

**THE EVALUATION OF WELFARE REFORM IN IOWA:  
FINAL IMPACT REPORT**

**EXECUTIVE SUMMARY**

**MATHEMATICA POLICY RESEARCH, INC.**

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In advance of implementing new welfare policies, Iowa changed the name of the program that provides cash assistance to low-income families with dependent children from “Aid to Families with Dependent Children” (AFDC) to the “Family Investment Program” (FIP) on July 1, 1993. Three months later, on October 1, 1993, acting under waivers of certain federal regulations, Iowa replaced the policies that had formerly governed the provision of assistance to low-income families with a set of welfare reform policies. Relative to AFDC policies, Iowa’s welfare reform policies place less emphasis on maintaining the incomes of client families and more emphasis on increasing their participation in employment or in employment-oriented training activities. To reinforce these incentives, Iowa implemented complementary reforms to the Food Stamp Program. Iowa’s reforms anticipated the fundamental shift in federal welfare policy away from long-term income maintenance and toward temporary assistance mandated by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996.

**THE GOALS AND PROVISIONS OF IOWA’S WELFARE REFORM**

Iowa’s welfare reform provides a comprehensive package of incentives and services to encourage clients to adopt behaviors that will facilitate their achievement of self-sufficiency. It also imposes strong consequences on those who fail to adopt those behaviors. While self-sufficiency is the ultimate goal of welfare reform, state policy makers established three more immediate goals:

1. ***Making Work Pay.*** The former AFDC program imposed a high “tax” on earnings, thereby discouraging welfare recipients from working. FIP provides several earnings disregards that jointly imply a 40 percent tax on earnings, in contrast to a tax of between 67 percent and 100 percent under AFDC. The lower tax on earnings under FIP allows a family to achieve a higher level of income at a given level of earnings than would have been possible under pre-reform regulations.
2. ***Responsibility with Consequences.*** FIP was designed to shift responsibility for the well-being of low-income families with dependent children from the state to the parents in those families. To ensure that parents accept this responsibility, each able-bodied adult FIP recipient is required to participate in PROMISE JOBS, a program that provides employment and training opportunities for welfare recipients in Iowa. Exemptions from this requirement are sharply limited under FIP relative to AFDC. A critical PROMISE JOBS activity is the development and signing of a Family Investment Agreement (FIA). The FIA specifies the steps that a FIP participant will take to achieve self-sufficiency and the services that the state will provide to facilitate that process. Failure to develop and sign an FIA, or abandonment of a signed FIA, results in the individual being assigned to the Limited Benefit Plan, under which his or her family’s cash grant is temporarily reduced and/or eliminated.

3. ***Family Stability.*** The designers of FIP regarded stable two-parent families as a key to achieving family self-sufficiency and building strong communities. They also believed that many AFDC policies undermined the formation and maintenance of two-parent families by restricting the access of these families to public assistance. FIP does not include several AFDC requirements that restricted eligibility for two-parent families, including the “100-hour rule,” which stipulated that families in which the parent who was the principal earner worked more than 100 hours per month were ineligible for cash assistance even if the earnings from that employment were low.

## RESEARCH METHODS

The evaluation of welfare reform in Iowa was based on an experimental design, under which families were randomly assigned to a treatment group that was subject to the new welfare reform policies or to a control group that was subject to the policies of the former AFDC program. Random assignment ensured that families in the treatment and control groups were, on average, alike in their characteristics at the time of random assignment and were equally subject to the influence of external factors, such as changes in Iowa’s economy.

We estimated the impacts of welfare reform by comparing the average outcomes of treatment cases with the average outcomes of control cases in the years following random assignment. We made those comparisons separately for families that were ongoing participants in FIP when welfare reform was implemented on October 1, 1993 (referred to as “ongoing FIP cases”) and for families that applied to FIP after that date (referred to as “applicant FIP cases”).<sup>1</sup> To improve the precision of our estimates, we used multivariate regression to adjust for differences in socioeconomic characteristics across cases.

During the evaluation, Iowa changed its welfare policies governing control cases in a manner that may have affected some of the impact estimates presented in this report. In response to federal welfare reform, Iowa began to apply reform policies to control cases in April 1997. The effect that this policy shift had on control cases is unclear; it may have been small because many control cases had already left FIP by that time. However, because control cases were subject to reform policies beginning in April 1997, the evaluation’s findings pertaining to the period beginning April 1997 probably understate the true long-run impacts of welfare reform in Iowa.<sup>2</sup>

The outcome measures for the evaluation were obtained from three sources:

1. ***State Administrative Files.*** State administrative files provided up to five years of data on employment, FIP participation, and child welfare services for 7,418 ongoing FIP cases and 9,927 applicant FIP cases.

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<sup>1</sup>Treatment and control groups were formed separately for ongoing FIP cases and applicant FIP cases. For each case assigned to a control group, two cases were assigned to a treatment group.

<sup>2</sup>The early termination of control policies is one of a number of potentially limiting features of this evaluation. Chapter II, Section E, of the report provides a full discussion of these features, which are often present in random assignment evaluations of social welfare programs.

2. ***Core Survey.*** A “core survey” of 1,413 of the ongoing cases and 1,538 of the applicant cases provided data on education and training, job characteristics, participation in government programs, and aspects of family well-being.
3. ***Child Impact Survey.*** A “child impact survey” was conducted with 813 of the ongoing cases and 662 of the applicant cases that previously had participated in the core survey and had reported the presence of a child between five and twelve years of age. The child impact survey provided data on family functioning and well-being, parenting behavior, use of child care, and the well-being of children.

Both the core survey and the child impact survey were conducted in 1998-99, which was five or six years after the ongoing cases went through random assignment and two and a half to six years after the applicant cases went through random assignment.

## **PRINCIPAL FINDINGS**

Using the administrative and survey data, we estimated the impacts of Iowa’s welfare reform on ongoing and applicant FIP cases. Many of the impacts that we found can be characterized as “favorable” or “unfavorable” based on the goals of Iowa’s welfare reform. Some of the impacts apply to both ongoing and applicant cases; others apply only to ongoing cases or only to applicant cases.

### **Impacts Common to Both Ongoing and Applicant FIP Cases**

For six sets of outcomes, welfare reform had qualitatively similar impacts on ongoing and applicant FIP cases. These impacts are displayed in a summary format in Exhibit ES.1. Most, but not all, of them can be regarded as favorable results of welfare reform.

1. ***Welfare reform raised participation in the PROMISE JOBS program, which provides employment-related services to FIP participants.*** This impact was probably due to a tightening of the requirement to participate in PROMISE JOBS under welfare reform and to more severe penalties for failure to participate.
2. ***Welfare reform increased the employment and earnings of ongoing cases and early applicants<sup>3</sup>, at least in the short run.*** These impacts were probably due to the reform provisions that strengthened the financial work incentives and work requirements of FIP.
3. ***Welfare reform raised FIP participation in the short run.*** The enhanced earned-income disregards under welfare reform, which made it more difficult for a case to “earn its way off of welfare,” are likely to have contributed to this impact. The impact on FIP participation was larger for applicants than for ongoing cases. Findings from the evaluation indicate that liberalized eligibility criteria under welfare reform contributed to the positive impact on FIP participation for applicant cases.

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<sup>3</sup>Among the applicant cases, 4,526 went through random assignment during the first year of welfare reform. We have designated these cases as “early applicants” or “cohort 1 applicants.”

EXHIBIT ES.1

THE EVALUATION OF WELFARE REFORM IN IOWA:  
IMPACTS COMMON TO ONGOING AND APPLICANT FIP CASES

	Impact		Report Exhibit
	Ongoing Cases	Applicant Cases	
<b>Participation in PROMISE JOBS</b>			
Case head participated in any PROMISE JOBS activity	+	+	IV.2
<b>Employment of Case Members</b>			
Year 1	0	+	III.2
Year 2	+	+	III.2
Year 3	+	0	III.2
Year 4	+	0	III.2
Year 5	0	NA	III.2
<b>Earnings of Case Members</b>			
Year 1	+	+	III.3
Year 2	+	0	III.3
Year 3	0	0	III.3
Year 4	0	0	III.3
Year 5	0	NA	III.3
<b>FIP Participation</b>			
Year 1	+	+	III.7
Year 2	0	0	III.7
Year 3	0	0	III.7
Year 4	0	0	III.7
Year 5	0	NA	III.7
<b>Combining Employment and FIP Participation</b>			
Year 1	+	+	III.13
Year 2	+	+	III.13
Year 3	+	0	III.13
Year 4	+	0	III.13
Year 5	0	NA	III.13
<b>Information About Post-FIP Medicaid</b>			
DHS worker provided information on post-FIP Medicaid eligibility	+	+	IV.5
<b>Domestic Abuse</b>			
Verbal abuse by an intimate partner or ex-partner in past year	+	+	V.9
Physical abuse by anyone in the past year	+	+	V.9

SAMPLES: Ongoing FIP cases were active in FIP on 9/17/93 and were randomly assigned to treatment or control status at that time. Applicant FIP cases submitted their applications and went through random assignment between 10/1/93 and 3/31/96. Multi-year results for applicants are for those who applied before 10/1/94. Other results for applicants are for all applicants.

DATA: Multi-year results are based on data from Iowa administrative files for FIP, Food Stamps, and unemployment insurance. Other results are based on data from two MPR surveys that were conducted in 1998-99, five to six years after random assignment for ongoing cases and two and a half to six years after random assignment for applicant cases.

NOTE: Impact estimates indicated by a "+" or "-" are statistically significant at the .10 level or less, using a two-tailed t-test. Impact estimates indicated by a "0" are not significantly different from zero.

4. ***Welfare reform increased the rate of combining work and welfare.*** For both ongoing and applicant cases, this impact can probably be attributed to two features of Iowa's welfare reform. First, work requirements were applied more strictly and to a broader population under reform policies than under pre-reform policies. Second, financial incentives to work that were built into the FIP benefit formula were stronger under reform policies than under pre-reform policies.
5. ***Welfare reform raised the proportion of both ongoing and applicant cases that were informed by a DHS staff member of their potential eligibility for post-FIP Medicaid.*** The design for welfare reform in Iowa did not address the provision of information on post-FIP eligibility for Medicaid, but this finding indicates that DHS staff did more consistently provide such information under welfare reform.
6. ***The incidence of domestic abuse increased under welfare reform.*** Stiffened requirements to work under welfare reform may have resulted in more stress within families and higher rates of employment may have caused the heads of FIP cases to alter their roles within their families and their relationships with friends. In addition, applicant cases experienced a reduction in household income and greater financial strain under welfare reform (Exhibit ES.3). These impacts of the reforms may have led to the increase in domestic abuse.

### **Impacts Specific to Ongoing FIP Cases**

Welfare reform had impacts specific to ongoing cases on two related sets of economic outcomes and on a third set of noneconomic outcomes. The economic impacts can be regarded as favorable results of welfare reform, but there is some evidence that they were accompanied by greater family stress. These impacts are summarized in Exhibit ES.2.

1. ***Welfare reform improved long-run labor earnings and benefits for the heads of ongoing cases.*** Welfare reform raised the monthly earnings of these individuals by 10 percent. For these individuals, it also had positive impacts on the availability of paid leave for vacation and illness. These findings pertain to the primary current job five to six years after random assignment, thus indicating that welfare reform had positive long-run impacts on labor compensation for the heads of ongoing cases.
2. ***Welfare reform reduced Food Stamp participation and benefits and FIP benefits for ongoing cases.*** The cumulative reductions in benefits over the evaluation's full follow-up period were 4 percent for FIP and 7 percent for Food Stamps. We attribute these reductions to the positive impacts of welfare reform on earnings. The absence of a negative impact on FIP participation is probably due to the greater FIP earned-income disregards under welfare reform.
3. ***Welfare reform reduced the likelihood that a child would leave the home to live elsewhere.*** This finding is indicative of greater family stability under welfare reform. But, when combined with the previously noted finding of more domestic abuse (Exhibit ES.1), it suggests that welfare reform had mixed impacts on family stability among ongoing FIP cases.

EXHIBIT ES.2

THE EVALUATION OF WELFARE REFORM IN IOWA:  
IMPACTS SPECIFIC TO ONGOING FIP CASES

	Impact for Ongoing Cases	Report Exhibit
<b>Earnings of Case Head</b>		
Earnings on primary job last month	+	IV.8
<b>FIP Benefit Amount</b>		
Year 1	0	III.11
Year 2	-	III.11
Year 3	-	III.11
Year 4	-	III.11
Year 5	-	III.11
<b>Food Stamp Participation</b>		
Year 1	-	III.10
Year 2	-	III.10
Year 3	-	III.10
Year 4	-	III.10
Year 5	0	III.10
<b>Food Stamp Benefit Amount</b>		
Year 1	-	III.12
Year 2	-	III.12
Year 3	-	III.12
Year 4	-	III.12
Year 5	-	III.12
<b>Family Stability</b>		
Child went to live elsewhere, past two years	-	V.6

SAMPLES: Ongoing FIP cases were active in FIP on 9/17/93 and were randomly assigned to treatment or control status at that time. Applicant FIP cases were excluded from this table because the impacts on the measures shown were statistically insignificant for those cases.

DATA: Multi-year results are based on data from Iowa administrative files for FIP and Food Stamps. Other results are based on data from two MPR surveys that were conducted in 1998-99, five to six years after random assignment for ongoing cases.

NOTE: Impact estimates indicated by a "+" or "-" are statistically significant at the .10 level or less, using a two-tailed t-test. Impact estimates indicated by a "0" are not significantly different from zero.

## Impacts Specific to Applicant FIP Cases

Welfare reform had impacts specific to applicant cases on six sets of outcomes. These are summarized in Exhibit ES.3. Most can be regarded as unfavorable results of welfare reform.

1. ***Welfare reform raised participation by applicant cases in FIP, Medicaid, and public/subsidized housing in the long run.*** The evaluation found statistically significant survey-based evidence of these impacts two and a half to six years after random assignment. This is consistent with, and extends, the previously noted finding, based on administrative data, that welfare reform raised FIP participation in the short run (Exhibit ES.1). Perhaps related to the finding regarding public/subsidized housing, the heads of FIP cases that were subject to reform policies were more likely to have concerns about the characteristics of their neighborhoods.
2. ***Welfare reform increased by 6.5 percentage points the proportion of FIP case heads who had never been married as of two and a half to six years after random assignment.*** Furthermore, among case heads who were single women at random assignment, the proportion married two and a half to six years later was 8.4 percentage points lower for treatment cases (24.2 percent) than for control cases (32.6 percent). Apparently, some provisions of the reforms discouraged marriage among FIP case heads.
3. ***Welfare reform reduced the household earnings and income of applicant cases by about \$200 per month two and a half to six years after random assignment.*** This occurred despite the absence of a negative impact on the earnings of the case head, indicating that financial contributions by other household members were smaller under welfare reform. The lower marriage rate probably contributed to this, as it meant that there were fewer spouses in the households of applicant cases to contribute financially. The reduction in household income placed greater financial strain on applicant cases, despite the fact that it did not translate into an increased incidence of poverty.
4. ***Welfare reform had unfavorable impacts on family stability for applicant cases.*** These include “doubling up” with other households, turnover among partners of the FIP case heads, and placement of children in foster care. In addition, Exhibit ES.1 reported more domestic abuse of applicant case heads under welfare reform. These impacts may reflect stresses associated with work requirements, less household income, and the decline in marriage among applicant cases under welfare reform.
5. ***Welfare reform altered care arrangements for children ages 5-12.*** Welfare reform resulted in greater use of formal child care by applicant FIP cases and less use of informal care by relatives. The extended child care subsidies that are available under welfare reform are likely to have contributed to this shift. At the same time, children ages 5-12 in applicant cases were more likely to have cared for themselves on a regular basis under welfare reform.

EXHIBIT ES.3

THE EVALUATION OF WELFARE REFORM IN IOWA:  
IMPACTS SPECIFIC TO APPLICANT FIP CASES

	Impact for Applicant Cases	Report Exhibit
<b>Participation in Government Assistance Programs</b>		
Family Investment Program (FIP)	+	IV.7
Medicaid	+	IV.5
Public/subsidized housing	+	IV.4
<b>Neighborhood Characteristics</b>		
Neighborhood quality	-	IV.4
Neighborhood deteriorated over past year	+	IV.4
<b>Marriage</b>		
Case head has never been married	+	IV.3
<b>Household Earnings and Income</b>		
Household earnings last month	-	IV.8
Household income (incl. Food Stamps) last month	-	IV.9
Household income (incl. Food Stamps) last month is below poverty	0	IV.9
Financial strain	+	V.4
<b>Family Stability</b>		
Family moved in with another household, past two years	+	V.6
Case head started or stopped living with a partner, past two years	+	V.6
Child is in foster care	+	IV.3, V.13
<b>Care Arrangements for Children Ages 5-12 Years</b>		
Primary arrangement is center, school-based care, or summer camp	+	V.14
Primary arrangement is care by relatives	-	V.14
Child regularly cared for self sometime during past two years	+	V.14
<b>Well-Being of Children Ages 5-12 Years</b>		
School engagement	-	V.16
Late for school three or more days in past month	+	V.16

SAMPLES: Applicant FIP cases submitted their applications and went through random assignment between 10/1/93 and 3/31/96. Ongoing FIP cases were excluded from this table because the impacts on the measures shown were statistically insignificant for those cases.

DATA: Results presented in this exhibit are based on state administrative data on child welfare services and on data from two MPR surveys that were conducted in 1998-99, two and a half to six years after random assignment for applicant cases.

NOTE: Impact estimates indicated by a "+" or "-" are statistically significant at the .10 level or less, using a two-tailed t-test. Impact estimates indicated by a "0" are not significantly different from zero.

6. *Welfare reform led to a decline in school engagement and an increase in tardiness among children age 5 to 12 in applicant cases.* These impacts may be related to the unfavorable impacts of welfare reform on economic well-being and family stability noted above. We detected no other impacts on educational, behavioral, and health outcomes of children in applicant FIP cases.

## **FINDINGS REGARDING SPECIFIC PROVISIONS OF WELFARE REFORM**

The random assignment scheme underlying this evaluation was designed to support estimation of the impacts of Iowa's full welfare reform package, as opposed to the impacts of specific provisions of that package. However, it is possible to investigate the impacts of specific provisions by using the less rigorous methodology of subgroup analysis. This methodology exploits the fact that one subgroup of research cases may have been more likely to be exposed to a specific reform provision than another subgroup. Differences in impact estimates between the two subgroups may therefore reflect the influence of that provision. However, they may also reflect differences between the subgroups in the characteristics of their members, or even other reform provisions that differentially affected the two subgroups. Therefore, the findings from a subgroup analyses are typically less definitive and more subject to misinterpretation than those based directly on a random assignment scheme.

Unfortunately, our analyses of three pairs of subgroups that were differentially exposed to three specific provisions of Iowa's welfare reform package failed to yield results that lend insight into the overall findings from this evaluation. Therefore, we have chosen not to summarize the results from the subgroup analysis here. However, because the results are of some utility in that they provide information on the impacts of welfare reform on the specific subgroups considered, they are presented in Appendix I of this report.

## **SUMMARY OF FINDINGS**

Welfare reform in Iowa achieved important goals with respect to making work pay and instilling in FIP participants greater responsibility for the well-being of themselves and their families. Some of the strongest and most consistent findings of this evaluation are that the reforms resulted in higher rates of participation in the PROMISE JOBS employment and training program and higher rates of combining employment with the receipt of cash assistance. For ongoing FIP cases only, there is evidence that welfare reform increased the earnings of the case heads in the long run (five or six years after random assignment), which was accompanied by reductions in FIP and Food Stamp benefits, indicating greater levels of self-sufficiency, but there are mixed results regarding the impact of welfare reform on the family stability of ongoing cases.

A number of the evaluation's findings indicate that welfare reform had unfavorable impacts on applicant cases in the long run. Two surveys conducted by MPR two and a half to six years after random assignment provide evidence that welfare reform raised rates of participation in FIP, Medicaid, and public/subsidized housing in the long run, while it reduced household earnings and total income by about \$200 per month. A negative impact on marriage may have been one of the paths by which the reforms reduced household income. Consistent with the impacts on household earnings and income are findings of unfavorable impacts on a number of measures of family and child well-being, such as financial strain, doubling up of households, domestic abuse, and the school engagement of children.

## **FINAL OBSERVATIONS**

On the surface, it appears to be difficult to reconcile this evaluation's finding of no impact or even a positive impact of welfare reform on FIP participation in the two and a half to six years following random assignment with the 39 percent decline in Iowa's welfare caseload that occurred over the same time period, roughly 1993 through 1998. However, it is important to recognize that Iowa's expanding economy during that period accounted for some of the caseload decline. In addition, the evaluation's design was such that the evaluation could only measure the impacts on cases that had some formal involvement with Iowa's welfare system. That involvement was either the receipt of cash assistance or the submission of an application for assistance. Thus, this evaluation generated findings only for families that were "inside" the welfare system.

It is possible and even likely that Iowa's welfare reform had its biggest impact on the FIP caseload size not by altering the behavior of families inside the welfare system but rather by altering the behavior of families outside the system. Certain aspects of the reforms, such as stronger work requirements and the possibility of being assigned to the Limited Benefit Plan if those requirements are not satisfied, may have dissuaded families from applying for assistance and encouraged them to instead seek employment or other sources of nongovernmental support. Major shifts in the public's thinking about cash assistance that are believed to have accompanied the introduction of welfare reform in Iowa may have had similar effects. If welfare reform did affect families outside the welfare system in these ways, then that, along with the influence of an expanding economy, might reconcile the finding from this evaluation of zero or positive impacts on FIP participation with the large reduction in the FIP caseload that occurred during the period covered by the evaluation.