was enrolled in remedial education activities (52 percent) compared with 38 percent of the 1987 WEJT participants. Furthermore, the overall percent of clients in any type of education or training program rose from 67 percent to 73 percent in 1988, and per-client costs rose from \$2,060 to \$2,703 in 1988, suggesting a much higher investment in training. As a

result of these serious selection problems, only limited conclusions can be drawn regarding the effectiveness of the voluntary program design or the actual program piloted in Racine County.

**Test for Differences in WEJT and WIN/WEOP Programs and No Treatment  
(All Single Parent Cases)**

	1987 PARTICIPANTS			1988 PARTICIPANTS		
	<u>WEJT</u>	<u>WEOP</u>	<u>No Program</u>	<u>WEJT</u>	<u>WEOP</u>	<u>No Program</u>
<b>4th Quarter 1988</b>						
Percent Off AFDC	36.5	36.8	31.6			
Percent Off AFDC With Earnings Greater Than \$2,500	15.9	10.9	8.9**			
Average Earnings	\$1,231	\$1,080	\$783***			
Earnings Impact		\$108	\$359***			
<b>4th Quarter 1989</b>						
Percent Off AFDC	52.4	52.1	42.2**	23.4	39.4	34.8
Percent Off AFDC With Earnings Greater Than \$2,500	30.2	17.8**	12.1***	6.5	13.7	9.4
Average Earnings	\$1,460	\$1,107**	\$868***	\$578	\$1,006	\$730
Earnings Impact		\$285**	\$461***		-\$341	-\$214
<b>4th Quarter 1990</b>						
Percent Off AFDC	61.9	59.1	49.3**	37.6	50.7	42.4
Percent Off AFDC With Earnings Greater Than \$2,500	34.1	23.3**	17.1***	14.0	21.0	14.2
Average Earnings	\$1,735	\$1,370**	\$1,121***	\$999	\$1,333	\$955
Earnings Impact		\$321**	\$442***		-\$278	-\$11
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Number of Cases	126	864	2,946	449	958	2,188

\* Significant at the .10 level. \*\* Significant at the .05 level. \*\*\* Significant at the .01 level.  
Percent Off AFDC, Off AFDC With Earnings Greater Than \$2,500, and Average Earnings are unadjusted; Earnings Impact is a regression adjusted estimate. Significance levels are from the corresponding logit or regression models.  
Source: Analysis by Employment and Training Institute, University of Wisconsin-Milwaukee.

## Summary

The effectiveness of a voluntary approach cannot be adequately evaluated using the Racine County experience. The failure to implement a voluntary program in Racine County as originally proposed and lack of a control population resulted in serious contamination and selection problems. In addition, the state introduction of a mandatory WEOP requirement in late 1988 for single parents with children ages two through five further limits the analysis. The analysis of the total single parent WEJT population showed that 1987 program participants outperformed those recipients in the WIN/WEOP program as well as those recipients not required to participate in any program, while the 1988 WEJT population showed no impact on any measure. Contamination problems in both years appear to have distorted the impacts of the voluntary approach piloted in Racine County. In 1987 non-volunteers completing their first or second year of education and training were included in the WEJT group, exaggerating the impact of the program model. In 1988 participants included a large population of mandatory clients, thereby diminishing the impact for the volunteer population.

The analysis which limited the study population to the originally proposed target group of single parent families with one child aged 1 to 5 provides a more accurate measure of the effectiveness of the voluntary approach piloted in Racine County. However, even this analysis is limited due to changes in state regulations requiring most of the voluntary population to become mandatory participants beginning in late 1988. While the 1987 volunteers posted higher average earnings in 1988 and a higher percent leaving AFDC with earnings above poverty in 1989, by the end of 1990 these volunteers showed no measurable impact over the comparison population. The 1988 voluntary population appeared to show modest success in increasing earnings compared to AFDC recipients not required to participate in any programs in 1987 and 1988, but there did not appear to be any impact when 1988 WEJT volunteers were compared to those mandatory participants with similar characteristics who were enrolled WIN/WEOP programs in 1988.

## Endnotes

1. Wisconsin Department of Health and Social Services, "Work Experience and Job Training Program: A Report on the Early Implementation Experience," (Madison, WI: DHSS Division of Policy and Budget Bureau of Evaluation, August, 1987), pp. 26-27.

## **Chapter Fourteen**

### **TIME SERIES ANALYSIS OF STATEWIDE WELFARE REFORM IMPACTS**

The federal waivers granted to the State of Wisconsin to conduct the welfare reform experiments required that the impact of these waivers on AFDC caseloads be calculated quarterly to determine the costs or savings attributable to the experiment. As discussed in another section of this evaluation, state officials deviated from the prescribed methodology in a number of ways which resulted in claims of dramatic savings mostly attributable to artificial projections of AFDC caseload increases. Federal officials required that economic conditions be considered in any calculation of caseload changes. The effect of the September 1987 six percent benefit cut is also considered in these calculations.

Analysis of statewide caseload reductions was conducted on the total population using the methodology prescribed by the federal government as part of the terms and conditions of the Wisconsin waiver experiment. Analysis controlled for the September 1987 six percent AFDC benefit reduction through the use of a dummy variable equal to "1" prior to the benefit cut and equal to "0" for all months after the cut. Monthly AFDC caseloads for the period beginning January 1984 were used to track caseload changes. Monthly state unemployment rates were used to predict the impact of the economy on fluctuations in the total AFDC caseload during and after the implementation of the waiver experiments beginning in October 1988.

The relationship between unemployment rates and caseloads was found to be direct and consistent over time. An analysis of trendlines revealed a lag in caseload effect whereby fluctuations in unemployment rates are mirrored one or two months later in caseload level changes. These lags are likely explained by the time delays required by the eligibility and application process for AFDC. Consequently, unemployment rates were lagged one month in the analysis.

State officials analyzed AFDC-U and AFDC-regular caseloads separately in their reported calculations of projected versus actual caseload trends. The separation of these populations assumes two distinctly separate caseloads which can be tracked over time. An examination of the relationship between cases in AFDC-U and AFDC-regular status, however, reveals substantial overlap, where as many as 25 percent of AFDC-U cases leaving AFDC in a given month become AFDC-regular cases in the subsequent month, as two-parent families revert to one-parent AFDC-regular families remaining on AFDC throughout. Similarly, many AFDC-regular cases become AFDC-U cases as the presence of a spouse is introduced into the AFDC benefit calculations. Further complicating the tracking of cases is the change in casehead status which occurs when two-parent AFDC-U cases which list the male spouse as the casehead revert to single parent AFDC-regular status and the female spouse becomes the casehead. As a result, a substantial number of cases in AFDC-U status appear to terminate AFDC based on the male spouse case data, but actually become new AFDC-regular cases under the female spouse's social security number. Use of separate analysis for the AFDC-U and AFDC-regular populations

produces results which exaggerate AFDC-U caseload declines while artificially diminishing economic effects on the AFDC-regular population. Consequently, the evaluation combined the AFDC-U and AFDC-regular populations for the analysis of caseload reductions over time, thereby eliminating fluctuations due to movement between the two case statuses.

### Specification and Estimation of the Model Used

Verification of the impact of the waiver experiment which began in October 1988 consists of two parts, 1) identification and estimation of the economic relationships underlying the AFDC caseload based upon the monthly time series data before the experimentation began, and 2) prediction of the case load values based upon the estimated parameters for the experimentation period. The expectation of this type of an experimentation is that it will reduce the AFDC caseload. Consistent with parameters defined by state officials, if the actual values are less than the predicted values by five percent or more in a given quarter, the experiment would be considered to have positively impacted caseloads and waiver savings would appropriately be claimed. If actual caseload values exceed the predicted values by five percent or more, the state would be required to report welfare costs. The estimation and the prediction procedures are described below.

Using an econometric approach, the AFDC caseload was expressed as a function of unemployment rate. The plot of raw monthly data on unemployment rate and the AFDC caseload indicated a lag of one month. A dummy variable, with a value of one through September 1987 and zero afterward, was also incorporated in the model to control for the six percent benefit cut. The specification of the model is as follows:

$$AFDC_t = \beta_1 + \beta_2 U_{t-1} + \beta_3 D_t + \epsilon_t \quad (2)$$

where  $U$  represents unemployment rate,  $D$  is the dummy variable as specified above,  $\epsilon$  is the error term representing the measurement errors and the omitted variables,  $t$  indicates the  $t$  th time period,  $\beta$ 's are parameters to be estimated.

This equation was estimated by the method of least squares with all standard assumptions on the error terms. Review of the plot of the least square residuals and value of the Durbin-Watson statistic indicate the presence of autocorrelation in the error term. This yielded unbiased but *inefficient* estimators. To remove autocorrelation from the error terms, the model was re-estimated assuming first-order autocorrelation in the error terms.

$$\epsilon_t = \rho \epsilon_{t-1} + v_t \quad (3)$$

where  $\rho$  is the autocorrelation coefficient and  $v_t$  is the error term that follows standard assumptions.

The Cochrane-Orcutt nonlinear estimation technique was used to estimate the revised model. The resulting estimated regression equation is as follows:

$$\text{AFDC}_t = 88,324.5^* + 72308.5^*M_{t-1} + 1721.89^*D_t \quad (4)$$

(16.99)
(3.87)
(2.11)

$$R^2 = 0.96, \quad \bar{R}^2 = 0.96, \quad \rho = 0.98$$

$$\text{D.W.} = 2.11, \quad N = 1984.01 \text{ to } 1988.09$$

The figures under the coefficients are t values and \* indicates significance. All coefficients have proper sign and are highly significant at the .05 level. Both the coefficient of determination ( $R^2$ ) and the adjusted coefficient of determination ( $\bar{R}^2$ ) are quite high. The Durbin-Watson statistic indicates no auto-correlation in the residuals.

Significance of the dummy variable indicates a structural shift. Up until September 1987 the expected caseload due to the dummy and the constant was 90,047 ( $88,325 + 1,722$ ) and after September 1987 the expected caseload was 88,325 (i.e. an average decline of 1,722 cases per month). The effect of unemployment rate was additive to this. The plot of the fitted values and the actual values, during this estimation period, is very close.

#### Predicted values for October 1988 to December 1990

The econometric estimate for the period January 1984 to September 1988 was used to predict the AFDC caseload for the period October 1988 to December 1990. The objective was to determine if the waiver experiment beginning October 1988 had any effect on AFDC. The predicted values are generated by the following equation:

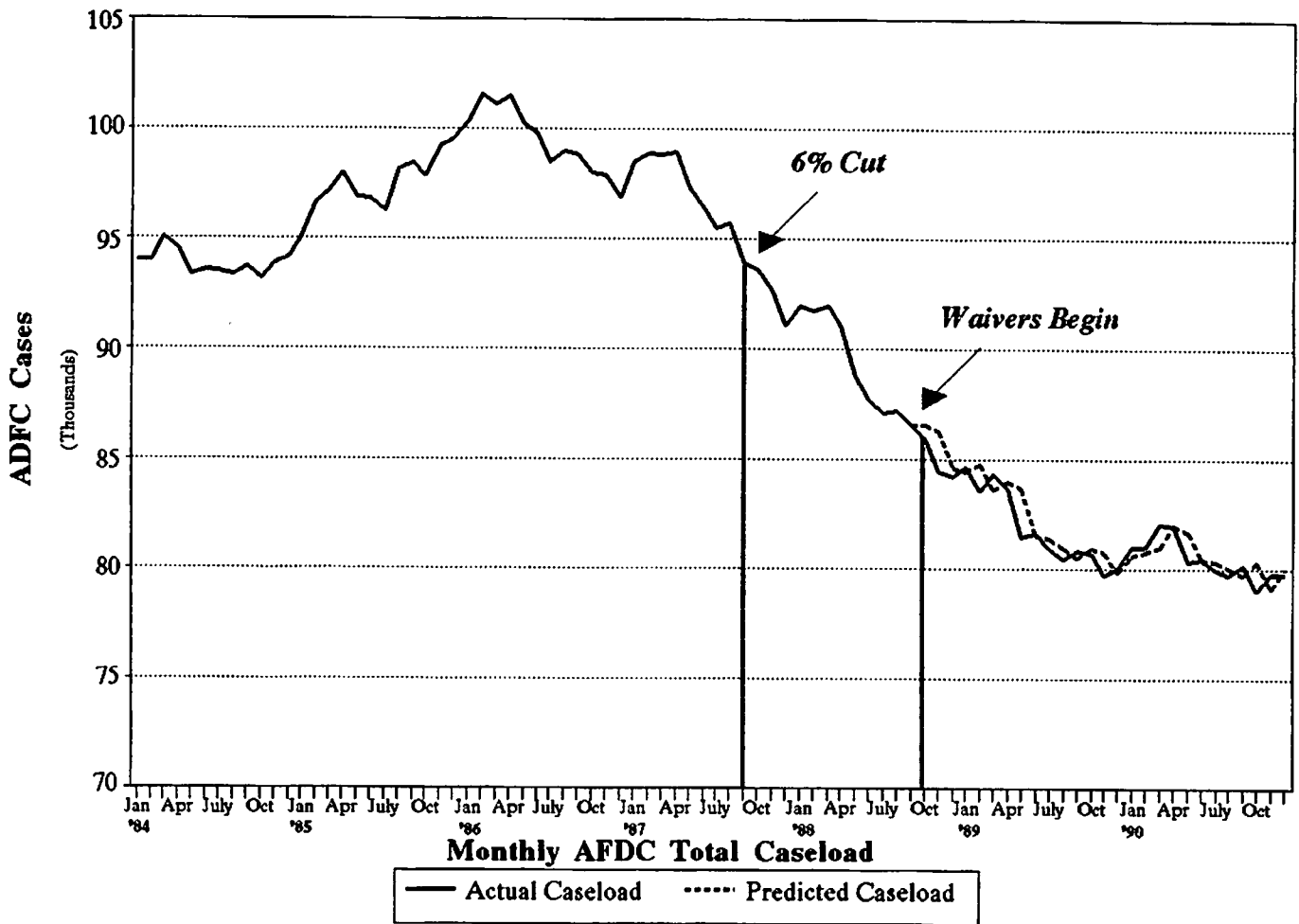
$$\text{AFDC}_t = \hat{\beta}_1(1-\hat{\rho}) + \hat{\beta}_2(U_{t-1} - \hat{\rho}U_{t-2}) + \hat{\beta}_3(D_t - \hat{\rho}D_{t-1}) + \hat{\rho}\text{AFDC}_{t-1} \quad (5)$$

where  $\hat{\cdot}$  over the parameters indicates estimated values.

The attached table provides the actual caseload, predicted values, and the prediction errors for October 1988 to December 1990. Of the 27 time periods, 20 have percentage errors of less than one percent, five periods have percentage errors between 1 and 2 percents, and only two periods have percentage errors of 2.08 and 2.69 percent. Thus, all prediction errors are substantially below the established norm of 5 percent. The attached graph also illustrates this point.

In conclusion, the econometric model constructed for the time period January 1984 to September 1988, predicted expected caseloads for October 1988 to December 1990 extremely well. This indicates that the model was very stable over the estimation and prediction periods and that the implementation of the waiver experiments and programs did *not* show reduced statewide AFDC caseloads.

## IMPACT OF WELFARE REFORM WAIVERS USING ECONOMETRIC MODEL



SOURCE: EMPLOYMENT AND TRAINING INSTITUTE UNIVERSITY OF WISCONSIN-MILWAUKEE

**RESULTS OF ECONOMETRIC MODEL  
USING AUTO REGRESSIVE CORRECTION  
CONTROLLING FOR ECONOMIC CHANGES AND THE 6% BENEFIT CUT**

<b>OBSERVATION PERIODS</b>	<b>ACTUAL CASELOAD</b>	<b>PREDICTED CASELOAD</b>	<b>PERCENT PREDICTION ERROR</b>
<b>October, 1988</b>	85,905	86,522	0.72%
<b>November</b>	84,454	86,208	2.08%
<b>December</b>	84,141	84,579	0.52%
<b>January, 1989</b>	84,621	84,414	-0.24%
<b>February</b>	83,506	84,751	1.49%
<b>March</b>	84,268	83,570	-0.83%
<b>April</b>	83,610	83,973	0.43%
<b>May</b>	81,449	83,643	2.69%
<b>June</b>	81,562	81,505	-0.07%
<b>July</b>	80,872	81,369	0.61%
<b>August</b>	80,419	80,867	0.56%
<b>September</b>	80,838	80,529	-0.38%
<b>October</b>	80,703	80,876	0.21%
<b>November</b>	79,704	80,756	1.32%
<b>December</b>	79,971	79,828	-0.18%
<b>January, 1990</b>	80,948	80,590	-0.44%
<b>February</b>	80,975	80,735	-0.30%
<b>March</b>	82,046	80,963	-1.32%
<b>April</b>	81,929	81,990	0.07%
<b>May</b>	80,310	81,666	1.69%
<b>June</b>	80,463	80,425	-0.05%
<b>July</b>	79,929	80,305	0.47%
<b>August</b>	79,693	80,016	0.41%
<b>September</b>	80,167	79,682	-0.60%
<b>October</b>	78,963	80,292	1.68%
<b>November</b>	79,791	79,123	-0.84%
<b>December</b>	79,798	79,982	0.23%

SOURCE: CASELOADS FROM STATE AFDC CHECK HISTORY FILE, PREDICTED CASELOADS BASED ON EMPLOYMENT AND TRAINING INSTITUTE UNIVERSITY OF WISCONSIN-MILWAUKEE ECONOMETRIC MODEL

## **Chapter Fifteen**

### **ANALYSIS OF MA EXTENSION AND 1/6 INCOME DISREGARD EXPERIMENTS**

Two of the more interesting yet little known experiments of the welfare reform package approved by the federal government in 1987 were directed at providing more AFDC and MA benefits to recipients as an incentive to work their way off AFDC and with the hope that fewer recipients would return to AFDC. When the federal government granted waivers for these incentive programs, they required the State to establish experimental and control groups and to report the quarterly costs and savings attributable to each experiment. The research design for the WEJT/CWEP evaluation required that the effect of these waivers be examined and controlled for in the analysis of the program impact of welfare employment and training programs. If either of these experiments resulted in AFDC caseload reductions or increased employment, the effect of these experiments would need to be incorporated into the impact analysis of the WEJT/CWEP evaluation.

#### **Background**

Under existing federal regulations medical benefits were automatically extended 4 months for cases which left AFDC due to excess earnings or hours worked. State policy makers argued that "the Medicaid health coverage is important to former welfare recipients because many have young children who tend to have significant health care needs, and most have jobs that offer minimal or no medical benefits."<sup>1</sup> As an incentive for AFDC recipients to seek and retain employment MA benefits would be extended to 12 months after a case left AFDC due to excess earnings or hours worked.

The original proposal to extend medical assistance an additional 8 months beyond what Federal law permitted, anticipated that such a policy would incur significant costs with only a possibility that such an approach would be cost effective. In their waiver request to the federal government state officials wrote, "The extended benefit period would give recipients more time to work their way into a job that offers a health care benefit, and may reduce the likelihood they will return to AFDC for purposes of receiving Medicaid coverage."<sup>2</sup> In May 1987 the Department of Health and Social Services estimated that the MA extension would cost \$7.8 million in the first biennium.<sup>3</sup>

A second waiver designed to provide employment incentives to AFDC recipients increased the length of time a person would remain on AFDC while working. Policy makers maintained that, "Under the current disregard system, working recipients often benefit from working only during the 4 months the current \$30 and 1/3 disregard is available. After that working recipients would often be better off economically if they did not work. This waiver triples the period of time general earned income disregards are available, delaying any drop in

the family's living standards. It extends to 12 months the period of time during which a welfare recipient's total income is higher if the person is working."<sup>4</sup>

State officials estimated that about 8,200 AFDC caseheads were using \$30 and 1/3 disregard in 1987.<sup>5</sup> It was the hope of policy makers that by extending AFDC benefits longer for those working they would "increase the likelihood a working recipient will have earned job benefits (including wage increases, medical insurance and seniority) that will help the recipient make the transition from AFDC to the workforce."<sup>6</sup>

However, both of these policies to provide employment incentives appear to have been based on the unfounded assumptions that welfare recipients return to AFDC for medical benefits once these benefits expire and that by extending AFDC and MA benefits recidivism would be less likely and as a result cost-effective. In fact, just prior to the release of the Welfare Reform Commission recommendations in May of 1987, DHSS analysts examined the behavior of cases with 4 month MA extensions to determine whether former AFDC recipients returned at the expiration of Medicaid coverage and found that no such tendency was evident from case records. Despite warnings from their own research analysts, state officials continued to press the federal government for approval of the MA waivers.<sup>7</sup>

Apparently the federal government was also very concerned that these waivers would result in increased costs rather than savings and initially required rigorous evaluation designs to monitor the costs and savings associated with these two experiments. Formal experimental and control groups were required to test the effectiveness of both sets of waivers. The federal waivers, approved on October 29, 1987, established strict conditions for hypothesis testing and required quarterly reporting on costs and savings. However, during the year following the federal approval of these waivers, DHSS officials continued to debate the necessity of conducting such an evaluation and pressured federal officials to eliminate the requirement for a control group. Both experiments were finally implemented in February 1989.

### **\$30 and 1/6 Earned Income Disregard Analysis**

To test the impact of the \$30 and 1/6 earned income disregard experiment, the state agreed to assign each AFDC case to control and experimental groups based on the second last digit of their social security number. The existing \$30 and 1/3 policy was to be compared to the impact of the \$30 and 1/6 policy. In addition to assignment based on the \$30 and 1/3 disregard and the \$30 and 1/6 disregard, cases were offered either 9 months or 12 months of medical extension for those cases which closed due to expiration of either disregard. In order to qualify for extended 9-month or 12-month MA benefits, individuals already receiving the earned income disregard or finding employment had to report their level of earnings to the welfare worker so that the caseworker could enter the reason for the case closing. If the reason listed for the case closing was expiration of the disregard, the case was entitled to 9- or 12-month MA extension as part of the experiment.

It was anticipated that the combination of offering both the 1/6 disregard and the 12-month MA extension would result in increased hours worked during AFDC and increased earnings and reduced AFDC recidivism after expiration of the disregard and MA extension. In order to test the impact of the 1/6 disregard experiment on increased earnings and reduced AFDC recidivism, the evaluators requested and received data identifying cases which left AFDC at the expiration of the 1/6 disregard or the 1/3 disregard.

Appropriately, federal officials appeared to have been concerned about the adequacy of the control group size for the \$30 and 1/6 earned income disregard experiment. State officials, unwilling to increase the AFDC population in control group status, successfully dismissed the issue maintaining there were more than enough cases for adequate statistical analysis. However, the issue of adequate size was essential to the analysis of the \$30 and 1/6 disregard experiment. Because many caseheads never bother to inform their workers of their level of income upon leaving AFDC, their cases were closed for "failure to report" rather than for the expiration of the income disregard. Consequently, these cases were ineligible for the MA extension and were not assigned codes for either the experimental or control population. Less than 1/4 of one percent of cases which left AFDC during the period studied were closed due to expiration of the income disregard. As a result, there were not sufficient numbers (10-20 per period) for statistical analysis of the disregard experiment because almost no one was in the study population.

In order to test the impact of the \$30 and 1/6 disregard on clients while receiving AFDC, the evaluators requested data identifying the AFDC population under the 1/6 earned income disregard policy and those under the 1/3 disregard policy. The state did not provide this data to the evaluators and as a result the evaluation could not analyze the possible effects of the experiment on this population.

### **Analysis of the Statewide Impact of the 12-Month MA Extension**

The MA extension experiment showed sufficient numbers for analysis but was limited by the short period of time in which the experiment was in operation. Delays and reluctance about the experiment on the part of the department resulted in a start-up date of February 1989. Prior to implementation the state had lobbied federal officials to allow them to operate the 12-month extension for all eligible cases without use of a randomly assigned control group. In December 1988, two months prior to the beginning of the experiment, state officials were successful in eliminating the requirement for a control group after April 1990 (when new federal policy would provide for a national 12-month MA extension), thereby reducing the experiment to 14 months.<sup>8</sup>

Before implementation of the MA extension experiment, all recipients were mailed a brochure with their monthly AFDC check explaining the availability of extended medical coverage for cases leaving AFDC due to excess earnings or hours worked, based on the second last digit of the casehead's social security number. Cases with a "1 to 9" digit were offered the 12-month MA extension while cases with a "0" were allowed the existing 4-month extension.

To assess the statewide impact of the experiment, the evaluation tracked all cases in both the experimental and control groups for eight quarters to establish actual medical and AFDC costs up to and including the 4th Quarter of 1990. Three cohort groups were established based on the quarter of their first departure from AFDC during the experiment. If cases returned and exited a second or third time they remained in the same cohort group, in order to insure that each cohort group was unique and not overlapping through the quarters of the experiment and follow-up period. Those cases leaving AFDC for at least one month during the First Quarter of 1989 made up the first partial group to fall under the experiment for at least a portion of the First Quarter of 1989 and allowed tracking for seven subsequent quarters. The second cohort group leaving in the 2nd Quarter of 1989 fell fully under the experiment as did the 3rd cohort group of cases leaving AFDC in the 3rd Quarter of 1989.

The effect of termination of medical coverage for the control group after 4 months and for the experimental group after 12 months was tracked for each of the three cohort groups. As a result, the experience of each cohort group includes at least one quarter of impact data after termination of the 12-month extension. The health insurance data used for this evaluation was based on the quarterly health care status and actual costs for each case. The health care status code indicated the control and experimental group assignment for each case over the course of the experiment. AFDC return rates reflected the proportion of the population on AFDC after their initial exit from AFDC due to increased earnings or hours worked. Average AFDC costs were calculated by dividing total quarterly AFDC costs of those returning to AFDC for each cohort group by the total number in the group. Average quarterly health care costs were calculated using the total quarterly expenditures for the case including costs for all adults and children. Earnings were the combined spousal and casehead quarterly wages gathered from the state employer wage reporting system.

To evaluate the impact of the experiment on the binary variables associated with AFDC return rates and employment rates, a two sample test for differences in proportions was performed. A two sample t-test was used for average earnings, AFDC costs, and health costs. Since it was hypothesized that the MA extension would have positive impacts on employment and welfare costs, the test statistics were evaluated by computing their one-tailed P-values.

Average health care costs for both groups indicated phase-out of medical coverage four months after exit from AFDC for control populations and twelve months after exit for experimental groups. The financial impact of extending medical coverage for an additional 8 months for the experimental group resulted in much higher MA costs. The anticipated impact on AFDC recidivism and costs was consistent with earlier DHSS studies which warned that AFDC recipients did not return to AFDC when their 4-month MA benefits expired. The return rates to AFDC were similar for both control and experimental groups in each cohort with half the population returning to AFDC the quarter after their first exit.

The impact of the MA 12-month extension resulted in the anticipated increases in medical costs without statistically significant declines in AFDC caseloads. The assumption of DHSS officials that the impact of the MA extension would only be felt 3 to 5 years later appears to be unfounded in light of the very high recidivism rates for both groups even during the period in which the 12-month extension was still in effect. While MA coverage may be very important to the well-being of these families, the termination of health benefits does not appear to be the reason for their return to AFDC nor does the extension of medical assistance an additional 8 months reduce AFDC recidivism.

The cost of offering extended MA benefits grew quarterly as additional quarters of the experimental group members became eligible for the 12 month extension of benefits until the First Quarter of 1990 when participation levels stabilized and the first cohort group began their exit from the first 12-month extension window. There was no precipitous increase in recidivism at either the 4 month expiration period for MA benefits for the control population or at the 12 month expiration for MA benefits for the experimental population. The sum of medical and AFDC costs is detailed for all strands of experimental and control group members for the 5 quarters during which the experiment was in full force and prior to the termination of the control group in April of 1990. Control group costs are increased to represent their proportion in the overall AFDC population by multiplying actual costs per quarter by the reciprocal of the fraction of the cases in the control population. The difference between the experimental group costs and the proportionate control group costs is the financial quarterly impact of extending the 12-month medical coverage. The associated costs for AFDC and MA are totaled to establish the overall cost effectiveness of the experiment. The costs of the MA extension grew to \$2.5 million per quarter when the experiment was in full force in the First Quarter of 1990, and totaled an estimated \$12.5 million for 1989 and 1990.

#### Estimated Net Costs or (Savings) for the MA Extension Experiment: 1989 and 1990

Net Costs or (Savings):	QUARTERS IN 1989:			QUARTERS IN 1990:			
	2nd	3rd	4th	1st	2nd	3rd	4th
MA	(47,160)	793,745	1,433,165	2,306,979	2,975,770	3,054,767	743,262
AFDC	<u>(4,238)</u>	<u>267,282</u>	<u>191,412</u>	<u>191,730</u>	<u>335,659</u>	<u>159,295</u>	<u>125,609</u>
TOTAL	(51,398)	1,061,027	1,624,577	2,498,709	3,311,429	3,214,062	868,871

Source: Analysis by the Employment and Training Institute, University of Wisconsin-Milwaukee.

# EARNED INCOME AND EXCESS HOURS MEDICAL EXTENSION EXPERIMENT

## AFDC AND HEALTH CARE COSTS

		1		2		3	
		LEAVING AFDC		LEAVING AFDC		LEAVING AFDC	
		1st Quarter 1989		2nd Quarter 1989		3rd Quarter 1989	
		Control	Experimental	Control	Experimental	Control	Experimental
Total on AFDC		9,332	82,232	9,249	81,341	9,085	80,165
Total Leaving in Quarter		1,828	11,237	1,476	13,371	1,547	13,392
Number in Experiment - State		128	1,324	437	4,176	382	3,502
PERCENT RETURNING TO AFDC	2nd Qtr '89	62	54 *				
	3rd Qtr '89	45	43	48	48		
	4th Qtr '89	38	38	42	43	49	47
	1st Qtr '90	33	35	44	42	47	46
	2nd Qtr '90	33	34	38	40	46	43
	3rd Qtr '90	29	33	35	36	40	38
	4th Qtr '90	27	31	32	34	37	35
AVERAGE QUARTERLY HEALTH COSTS	2nd Qtr '89	\$660	\$526				
	3rd Qtr '89	331	512	\$460	\$541		
	4th Qtr '89	393	536	316	531	\$510	\$537
	1st Qtr '90	475	559	442	579	369	602
	2nd Qtr '90	286	419	282	472	332	605
	3rd Qtr '90	377	503	436	520	615	661
	4th Qtr '90	316	291	304	345	455	366
AVERAGE QUARTERLY AFDC COSTS	2nd Qtr '89	\$271	\$227				
	3rd Qtr '89	263	254	\$291	\$322		
	4th Qtr '89	249	267	352	343	\$337	\$334
	1st Qtr '90	260	283	402	377	425	418
	2nd Qtr '90	283	288	358	354	433	409
	3rd Qtr '90	266	298	323	333	406	347 *
	4th Qtr '90	261	285	334	322	384	335

## LABOR FORCE PARTICIPATION AND EARNED INCOME

		1		2		3	
		LEAVING AFDC		LEAVING AFDC		LEAVING AFDC	
		1st Quarter 1989		2nd Quarter 1989		3rd Quarter 1989	
		Control	Experimental	Control	Experimental	Control	Experimental
Number in Experiment (Balance of State)		91	946	321	3051	267	2549
PERCENT WITH QUARTERLY EARNINGS	2nd Qtr '89	90	88				
	3rd Qtr '89	87	87	83	83		
	4th Qtr '89	81	82	79	79	82	81
	1st Qtr '90	80	82	76	76	72	76
	2nd Qtr '90	84	81	80	78	74	78
	3rd Qtr '90	86	80	79	78	75	79
	4th Qtr '90	79	80	79	77	73	77
AVERAGE QUARTERLY EARNED INCOME	2nd Qtr '89	\$2,111	\$2,143				
	3rd Qtr '89	2,152	2,264	\$2,189	\$2,078		
	4th Qtr '89	2,066	2,260	2,045	2,065	\$1,906	\$2,031
	1st Qtr '90	2,112	2,176	1,961	1,893	1,715	1,846
	2nd Qtr '90	2,238	2,380	2,279	2,134	1,901	2,127 *
	3rd Qtr '90	2,444	2,489	2,379	2,295	2,183	2,315
	4th Qtr '90	2,357	2,584	2,388	2,285	2,175	2,325

\* Significant at .05 level

\*\* Significant at .01 level

SOURCE: EMPLOYMENT AND TRAINING INSTITUTE UNIVERSITY OF WISCONSIN-MILWAUKEE

## Impact of the 12-Month MA Extension on Family Earnings

State officials and policy makers had hoped that the 12-month MA extension would result in greater labor force participation and increased earnings which would contribute to the cost effectiveness of the experiment and offset the anticipated increase in MA costs. For those cases in the balance of the state outside of Milwaukee County, earnings data for the casehead and spouse had been assembled for the evaluation of WEJT/CWEP programs and was combined with the MA extension data to gauge the labor force participation and earnings of cases in the MA experiment. Experimental and control cases for each of the three cohort groups were tracked to assess work history in subsequent quarters after initial departure from AFDC. The employment rate was measured using the percent of cases having any earned income in a given quarter. Average earnings were calculated using the combined spousal earned income for 2-parent families and the casehead earned income for one-spouse families.

While average earnings generally increased in subsequent quarters for both the experimental and control groups, only one experimental group showed significant impact on earnings for only one quarter of the quarters measured. High employment rates in the quarter after initial departure from AFDC were followed by lower rates of employment as the effects of recidivism took hold for both the experimental and control groups. The experimental group showed no measurable impact on the percent of cases with earnings in any period measured.

## Endnotes

1. Timothy Cullen to Tommy G. Thompson, "Report on Recommendations of the Governor's Welfare Reform Commission," May 22, 1987, p. 6.
2. Wisconsin Department of Health and Social Services, "Wisconsin Welfare Reform Package Section 1115(a) Waiver Application," May 1, 1987, p. 16.
3. Bob Lang to Members of the Joint Committee on Finance, "1987-89 Biennial Budget: Health and Social Services -- Employment and Training Programs for Recipients of Aid to Families with Dependent Children (AFDC)," Legislative Fiscal Bureau, May 14, 1987, p. 14.
4. Governor's Welfare Reform Commission Report, pp. 5 and 6.
5. *Ibid.*, p. 6.
6. *Ibid.*
7. "MA Extensions and AFDC Recidivism" memo, May 6, 1987.
8. Patricia A. Goodrich to Nancye Campbell, DHSS, December 2, 1988.

## Chapter Sixteen

### ANALYSIS OF REPORTED WAIVER SAVINGS ATTRIBUTABLE TO THE "WISCONSIN WELFARE REFORM DEMONSTRATION"

In October 1987, the Reagan Administration approved the series of waivers to the Social Security Act for the Wisconsin welfare demonstration programs. The DHSS contract required the evaluators to analyze and control for the effects of these waiver experiments. Waivers approved by the Family Support Administration included:

1. **Statenidness:** to allow the State to operate the demonstration differently in different geographic areas of the State;
2. **Employment/training registration:** to allow the State to require the parent or other relative of a child 3 months of age or over to register and participate in educational or employment and training activities;
3. **Employment/training registration:** to allow the State to require the other parent or caretaker in the home to register and participate in employment and training activities even when another parent/caretaker is registered or participating;
4. **Earned income disregards:** to allow the State to disregard the first \$30 of the total of such earned income not disregarded under any other clause plus one-sixth of the remainder;
5. **Earned income disregard:** to allow the State to apply the \$30 and one-sixth disregard for a period of 12-months; and
6. **Medicaid eligibility determination:** to allow the State to waive the requirement that eligibility for Medicaid beyond the 9-month period authorized under this section be redetermined monthly.<sup>1</sup>

The Health Care Financing Administration also approved waivers to:

1. **Waiver of Statewidness...**to permit the implementation of a randomized control group for the 12-month Medicaid extension, so that this extension is not implemented in the entire State.
2. **Waiver to permit 12-month extension of Medicaid after loss of AFDC eligibility due to earnings.**
3. **Waiver of Comparability...**to permit the State to provide the Medicaid extension only to participants in the demonstration.<sup>2</sup>

The waiver expanding the AFDC population subject to mandatory welfare employment registration was implemented in October 1988, while the medicaid extension and earned income disregard experiments began in February 1989.

The federal Department of Health and Human Services required that Wisconsin's demonstration project be cost neutral and included requirements that if federal costs for the demonstration approached calculated savings, the state "provide HHS an acceptable plan to assure that costs will not exceed savings or shall terminate the demonstration in accordance with the approved phase down plan."<sup>3</sup> If cumulative costs reached 95 percent of savings at the end of

any quarter in the first year or 100 percent of savings at any quarterly in the second or third year of the experiment, the phase out of the program was required immediately.

As a condition of granting waivers to Section 1115 of the Social Security Act, the federal government required the State of Wisconsin to agree to strict quarterly reporting of costs and savings "to assure that the federal government will not expend funds greater than would have been expended in the absence of the demonstration and that the State of Wisconsin remains entitled to federal financial participation in all costs related to this demonstration that are allowable AFDC or Medicaid costs."<sup>4</sup> The federal government further stipulated that because the Wisconsin waivers involved both Title IV-A and Title XIX, the demonstration would be jointly monitored by the Family Support Administration (FSA) and the Health Care Financing Administration (HCFA).

From the time of the submission of the Wisconsin waiver application, it appears that state and federal officials anticipated that the financial impact of these waivers would not be cost-neutral. In an action unrelated to the waiver application, the State of Wisconsin reduced the AFDC benefit level by six percent in October 1987. The Reagan Administration decided to allow Wisconsin to use the federal share of their 1987 benefit reductions to offset the anticipated federal costs of the demonstration. In the methodology approved by the federal government, future federal savings attributable to this six percent cut were included in federal waiver savings calculations, to offset increased federal costs anticipated due to the MA extension and the \$30 and 1/6 disregard. In September 1989 Wisconsin officials again acknowledged to the federal government that they anticipated increases in waiver costs due to implementation of the MA 12-month extension,<sup>5</sup> and federal staff remained convinced that federal savings from Wisconsin's six percent benefit reduction "would be sufficient to cover demonstration costs."<sup>6</sup> The terms of the waiver required the state to report quarterly costs and savings for each of the waivers and for the six percent cut using the following methodology.

3.1 The cumulative costs and the cumulative savings of the demonstration will be calculated as follows:

(a) Medicaid extension: The difference between the per capita Medicaid, AFDC, and Food Stamp costs for cases in control group (1) and the per capita Medicaid, AFDC, and Food Stamp costs for cases outside that control group constitute the per capita costs or savings of the Medicaid extension. Total costs or savings will be determined by multiplying those per capita costs or savings by the reciprocal of the fraction of the cases in the control group.

(b) Earned income disregard: The difference between the per capita AFDC, Medicaid, and Food Stamp costs for cases in control group (2) and the per capita AFDC, Medicaid, and Food Stamp costs for cases outside that control group constitute the per capita costs or savings of the \$30 plus one-sixth earned income disregard. Total costs or savings will be determined by multiplying those per capita costs or savings by the reciprocal of the fraction of the cases in the control group.

(c) AFDC benefit reduction: The savings resulting from the reduction in AFDC benefits will be calculated by multiplying the fraction 100/94 by the actual AFDC benefit expenditures and subtracting from that product the actual AFDC benefit expenditures ("gross savings"). From the Federal share of the savings so calculated, estimated increased costs to the Food Stamp Program and Housing subsidies will be subtracted as follows:

(i) Increased Food Stamp costs will be determined by multiplying the gross savings as calculated above by 0.28.

(ii) The estimated increase in housing subsidies resulting from the 6% AFDC benefit decrease will be calculated by using the most recent Quality Control sample data on the percentage of AFDC recipient households in subsidized housing multiplied by the average reduction in AFDC benefits per case due to the 6% benefit reduction. The resulting number will be multiplied by .3 (the estimated marginal change in rent subsidies for a change in AFDC) and the number of cases to obtain the increased federal subsidy costs. The method for calculating the increase in housing subsidies is subject to change if Wisconsin provides HHS information within 30 days demonstrating that a different method would be more appropriate for calculating the increase.

The net result of the calculation described in paragraph 3.1(c) will be the savings resulting from the reduction in AFDC benefits.

(d) Sanctions: Savings resulting from sanctions of caretaker relatives who are required to register for the WIN program solely as a result of the waiver but who fail to so register or otherwise participate will be recognized to the extent that the caretaker's eligible child continues to receive AFDC benefits as the caretaker's dependent.

(e) Other costs and savings: Wisconsin and HHS will within 90 days from receipt of this award in good faith develop methods for calculating costs or savings resulting from caseload changes due to the demonstration (including methods for adjusting for changes in economic conditions). When such methods are agreed upon by the parties, they will be used to recognize such costs and savings.<sup>7</sup>

The quarterly reports submitted by the State of Wisconsin showing costs and savings incurred under the demonstration did not follow the prescribed methodology detailed by the federal government. Instead, the reports submitted by state officials appear to have artificially inflated the savings and underestimated costs attributable to each of the waivers. Only in the calculation of the six percent non-waiver savings did the state follow the prescribed methodology. It does not appear that the state and federal government ever agreed to a methodology for calculating savings resulting from caseload reductions using methods which controlled for changes in economic conditions. In fact, the federal government repeatedly refused to accept the caseload model proposed by the state.<sup>8</sup> Had FSA and HCFA officials properly monitored and reviewed costs and savings according to the terms and conditions set forth in the waiver agreement, the allowable federal savings would have been but a fraction of the more than \$200 million claimed and \$148.4 million eventually awarded to the state for special projects and additional experiments. The methodology used by the state for the calculation of savings attributable to each of the waivers is detailed below.

## **Medicaid Extension**

The Medical Assistance (MA) extension waiver allowed Wisconsin to provide "a 12 month extension of Medical Assistance eligibility to all persons who lose AFDC eligibility due to excess earned income, hours of work, or the loss of the earned income disregards."<sup>9</sup> In May 1987 the Legislative Fiscal Bureau reported to Legislature that the state Department of Health and Social Services was estimating that the MA extension waiver would cost \$7.8 million in the first biennium, stating that "it is uncertain whether or not the federal agency will grant this request since it will result in increased federal expenditures."<sup>10</sup> Prior to implementation of the MA extension experiment, state officials also acknowledged to Family Support Administration

staff their expectation that this waiver would increase federal costs.<sup>11</sup> Yet in quarterly reports to the federal government state officials claimed immediate and dramatic savings for the MA extension experiment.

The state accounting of MA extension costs and savings appears to have deviated from the prescribed methodology in at least four ways. First, state reported quarterly costs did not include costs of payments for additional months of Medicaid coverage associated with the 8-month extension of benefits. Second, the state calculated MA savings attributable to the extension based on a comparison of costs for the total AFDC population (over 85,000 cases) rather than for the population using the extension (1,000 - 5,000 cases per quarter). Third, medical costs were derived totals rather than per capita as required by the waiver.

Fourth, the calculation was not made using the "reciprocal of the fraction of the cases in the control group," as required by the waiver. The control group for the MA extension included those cases with a "0" in the second to last digit of the casehead's social security number. (The \$30 plus 1/6 disregard control group included those cases with a "1" in the second to last digit.) Assuming a perfect distribution of social security digits, the reciprocal of the fraction in the MA extension control group would have resulted in a calculation based on a factor of 9. This was the calculation factor used by the state, with total AFDC, food stamps and MA costs for the control group multiplied by 9 to gauge the impact of the waiver experiment.

In fact, however, the distribution of cases with a "0" or "1" in the second to last digit of the caseheads' social security numbers was not even. Both the "0" and "1" control groups were over-represented in the AFDC population and during most quarters the "reciprocal of the fraction of the cases in the control group" was 8.8, the factor which should have been used in the calculation. Instead of reporting and using the appropriate proportion of cases in the control and experimental groups for each quarter, state officials multiplied by a factor of 9 and thus overestimated savings for all categories (AFDC, food stamps, and medical assistance) in all quarters of the experiment. Use of the factoring method specified by the waiver would have resulted in reports showing net costs, not savings, in two of the four quarters of the MA experiment. Instead of federal savings of \$15.6 million for the MA extension, which state officials reported to the federal department, state calculations would have shown total (state and federal) savings [before the costs shown below] for the MA experiment of only \$3.6 million.

These calculations do not, however, address another major requirement of the federal terms and conditions which was to report expenses incurred in providing families additional months of the MA extension. Analysis in this evaluation of the five cohorts of control and experimental groups using the methodology outlined in the preceding section estimated the cost of the MA extension to be \$11.3 million and the overall costs including MA and AFDC to be \$12.5 million.

In addition to state deviations from the agreed-upon methodology for calculating MA extension savings, there appear to be inaccuracies in amounts reported by the state for the 2nd Quarter 1989 for food stamps and AFDC, and for medical expenses for the control group in the

1st Quarter 1991. The figures for 2nd Quarter 1989 were shown in an estimated statement and no final statement was provided to the evaluators. Both AFDC and food stamp payments in this quarter exceeded total amounts reported for the benefit reduction on page one of the statement and were inconsistent with subsequent quarterly reported costs. In the 1st Quarter 1990 reported medical costs for the control group were inconsistent with previous trends and with comparative amounts for AFDC and food stamps within the same quarter, resulting in an inexplicable \$4.7 million increase in federal savings from the previous quarter for medical costs under the MA extension.

### **\$30 and 1/6 Earned Income Disregard**

In 1987 federal AFDC requirements allowed families with earned income to receive a grant level which "disregarded" \$30 plus one-third of their earnings for four months and \$30 for the next eight months. The demonstration waiver allowed Wisconsin to test the application of a new formula which allowed a \$30 and one-sixth disregard for twelve months. This change reduced the initial AFDC grant available to families with earned income while increasing the time working families could receive more than a \$30 disregard.

DHSS officials successfully lobbied Family Support Administration staff to allow Wisconsin's work requirement and Learnfare waivers to be initiated without establishment of control groups which could demonstrate whether federal costs increased under the experiments. However, the federal government required the state to use control groups for the MA extension and \$30 1/6 earned income disregard experiments -- programs both federal and state staff expected would likely increase federal welfare payments.<sup>12</sup> Establishment of these control groups required costly systems changes and by October 1988 (four months before the programs were scheduled for implementation) the state had already incurred \$97,000 in administrative expenses establishing computer systems for the experimental and control groups. Further, DHSS staff acknowledged, "It is questionable whether this 'scientific' experiment will produce statistically measurable results. The change in behavior which the control groups are supposed to show is difficult to measure and even more difficult to validly ascribe to the change in policy."<sup>13</sup>

Problems in state methods used to report savings for the \$30 and 1/6 disregard were similar to those for the calculation of costs and savings for the MA extension. First, while the number of cases using the 1/6 disregard ranged from 10,000 - 11,000 in a given quarter,<sup>14</sup> the number of cases which left AFDC due to the expiration of the \$30 and 1/6 disregard or the \$30 and 1/3 disregard did not exceed 500 for the four quarters examined. Yet the savings DHSS attributed to this very small population exceeded \$15 million due to use of a state method which calculated savings based on the entire population on AFDC in the state rather than those cases using the 1/3 or 1/6 disregard. Second, the control group for this experiment was also over-represented in the population and the calculations were again made by an arbitrary factor of 9 rather than the prescribed method.

It is difficult to imagine that the 1/6 disregard which, according to the Wisconsin waiver application, was "not intended to save benefit dollars directly"<sup>15</sup> could result in almost \$7 million federal savings in the first two quarters of the experiment and overall federal savings of \$15.9 million for the four quarters examined, as state officials reported to FSA and HCFA. The \$30 and 1/6 disregard formula results in a 2 percent net increase in AFDC payments over a 12 month period compared to the \$30 and 1/3 disregard, but only for recipients remaining on AFDC and eligible for the disregard for the entire 12 month period.<sup>16</sup> This evaluation reviewed the numbers of cases under the experiment, but the small number of participants under the income disregard exiting from AFDC in any quarter were too small to permit statistical analysis.

Furthermore, medical assistance costs for the control group in the 1st Quarter 1990 appear to be inaccurate as they were for the MA extension reported costs for this group. In the 4th Quarter 1989 state officials reported net federal costs of \$662,978 based on the performance of the control group compared to the remainder of the AFDC population while in the next quarter state officials reported that the performance of the control group showed an \$8 million net savings for the experiment.

### **Caseload Reductions**

The October 1987 waivers from the Family Support Administration required development within 90 days of an approved methodology for calculating any caseload reductions or increases resulting from the Wisconsin approved waivers. Since control groups were established to measure changes in AFDC costs resulting from the medical assistance extension and the earned disregard demonstration, these caseload reductions or increases would presumably result from the other demonstration waivers -- the work registration requirements for parents of young children and the second parent in a two-parent family. The waiver stipulated:

Wisconsin and HHS will within 90 days from receipt of this award in good faith develop methods for calculating costs or savings resulting from caseload changes due to the demonstration (including methods for adjusting for changes in economic conditions). When such methods are agreed upon by the parties, they will be used to recognize such costs and savings.<sup>17</sup> [emphasis added]

The state and federal government did not come to an agreement on a methodology for the calculation of caseload reductions within 90 days as required by the waiver agreement. As late as January 1991, the federal government continued to object to the methodology used by the state.<sup>18</sup>

The state devised a method to analyze the AFDC-regular and AFDC-U caseloads separately and to calculate changes over time which factored in quarterly state unemployment rates only for the AFDC-U population.<sup>19</sup> These state projections mirrored the actual AFDC-U caseload trends from 1988 through 1991, and the quarterly reports submitted to the federal government by state officials suggested that the Wisconsin welfare demonstration had little impact on reducing caseloads of AFDC-U families, with the economy apparent as the major factor in numbers of families receiving AFDC.

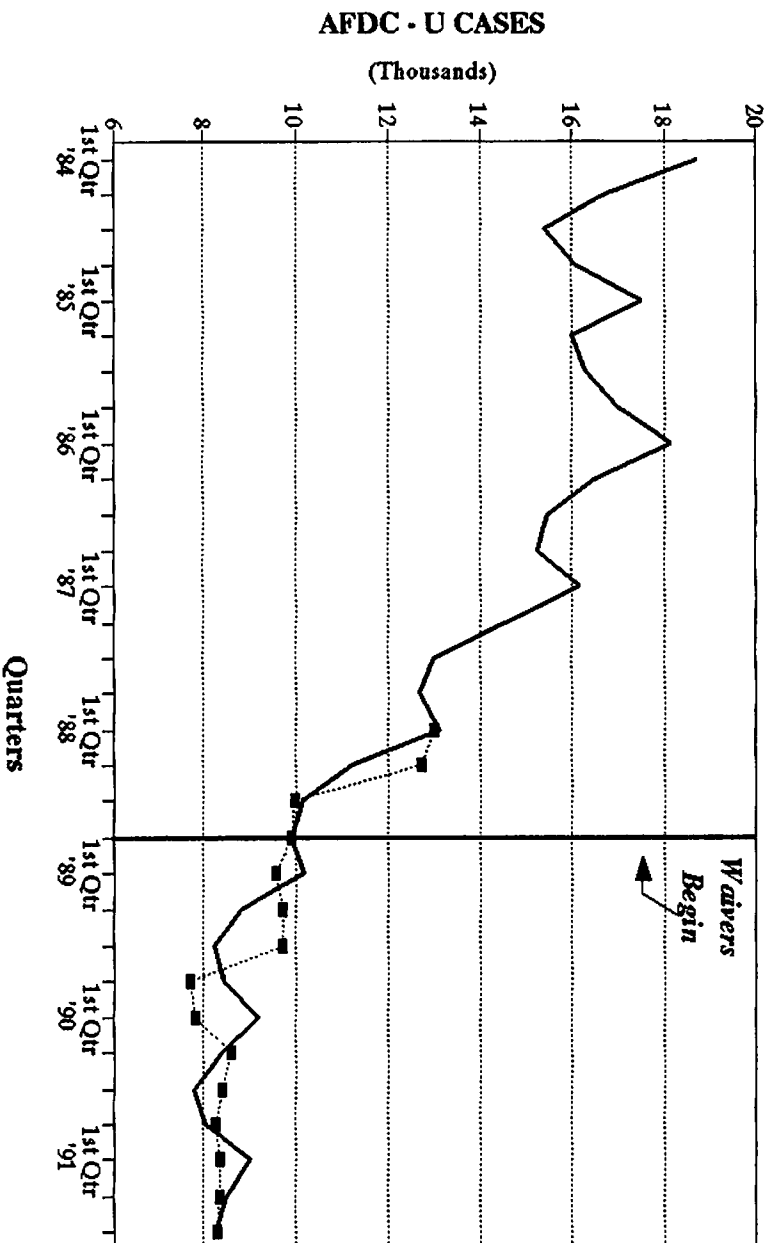
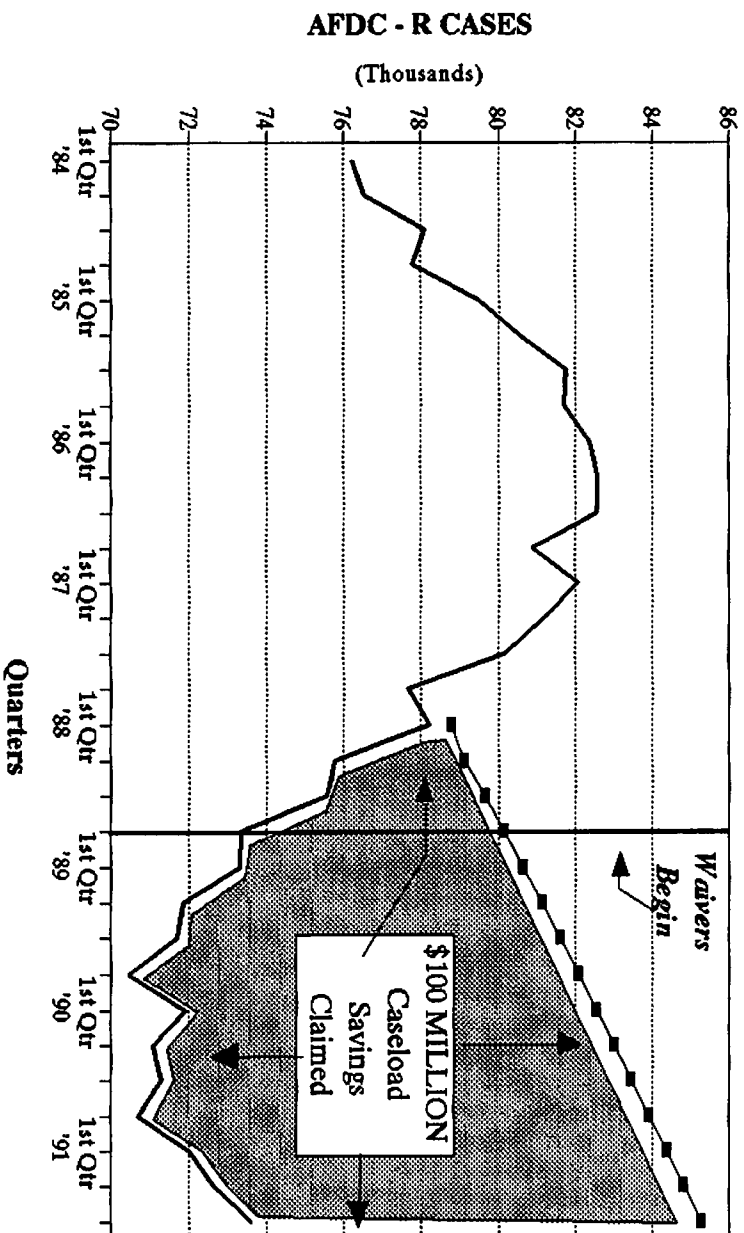
However, state officials did not follow the federal requirement to consider "changes in economic conditions" in projecting the number of AFDC-regular cases.<sup>20</sup> Consequently, in spite of measurable improvements in the Wisconsin economy in the late 1980's with AFDC-regular caseloads mirroring declines in the state unemployment rate, state officials projected large increases in the AFDC-regular caseload -- enabling them to claim \$280 million in reduced welfare costs due to caseload reductions and to report \$167 million, the federal portion, for "waiver savings."<sup>21</sup> The caseload projections developed by state DHSS officials for AFDC-regular and AFDC-U cases are shown in the following graphs.

The state's calculation of AFDC-regular caseload reductions appeared flawed in four ways. First, the calculations and formulas used to derive the caseload projections were based on actual caseload data for the period 1981 through September 1987 instead of the period 1981 through October 1988, when the work registration waivers were put into effect. During the four quarters following September 1987 and prior to the demonstration's implementation date of October 1988, the caseload for AFDC-regular cases continued its precipitous decline which would have adversely affected the state's projections. The 3rd Quarter 1987 caseload was 80,194 while the 4th Quarter 1988 caseload was 73,337.

Second, the auto regression model used to calculate the regular caseload did not control for the rapidly declining unemployment rate in the state which fell from 8.9 percent in February 1986 to 3.4 percent in September 1988. The federal waiver required that the state method used for calculating caseload reductions or increases include "methods for adjusting for changes in economic conditions," but state officials did not follow this requirement for the AFDC regular population. Third, the auto regression model did not control for the September 1987 six percent benefit reduction which reduced caseloads unrelated to the waiver demonstration. In Wisconsin's waiver application, the state had promised to control for immediate caseload and grant reductions resulting from the benefit cut.<sup>22</sup> Fourth, the waivers for work registration put in effect in October 1988 were designed to be phased in over a six month period and were not in full force until the 2nd Quarter 1989. The MA extension and 1/6 disregard waivers were put into effect on February 1, 1989. Arguably, the start date for measuring the effect of the waivers could be the 2nd Quarter of 1989, but in no case should it have been the September 1987 date.

As a result of flawed methodology, the model used by state officials projected AFDC-regular caseloads increasing throughout the experiment period, so that at the beginning of the waiver experiment in the 4th Quarter 1988 the state-projected caseload was 6,819 higher than the actual caseload of 73,337. Toward the end of the experiment in the 3rd Quarter 1991 the state's actual caseload was rising again. In fact, there were more cases on AFDC at the end of the third year of the experiment (73,616 cases in 3rd Quarter 1991) than at the beginning. For that quarter, however, state officials, using a linear projection model unrelated to the economy, estimated a projected minimum caseload of 85,237, for a reported reduction attributed to the waiver of 11,621 AFDC-regular cases. Not only did the state formula attribute all caseload reductions to the effect of the waivers by not controlling for the economy, it also created an imaginary caseload increase using a faulty projection methodology. As a result, the federal savings claimed by state officials and eventually paid by the federal government were attributable to the imaginary AFDC caseload increases created by the state's formula.

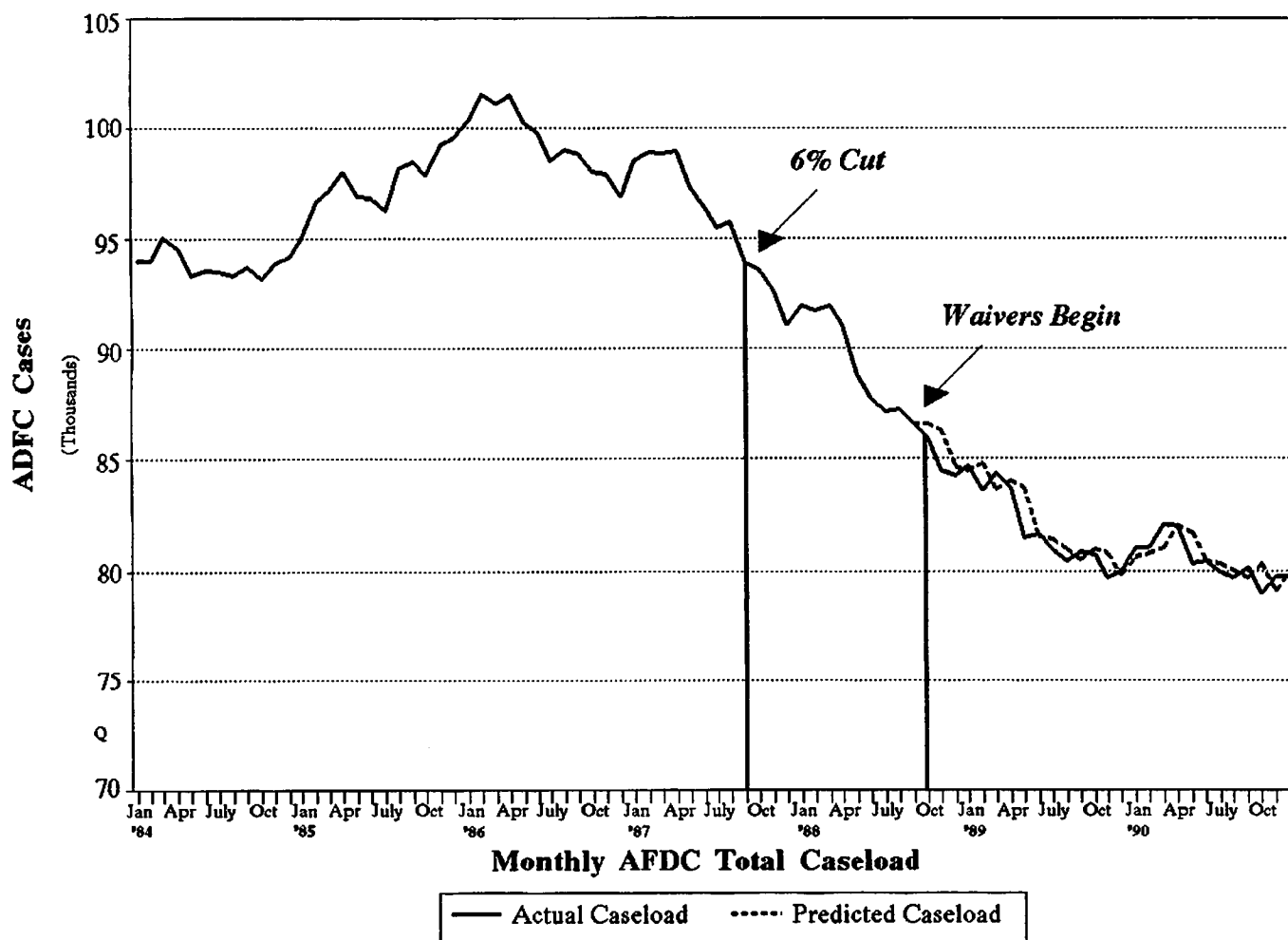
## DHSS PROJECTED CASELOAD TRENDS USED TO CLAIM WAIVER SAVINGS



Source: Caseload Data from State Income Maintenance Summaries of AFDC, Projections from State of Wisconsin Quarterly Savings Reports Submitted to the U.S. Department of Health and Human Services.

Using the type of auto regression model prescribed by the federal terms and conditions to control for the effects of lowering unemployment rates and the six percent cut on the AFDC population and using the actual beginning date of the waivers in October 1988, projected caseload trends show a decline rather than the state's projected increase. As a result, no waiver savings should have been claimed or paid. A full discussion of the caseload analysis is presented in another section of the evaluation report. The graph below shows the predicted AFDC caseloads using the methods prescribed by the federal waiver.

### IMPACT OF WELFARE REFORM WAIVERS USING ECONOMETRIC MODEL



SOURCE: EMPLOYMENT AND TRAINING INSTITUTE UNIVERSITY OF WISCONSIN-MILWAUKEE

**Total Welfare "Waiver Savings" Reported to the Federal Government by DHSS Officials**

State reports submitted to the federal government for the period January 1988 through December 1992 claimed over \$300 million in state and federal savings due to the three Wisconsin waiver experiments. The state also reported that from January 1988 through December 1992, the six percent AFDC benefit cut reduced state and federal payments to Wisconsin AFDC recipients by \$106 million. The federal portion of these reductions totaled an estimated \$45.7 million.<sup>23</sup> The table below shows the total federal waiver savings claimed by state officials in quarterly reports to the federal government.

## FEDERAL WAIVER SAVINGS CLAIMED BY THE STATE OF WISCONSIN

Quarters	6% Benefit Reduction	Caseload Reductions			Medical* Extension Experiment	Earned Income Experiment	Quarterly TOTAL	Cumulative TOTAL
		AFDC-R	AFDC-U	TOTAL				
1st Qtr, 1988	\$2,717,297	\$195,345	\$0	\$195,345			\$2,912,642	\$2,912,642
2nd Qtr	\$2,184,675	\$2,111,463	\$772,544	\$2,884,007			\$5,068,682	\$7,981,324
3rd Qtr	\$2,476,646	\$3,362,469	\$0	\$3,362,469			\$5,839,115	\$13,820,439
4th Qtr	\$2,301,179	\$4,994,000	\$113,187	\$5,107,187			\$7,408,366	\$21,228,805
1st Qtr, 1989	\$2,229,757	\$5,615,510	\$0	\$5,615,510			\$7,845,267	\$29,074,072
2nd Qtr	\$2,220,394	\$7,044,006	\$367,965	\$7,411,971	\$2,745,915	\$2,751,370	\$15,129,650	\$44,203,722
3rd Qtr	\$2,078,814	\$8,225,985	\$0	\$8,225,985	\$2,315,595	\$3,995,904	\$16,616,298	\$60,820,020
4th Qtr	\$2,101,590	\$9,129,860	\$0	\$9,129,860	\$2,991,377	\$93,915	\$14,316,742	\$75,136,762
1st Qtr, 1990	\$2,140,760	\$9,189,810	(\$292,143)	\$8,897,667	\$7,529,584	\$8,466,038	\$27,034,049	\$102,170,811
2nd Qtr	\$1,993,446	\$8,849,005	\$0	\$8,849,005		\$769,905	\$11,612,356	\$113,783,167
3rd Qtr	\$2,232,968	\$10,571,850	\$0	\$10,571,850		\$1,437,565	\$14,242,383	\$128,025,550
4th Qtr	\$2,155,341	\$10,536,973	\$571,277	\$11,108,250		\$2,059,413	\$15,323,004	\$143,348,554
1st Qtr, 1991	\$2,110,027	\$10,070,001	\$0	\$10,070,001		\$1,098,282	\$13,278,310	\$156,626,864
2nd Qtr	\$1,990,526	\$9,393,805	\$0	\$9,393,805		\$1,054,313	\$12,438,644	\$169,065,508
3rd Qtr	\$2,327,236	\$10,477,085	\$80,488	\$10,557,573		\$873,489	\$13,758,298	\$182,823,806
4th Qtr	\$2,519,592	\$10,397,269	\$0	\$10,397,269		\$1,034,130	\$12,916,861	\$195,740,667
1st Qtr, 1992	\$2,540,798	\$10,282,436	\$0	\$10,282,436		\$1,031,002	\$12,823,234	\$208,563,901
2nd Qtr	\$2,365,473	\$10,183,395	\$0	\$10,183,395		\$391,523	\$12,548,868	\$221,112,769
3rd Qtr	\$2,651,514	\$12,237,054	\$599,637	\$12,836,691		\$512,846	\$15,488,205	\$236,600,974
4th Qtr	\$2,450,746	\$12,493,244	\$390,355	\$12,883,599		\$397,091	\$15,334,345	\$251,935,319
<b>TOTALS</b>	<b>\$45,788,779</b>	<b>\$165,360,565</b>	<b>\$2,603,310</b>	<b>\$167,963,875</b>	<b>\$15,582,471</b>	<b>\$25,966,786</b>	<b>\$251,935,319</b>	<b>\$251,935,319</b>

\* The Medical Extension Control Group was removed effective April, 1990.

SOURCE: STATE OF WISCONSIN QUARTERLY STATEMENTS OF WELFARE REFORM WAIVERS' COSTS AND SAVINGS

## **Federal Approval for Wisconsin to Spend Its Welfare "Savings"**

The methodology outlined for calculation of costs and savings under the Wisconsin welfare demonstration was designed to protect the federal government from increased Wisconsin welfare costs resulting from the state experiments. However, with the state's underestimates of costs for the medical extension and income disregard programs and faulty methodology used to calculate caseload reductions, DHSS reports showed very large "savings" accruing due to Wisconsin programs and state officials began pressuring the Reagan Administration to give Wisconsin these monies. In Fall 1988, before the work registration, earned income disregard and MA extension experiments had been implemented, White House staff agreed to provide Wisconsin with federal funds from their reported "waiver savings" to spend on welfare-related projects and experiments, urging Wisconsin officials to present a package to the federal staff "prior to the change in the administration" for one-time rather than ongoing funds.<sup>24</sup> However, Wisconsin's December 1988 proposals for funding were rejected by Family Support Administration staff who insisted on control group comparisons and rigorous evaluations of proposed projects and also requested submission of the state's methodology for calculating the six percent benefit savings.<sup>25</sup>

The first federal approvals for use of waiver savings money to fund special Wisconsin projects came on June 27, 1989, when the Family Support Administration approved at a 50 federal match rate education and training activities (\$6 million), a Racine/Washington County Pilot (\$2.5 million), a Milwaukee YWCA Pilot (\$2 million) and a Milwaukee Crossroads Pilot for Learnfare sanctioned teen parents (\$2 million).<sup>26</sup> The projects did not appear to have received much federal scrutiny. Two of the projects had received negative internal DHSS staff reviews which reported that the proposals were "top heavy with expensive professional staff and equipment and light on direct services to clients...In general, neither of the proposals appears to be well developed or clearly presented..."<sup>27</sup> The reviewer further observed: "Proposals with staff budgets rounded off to the nearest \$100,000 do not inspire much confidence that rigorous analysis has occurred."<sup>28</sup>

Federal waiver savings awarded to the State of Wisconsin far exceeded the state's share of federal JOBS funds for FY91 which was \$23.3 million out of \$591 million obligated nationally.<sup>29</sup> By Fall 1991, drawing on the state's reported waiver savings, the Bush Administration had approved use of \$78,443,687 in additional federal funds for discretionary special projects in Wisconsin. On September 1, 1992, the federal Department of Health and Human Services approved a lump sum \$70 million award for additional welfare savings, bringing the total federal funds available to Wisconsin officials for special projects and new welfare experiments to \$148,443,687. The September 1st terms and conditions specified that "the State agrees that it will not request further consideration of Federal savings from any component of the Wisconsin Welfare Reform Demonstration except as specified in Section 4 of the Parental and Family Responsibility Demonstration or except as related to new demonstrations that are Federally approved after this date."<sup>30</sup>

The table below shows the costs/savings of the three Wisconsin waiver experiments, using the methodology required by the federal waivers compared to the costs/savings reported to the federal government by DHSS officials. The evaluation data calls into question the \$148.4 million in federal "waiver savings" awarded to Wisconsin as of September 1992.

#### Estimated Cost Impact of Wisconsin Waiver Experiments

<u>Waiver Experiment</u>	<u>Federal Waiver Savings Reported by State Officials</u>	<u>Evaluation Study Findings</u>
Work registration (AFDC caseload reduction)	\$168 million savings reported by December, 1992.	No measurable savings using method prescribed by the federal waivers.
MA Extension	\$15.6 million savings	\$12.5 million estimated costs, including \$7.4 million federal costs.
\$30 and 1/6 income disregard	\$25.9 million savings	No welfare savings: number of cases leaving AFDC under program too few for statistical analysis.

Source: Quarterly Reports Submitted to the U.S. Department of Health and Human Services by the Wisconsin Department of Health and Social Services for the Period First Quarter 1988 through Fourth Quarter 1992; Evaluation Analysis by Employment and Training Institute, University of Wisconsin-Milwaukee.

In July 1993 federal officials reported that \$78.4 million of the "waiver savings" was based on state reports of federal savings for the MA extension and income disregard experiments and for reported federal savings from Wisconsin's six percent AFDC benefit reduction. Federal officials reported that they could not locate documentation for the methodology used to determine an additional \$70 million in "waiver savings" awarded on September 1, 1992, by the previous federal administration.<sup>31</sup>

## Endnotes

1. Otis R. Bowen to Timothy Cullen, "Department of Health and Human Services Family Support Administration Section 1115 - Office of Family Assistance Waivers" and "Department of Health and Human Services Health Care Financing Administration Section 1115 Office of Research and Demonstrations Waivers," Grant No.: 11-P-99154/4-01, October 29, 1987, p. ii.
2. Waivers, p. iii.
3. Waivers, p. 5.
4. Waivers, cover letter.
5. Silvia R. Jackson to Gary Ashcraft, DHSS, September 11, 1989.
6. Mack A. Storrs to Patricia Goodrich, DHSS, December 8, 1989.
7. Waivers, pp. 2-4.
8. Gary D. Ashcraft to Silvia R. Jackson, DHSS, August 15, 1989; Mack A. Storrs to Patricia A. Goodrich, DHSS, December 8, 1989; Gary D. Ashcraft to Silvia R. Jackson, DHSS, January 8, 1991.
9. Wisconsin Department of Health and Social Services, "Wisconsin Welfare Reform Package Section 1115(a) Waiver Application," May 1, 1987, p. 17.
10. Bob Lang to Members of Joint Committee on Finance, "1987-89 Biennial Budget: Health and Social Services -- Employment and Training Programs for Recipients of Aid to Families with Dependent Children (AFDC)," Legislative Fiscal Bureau, May 14, 1987, p. 14.
11. Silvia Jackson to Gary Ashcraft, DHSS, September 11, 1989.
12. Mary Henning to Susan Felker-Donsing, DHSS, September 3, 1987.
13. "\$30 and 1/6 and MA Extension Waivers Meet the New Federal Welfare Reform Legislation: A Continuing Saga," Minutes of the Waivers Workgroup Meeting, DHSS, October 14, 1988, p. 2.
14. Wisconsin Department of Health and Social Services, Monthly AFDC Summaries.
15. DHSS Waiver Application, p. 70.
16. Legislative Fiscal Bureau, "Aid to Families with Dependent Children, Information Paper #49," (Madison, WI) January 1989.
17. Waivers, p. 4.
18. Gary D. Ashcraft to Sylvia Jackson, DHSS, January 8, 1991.
19. For a discussion of the methodology used, see Minutes of Welfare Reform Oversight Committee, DHSS, January 25, 1988 and February 8, 1988.
20. DHSS described the formula for estimating AFDC-regular caseloads described as follows: "For the AFDC-Regular caseload, time and OBRA (policy changes) will be the only variables used in the forecasting model." Minutes of the Welfare Reform Oversight Committee, DHSS, January 25, 1988.
21. Department of Health and Social Services Quarterly Reports submitted to the U.S. Department of Health and Human Services for the period January 1988 through December 1992. In some cases the evaluators were provided only preliminary reports, which may differ from final figures for the quarter.

22. DHSS Waiver Application, pp. 50, 54.
23. The federal share of savings on the AFDC benefit reduction is smaller due to increased costs of food stamps (100 percent federally funded).
24. Minutes of the Welfare Reform Oversight Committee, DHSS, September 19, 1988 and October 17, 1988; Alan Fish to Patricia A. Goodrich, "Welfare Reform Waiver Discussion in Washington D.C.," DHSS, October 14, 1988.
25. Minutes of the Welfare Reform Oversight Committee, DHSS, January 9, 1989.
26. Catherine Bertini to Patricia Goodrich, DHSS, June 27, 1989.
27. Alan Fish to Patricia Goodrich, DHSS, February 14, 1989.
28. Alan Fish to Eloise Anderson, DHSS, February 6, 1989.
29. Mark Greenberg, "Welfare Reform on a Budget: What's Happening in JOBS" (Washington, D.C.: Center for Law and Social Policy, June, 1992), Appendix D, pp. 1-2.
30. Jo Anne B. Barnhart to Gerald Whitburn, September 1, 1992.
31. Laurence J. Love to John Pawasarat, July 21, 1993.