
4-1-2010

Unemployment after Welfare Reform

Christopher J. O'Leary

W.E. Upjohn Institute for Employment Research, oleary@upjohn.org

Upjohn Author(s) ORCID Identifier:

 <https://orcid.org/0000-0002-3372-7527>

Follow this and additional works at: https://research.upjohn.org/empl_research



Part of the [Labor Economics Commons](#), and the [Social Welfare Commons](#)

Citation

O'Leary, Christopher J. 2010. "Unemployment after Welfare Reform." *Employment Research* 17(2): 1-4.
[https://doi.org/10.17848/1075-8445.17\(2\)-1](https://doi.org/10.17848/1075-8445.17(2)-1)

This title is brought to you by the Upjohn Institute. For more information, please contact repository@upjohn.org.

UPJOHN INSTITUTE

Employment Research

APRIL 2010

In this issue . . .

Christopher J. O'Leary
Unemployment after
Welfare Reform



Joel P. Trachtman
The Political Economy
of International Labor
Migration Law



New and Recent Books

Vol. 17, No. 2

Employment Research is published quarterly by the W.E. Upjohn Institute for Employment Research. Issues appear in January, April, July, and October.

The Institute is a nonprofit, independent research organization devoted to finding and promoting solutions to employment-related problems at the international, national, state, and local levels. The Institute is an activity of the W.E. Upjohn Unemployment Trustee Corporation, which was established in 1932 to administer a fund set aside by Dr. W.E. Upjohn, founder of the Upjohn Company, to conduct research on the causes and effects of unemployment and seek measures for the alleviation of the hardships suffered by the unemployed.

W.E. Upjohn Institute
for Employment Research
300 S. Westnedge Avenue
Kalamazoo, MI 49007-4686
(269) 343-5541
www.upjohn.org

Randall W. Eberts
President

Christopher J. O'Leary

Unemployment after Welfare Reform

The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 changed welfare in the United States by establishing Temporary Assistance for Needy Families (TANF). This law introduced lifetime limits and work requirements for continued TANF benefit eligibility. With employment the key to making TANF work, two public employment programs are expected to help maintain labor force participation during periods of joblessness: unemployment insurance (UI), which provides temporary partial wage replacement to the involuntarily unemployed, and the Employment Service (ES), which provides job-matching services for job seekers and employers.

The Upjohn Institute recently evaluated the use of UI and ES by recent TANF leavers, based on program administrative data from four of the nine largest states ranked by population size (O'Leary and Kline 2008, forthcoming). We examined the incidence of unemployment and the rates of UI application, eligibility, and benefit receipt. We also studied the correlation between UI receipt, ES participation, and self-sufficiency for recent TANF leavers.

Characteristics of Unemployed TANF Leavers

Our study used administrative data from Florida, Georgia, Michigan,

and Ohio. Panels were constructed based on all adult TANF leavers in the administrative data during time frames that varied somewhat across the states. Data from all four states included the year 2000, however. The panels were constructed to have at least 12 calendar quarters of data after TANF exit to observe UI and ES program use and labor market transitions. The data for analysis included a total of 322,036 adults leaving TANF for employment.

Among TANF leavers in the four-state pooled sample, 253,189 (79 percent) experienced a new spell of unemployment within three years. The demographic characteristics of the UI applicants among the unemployed included 34 percent youths (18–24) and 58 percent prime-age persons (25–44); 82 percent females; 37 percent whites, 60 percent African Americans, and 2 percent Hispanics. In nominal dollars, quarterly earnings among all newly unemployed TANF leavers averaged over the three years before TANF exit were \$1,414, and average quarterly earnings from TANF exit to the new spell of unemployment were \$1,772.

UI Application

In times of normal labor market conditions, the UI application rate for Americans ranges between two-thirds and three-quarters of all the jobless. Among the 253,189 newly unemployed TANF leavers in the pooled four-state

sample, 61,458 applied for UI, yielding a mean UI application rate in the pooled sample of 24 percent. That means less than one-quarter of all newly unemployed TANF leavers applied for UI benefits. Compared to nonapplicants, TANF leavers who applied for UI included higher proportions of people who are prime aged, are African American, have dependent children, have higher earnings before UI application, have more prior work experience, and have prior employment in construction, manufacturing, wholesale trade, or administration.¹ Higher UI application rates were also observed in areas with higher or faster-rising unemployment. The more than 75 percent of newly unemployed TANF leavers who failed to apply for UI were more likely to be young and white, and to have lower earnings before a new spell of unemployment, fewer calendar quarters with employment before TANF exit, and recent prior employment in the industries of retail trade, educational service, health care, or hospitality.

UI Eligibility

Unemployment insurance eligibility rules ensure that beneficiaries are strongly attached to the labor force and are temporarily jobless involuntarily and through no fault of their own. To initially qualify for UI, a claimant must have sufficient prior earnings and employment—these are called monetary eligibility conditions. For the year 2000, base-period earnings requirements in the four states ranged from \$1,872 in Georgia to \$3,400 in Florida. Nonmonetary eligibility rules prohibit quits and discharge for misconduct or other causes justifiable by an employer. Employer discharge for cause is usually related to frequent tardiness, unexplained absences, misconduct, or poor job performance. For the year 2000, base-period earnings requirements in the four states studied ranged from \$1,872 in Georgia to \$3,400 in Florida. Table 1 compares results from our study to evidence from previous research.

Among TANF leavers who became newly unemployed and applied for UI

benefits, 87 percent were initially eligible for UI based on monetary requirements in the four-state pooled data. Those meeting monetary eligibility conditions were more likely to be male, prime aged, highly educated, have prior employment in the industries of wholesale trade and real estate, and less likely to have been employed in retail trade. Previous studies estimate monetary eligibility in the range of 75–90 percent (Table 1).

The rate of nonmonetary eligibility was estimated to be 44 percent. Among newly unemployed TANF leavers who applied for UI benefits, those meeting nonmonetary eligibility requirements had larger sample proportions of males, Hispanics, and those with higher educational attainment. For TANF leavers, higher rates of voluntary job quits and employer justified dismissals resulted in lower rates of nonmonetary eligibility. Among newly unemployed

Our data suggest that application for UI is a pathway to reemployment services, even if cash UI benefits are not forthcoming

TANF leavers who applied for UI, 17 percent quit their prior jobs while 33 percent were fired. Within these groups, those who quit had larger sample proportions of females; whites; members of the industry groups retail trade, hotels and restaurants, and health care; and members of services occupations. Those who were discharged were more likely to be young, female, and African American, and to have had prior employment in the industries of retail trade; finance, insurance, and real estate; health care; and hotels and restaurants. Previous studies estimate nonmonetary eligibility in the range of 25–40 percent (Table 1). These studies also cite voluntary quits and employer discharges as likely reasons for failure of nonmonetary eligibility rules.

UI Benefit Receipt

Among TANF leavers who were UI applicants in the sample pooled across

four states, the proportion receiving UI benefits was 50 percent. This rate is higher than the overall nonmonetary eligibility rate because benefit denials can be appealed and the periods of entitlement suspension are limited. In these four states denial penalties range from 6 to 17 weeks in a 52-week benefit year. Among TANF leavers who qualified for UI, mean weekly benefit amounts were \$159, mean entitled durations of UI benefits were 19.6 weeks, and on average 74.6 percent of entitled UI benefits were drawn. Mean UI payments were \$2,442 over the full benefit year, or a mean of 14.5 weeks of UI at the average weekly benefit amount for this sample. Benefit entitlements were fully exhausted by 53 percent of TANF-leaver UI beneficiaries, which is a higher rate of UI benefit exhaustion than among UI beneficiaries not recently involved with TANF in the same time frame. TANF leaver UI beneficiaries are more likely to be older, male, white, and Hispanic, with higher proportions from the construction and manufacturing industries and smaller proportions from the retail trade, health care, and hospitality industries. By occupation, UI recipients included higher proportions from management, professional, and production occupations and smaller proportions from service occupations. A previous study of New Jersey welfare leavers estimated a beneficiary rate of 56 percent among UI applicants (Rangarajan, Razafindrakoto, and Corson 2002).

UI and Self-Sufficiency

A goal of UI as social insurance is to prevent descent into poverty by those who are temporarily jobless through no fault of their own. We examine self-sufficiency in the sense of return to employment and independence from TANF cash assistance. Of the 241,719 newly unemployed TANF leavers in the four-state pooled sample, those who received UI benefits returned to employment at a slightly higher rate than those who did not receive benefits (74 percent versus 73 percent). Furthermore, UI beneficiaries returned to TANF at a significantly lower rate (30 percent)

Table 1 Survey of Estimates for Welfare Leavers of Percentage Rates for UI Eligibility and Benefit Receipt

Authors	Samples	Monetarily UI eligible	Nonmonetarily UI eligible	Beneficiary of UI
Gustafson and Levine (1997)	National Longitudinal Survey of Youth. Data from 1979 to 1994 on 43,913 job separations, including 4,213 by AFDC leavers.	Up to 85	About 25	About 10
Vroman (1998)	Data for 1996 UI state wage and earnings, state UI reciprocity and eligibility rates, for part-time minimum wage jobs.	—	—	Up to 20
Holzer (2000)	Data on 1997–1999 employment and earnings of hired welfare recipients in a survey of 3,000 employers in four large American cities.	—	—	Under 30
Kaye (2001)	Survey of Program Dynamics data for the year 2000 on 56,000 persons. Simulated UI eligibility for those at risk of welfare receipt.	81	36	25
Rangarajan, Razafindrakoto, and Corson (2002)	New Jersey data from the Work First NJ evaluation tracking 2,000 TANF beneficiaries in the 18 months starting July 1997.	75	40	56
Rangarajan and Razafindrakoto (2004)	National Evaluation of Welfare-to-Work grants in 5 metropolitan counties. TANF leavers, September 1999 to August 2000. Metro sample sizes from 1,000 to 15,000.	90	—	—
O’Leary and Kline (2008)	State program administrative data for UI, ES, and TANF between 1996 and 2002. State (number of calendar quarters): Florida (10), Georgia (23), Michigan (5), and Ohio (6). Combined sample size: 322,036.	87	44	50

NOTE: — = not available.

than did nonbeneficiaries (45 percent). Among TANF leavers who applied for UI benefits, controlling for observable characteristics in econometric models, those who received UI returned to employment at a rate higher by 4.8 percentage points and returned to TANF at a rate lower by 10.5 percentage points.

Use of the Employment Service

One-stop career centers operating under the Workforce Investment Act deliver reemployment services divided into three increasing levels of service: core, intensive, and training. Core and intensive services at one-stops are often delivered by the ES with Wagner-Peyser Act funding. Participants typically use core services before progressing to intensive or training services. Using data from Georgia, we examined the use of Wagner-Peyser Act–funded ES services by newly unemployed TANF leavers and measured the correlations between ES usage and labor market outcomes, controlling for the degree of UI involvement.

The data show that large proportions of newly unemployed TANF leavers used

the ES. Among these, sizable numbers of UI nonapplicants used ES services, but usage rates were significantly higher among UI applicants. Importantly, ES usage rates were similar between UI beneficiaries and nonbeneficiary UI applicants, suggesting that application for UI is a pathway to reemployment services provided by the ES, even if cash UI benefits are not forthcoming. The usage of ES by all Georgia residents who left TANF between the second quarter of 1996 and the fourth quarter of 2001 is summarized in Figure 1. Service use was examined from one quarter before through one quarter after TANF exit, new unemployment, and application for UI. The ES was used by 21 percent of all the 152,278 TANF leavers in Georgia, including 26 percent of the 123,424 who experienced a new spell of unemployment after TANF exit. Among the newly unemployed, 76 percent of the 27,166 who applied for UI benefits and 14 percent of the 96,254 UI nonapplicants used ES. Among the UI applicants, 78 percent of the 13,335 UI beneficiaries and 77 percent of the 15,295 ineligible UI applicants used ES. While usage rates were lower across the board

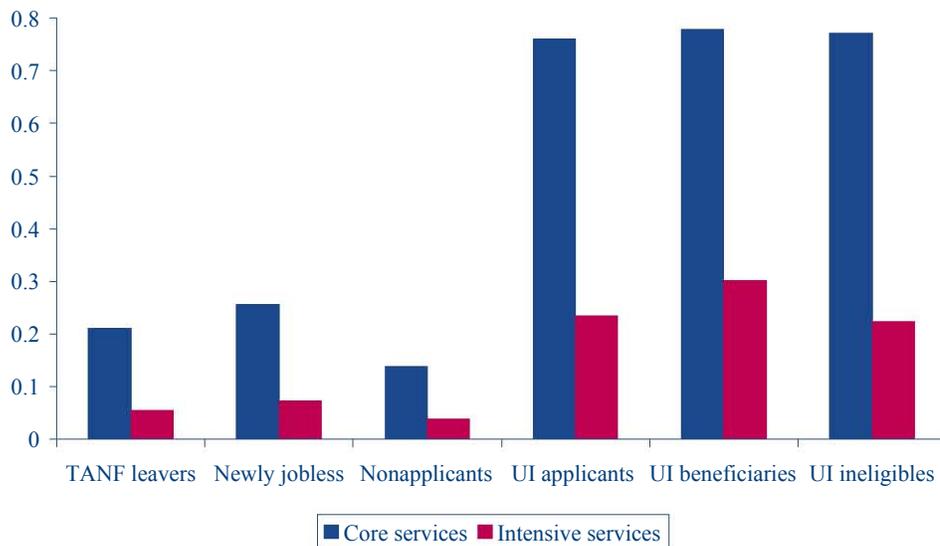
for intensive services, a similar pattern of usage can be seen across the UI usage groups. A key contrast is the substantially higher rate of usage for both core and intensive services by ineligible UI applicants compared to UI nonapplicants.

Employment Services and Self-Sufficiency

For our samples of newly unemployed TANF leavers in Georgia, econometric models controlling for UI receipt and observable characteristics suggest that ES use helps to maintain connections with employment opportunities, particularly for the working poor. This appears to be true regardless of the degree of involvement with UI and, despite the fact that UI applicants use the ES more often, this result still holds for UI nonapplicants. Additionally there is evidence that use of services through the ES reduces rates of complete TANF dependency and inactivity.

Before this study, there has been no research on ES use by TANF leavers in the United States. However, a recent Canadian field experiment found that while financial incentives alone did

Figure 1 Usage Rates of Employment Services by TANF Leavers in Georgia, by UI Application Status



not result in significant reductions in welfare dependency, when combined with reemployment services, the financial incentives yielded large and statistically significant reductions in rates of welfare receipt (Robins, Michalopolous, and Foley 2008).

Summary

It is undeniable that TANF changed welfare. Since TANF was introduced in 1996, welfare caseloads have declined dramatically. While caseloads have nearly vanished in some states, need remains. Former TANF recipients and others vulnerable to welfare dependency are turning to multiple sources to replace cash public assistance. The roles of UI and ES for low-income Americans in a post-TANF economy should be better understood. The degree to which this population is served under current arrangements needs to be documented. We must also learn about the extent to which initiatives of UI modernization and ES revitalization under the American Recovery and Reinvestment Act broaden the effectiveness of these programs for our most vulnerable households. Additionally, we should identify federal and state program changes to make these institutions accessible, sustainable, and more compatible for employers and job seekers in competitive labor markets.

In the aggregate, TANF leavers constitute a small and declining share of all UI beneficiaries. While TANF leavers have higher UI exhaustion rates than non-TANF-leaver UI beneficiaries, they also have significantly lower initial entitled UI benefit durations. The recent recession saw an increased share of UI beneficiaries from high-wage professional and technical occupations. In 2009, the number of TANF leavers declined to be less than 3 percent of all Georgia UI beneficiaries and an even smaller share of UI benefit payment costs. However, for TANF leavers who receive UI and ES services, these are lifelines to continued self-sufficiency and labor force attachment.

Note

1. Differences and point estimates discussed in this article were all estimated with statistical precision exceeding the 95 percent level of confidence in two-tailed tests.)

References

- Gustafson, Cynthia, and Phillip Levine. 1997. "Less-Skilled Workers, Welfare Reform, and the Unemployment Insurance System." Working paper. Berkeley: University of California, Berkeley.
- Holzer, Harry J. 2000. *Unemployment Insurance and Welfare Recipients: What*

Happens When the Recession Comes? New Federalism: Issues and Options for States No. A-46. Washington, DC: The Urban Institute.

Kelleen, Kaye. 2001. "Re-Examining Unemployment Insurance as a Potential Safety Net for Workers at Risk of Public Assistance Receipt." Prepared for the "America's Workforce Network Research Conference," held in Washington, DC, June 26–27.

O'Leary, Christopher J., and Kenneth J. Kline. 2008. *UI as a Safety Net for Former TANF Recipients.* Office of the Assistant Secretary for Planning and Evaluation. Washington, DC: U.S. Department of Health and Human Services.

———. Forthcoming. *Use of UI and ES by TANF Leavers: Final Report.* Office of Policy Development and Research. Washington, DC: Employment and Training Administration, U.S. Department of Labor.

Rangarajan, Anu, and Carol Razafindratoko. 2004. *Unemployment Insurance as a Potential Safety Net for TANF Leavers: Evidence from Five States: Final Report.* Princeton, NJ: Mathematica Policy Research, Inc.

Rangarajan, Anu, Carol Razafindrakoto, and Walter Corson. 2002. *Study to Examine UI Eligibility among Former TANF Recipients: Evidence from New Jersey.* Princeton, NJ: Mathematica Policy Research, Inc.

Robins, Philip, Charles Michalopolous, and Kelly Foley. 2008. "Are Two Carrots Better Than One? The Effects of Adding Employment Services to Financial Incentive Programs for Welfare Recipients." *Industrial and Labor Relations Review* 61(3): 410–423.

Vroman, Wayne. 1998. *Effects of Welfare Reform on Unemployment Insurance.* New Federalism: Issues and Options for States No. A-22. Washington, DC: The Urban Institute.