

# **Determinants of AFDC Caseloads: How Have Exit and Take-Up Rates Been Affected by Welfare Reform?**

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## **ABSTRACT**

Over the past six years, the AFDC caseload has fallen by almost 50 percent. This decline has caused much speculation as to its causes. Using the approach employed by Blank and Ruggles (1995), this paper examines the behavior of the eligible and participating populations separately, with particular emphasis on the impact of welfare reform provisions implemented prior to the passage of PRWORA. The results indicate the increased earnings disregards and asset allowances decrease the probability that an eligibility spell will end through increased earnings, while time limitations on benefits increase the probability that the spell will end through a change in family status. Increased asset allowances also decrease the probability that a participation spell will end through increased earnings or a change in family status; family caps increase the probability that a participation spell will end through a change in family status; and increased earnings disregards and the elimination of some JOBS exemptions decrease the probability that a participation spell will end voluntarily.

\* This is a preliminary draft. Comments and suggestions are welcome.

# **Determinants of AFDC Caseloads: How Have Exit and Take-Up Rates Been Affected by Welfare Reform?**

## ***1. Introduction***

During the 1980's the AFDC caseload remained fairly constant, averaging slightly less than 11 million recipients each month, or about 4.5 percent of the US population. However, by the end of the decade, the caseload began to rise dramatically, reaching its peak in 1994 where 5.5 percent of the population was receiving benefits from the program. Since 1994, it has fallen to well beneath the 1980 levels, with many states experiencing decline in their caseloads of over 65 percent between 1993 and December 1998. The levels of participation over time are depicted in Figure 1. Because the dramatic decline in the AFDC caseload coincided with both an improving economy and the passage of many state-specific welfare reform waivers, a great deal of speculation has arisen regarding the cause. A recent report by the Council of Economic Advisors (1997) estimates that a third of the decline in the caseload between 1993 and 1996 was attributable to welfare reform provisions, while Blank (1998) credits most of the decline to an improving economy. Determining the effect that welfare reform has on participation is of particular importance for estimating the future of caseloads.

In this paper, I use individual-level data from the National Longitudinal Survey of Youth (NLSY79) to separately examine the impact of specific welfare reform provisions on the exit rate of AFDC participants as well as the take-up rates by the eligible population. The data allow for examination of behavior over an extended period of time, both in the pre- and post-welfare reform era. By decomposing participation into these smaller components, a fuller understanding of the impact of different welfare reform provisions may be gathered than allowed for in previous studies.

My results indicate that the elimination of JOBS exemptions and increased earnings disregards decrease the probability that a spell of participation ends voluntarily, while expanded asset limits decrease the probability that the spell will end through changes in family makeup or increased earnings. The imposition of a family cap, on the other hand, increases the probability that a participation spell will end

through a change in family composition. I also find evidence that the imposition of time limits decreases the likelihood that benefits are taken up.

The remainder of this paper is organized as follows. Section 2 provides a discussion of the previous literature. Section 3 outlines the theoretical model of the program participation decision by current recipients and the eligible population. It then discusses the estimation techniques employed. Section 4 discusses the various types of welfare reform provisions that have been implemented and their likely impacts on eligibility and exit and take-up rates. Section 5 describes the data and Section 6 provides estimation results. Finally, Section 7 concludes.

## ***2. Previous Literature***

There is an extensive literature that examines the determinants of AFDC participation duration. (Bane and Ellwood 1983; Plotnick 1983; Blank 1989; Fitzgerald 1991; Blank and Ruggles 1995) These studies have found that duration increases as unemployment and benefit levels increase. Durations have been found to decrease with higher levels of schooling, age, and fewer children. Of the existing studies, only one examines the behavior of individuals during spells of eligibility (Blank and Ruggles), and only two actually incorporate the changes in AFDC regulations in their analyses (Blank 1998; Council of Economic Advisors).

Blank and Ruggles use data from the 1986 and 1987 panels of the Survey of Income and Program Participation (SIPP) to estimate the take-up rates for AFDC and Food Stamp Program (FSP) participation. They impute monthly eligibility for all single mothers and estimate a competing-risks hazard model for both eligibility and participation spells. They specify two exit routes from each spell: exit due to a change in family composition (marriage or the youngest in the household child reaching adulthood or leaving the household) and exit due to all other changes, which they denote as changes in income. They find that being older, nondisabled, more educated, and white with fewer children decreases the duration of eligibility spells. Their findings also indicate that participation spells are less likely to end through income increases than through a change in family structure.

Blank and Ruggles' study illustrates the fact that a number of women (44% of the proportion of observed completed spells) actually leave the AFDC program even though they continue to be eligible. This would seem to indicate that their characterization of potential exit routes is insufficient. The grouping of all other sources do not allow for different behavior by women who leave because they are ineligible and women who leave voluntarily for unobservable reasons. In light of provisions such as time limits which may lead to early voluntary exit to "hoard" eligibility for future periods, this would seem to be an important distinction. In addition, Blank and Ruggles are unable to use over half of the observed spells of eligibility and participation due to problems with left-censoring.

The Council of Economic Advisors report uses state-level data from 1976-1996 from the CPS. They estimate an OLS regression using the share of the population receiving AFDC as the dependent variable and the unemployment rate, state waiver status, and the maximum benefit level as independent variables. Their results indicate that economic improvement accounts for about 45% percent of the decline, waivers 31%, and 25% remains unexplained. These estimates are problematic for two main reasons. First, the decision to participate is made monthly and many of the changes that may have taken place are lost due the yearly aggregation. Second, the characterization of waiver coverage by a single dummy variable is likely to be an inadequate measure of the impact of welfare reform. Different measures are likely to elicit different responses from individuals regarding participation and exit behavior.

Blank (1998) examines the historical trends in AFDC participation to determine what has caused the most recent decline in caseloads. Using monthly aggregated data on state AFDC caseloads and the unemployment rates, she first estimates a two-equation vector autoregressive system. Her results suggest that a one-percent increase in the unemployment rate leads to a 3.5% increase in AFDC caseloads over the next 18 months. Using yearly data from 1977 to 1995 and incorporating indicators of waiver provisions within the state and aggregated demographic characteristics from the CPS, she finds that the policy variables are strongly significant. However, when she uses a lead of the waiver variables, estimates indicate that these are more significant than the actual waivers. She argues that this indicates that there is something other than the waivers that is driving the decrease in state caseloads. As with the

CEA report, the yearly aggregation may lose some of the impact. The current paper expands on the previous work of Blank and Ruggles by including individual measures of welfare reform provisions and distinguishing between exits from participation due to changes in income and those which appear to be “voluntary.”

### 3. *Theoretical Model and Estimation Techniques*

The decision to participate is a function of individual-specific characteristics such as schooling and the number of children, program parameters that govern eligibility, and locational attributes such as the local unemployment rate. Define the utility of participating in the program by the following:

$$U_i(P) = g(X_i, PP_i, LOC_i) - C \quad (1)$$

and the utility of not participating as

$$U_i(NP) = g(X_i, PP_i, LOC_i) \quad (2)$$

where  $X$  are individual-specific characteristics,  $PP$  are program parameters specific to the individual's state of residence,  $LOC$  are locational attributes, and  $C$  represents the cost of participating. An individual chooses to continue receiving benefits as long as the utility from doing so outweighs the utility from exiting. The participation decision for each period may be expressed by the following:

$$p_i^* = U_i(P) - U_i(NP) - C \quad (3)$$

The individual will choose to participate if  $p_i^* > 0$ .

In any period, the AFDC caseload can be decomposed into two parts: carry-over participants from the previous period and incoming new participants.<sup>1</sup> This says that a decrease (increase) in the caseload can be caused by one of two things happening. First, it is possible that recipients from the previous period leave (remain on) the rolls in larger numbers than in earlier periods: an increase (decrease) in the exit rate. The second possibility is that there is a lower (higher) or slower (faster) utilization rate among the eligible population: a decrease (increase) in the take-up rate. The combination

of these two forces will determine whether caseload rises or falls in any period. Because the participating and eligible populations are making very different choices, whether to continue receiving benefits or to exit the program and whether to take-up benefits once eligible, it is useful to examine each of them separately.

### 3.1 Carry-Over Participation and Exit Rates

Carry-over participation is dependent upon recipients continuing to be eligible in the second period as well as continuing to choose to participate. The net carry-over rate from one period to the next is the old caseload less the proportion of recipients who become ineligible and the portion of recipients who remain eligible but opt not to continue to participate.<sup>2</sup> Define  $e_t$  as the eligible population in period  $t$  and  $\bar{e}_t$  the proportion of whom are recipients from period  $t - 1$  who remain eligible to receive benefits in period  $t$ . Define  $r_t$  as the proportion of eligible recipients who decide to participate in period  $t$ , and  $\bar{r}_t$  as the proportion of whom received benefits in period  $t - 1$ . Then the net carry-over rate can be expressed by the following:

$$CO_t = CL_{t-1} - CL_{t-1} * (1 - \bar{e}_t) - CL_{t-1} * \bar{e}_t * (1 - \bar{r}_t) \quad (4)$$

(a)                      (b)

Both terms (a) and (b) from equation (1) represent exit from AFDC. However, they represent different behavior. Expression (a) depicts individuals who leave AFDC because they have to; their exit is involuntary. Ineligibility may be caused either by a change in the family structure, such as marriage or the departure of the dependent child from the household, or a change in earned income, which places the household over the allowable limit. Expression (b) depicts individuals who leave AFDC because they choose to do so; their exit is voluntary.

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<sup>1</sup> In this context, “new” does not necessarily denote a recipient who has never received benefits, but rather a recipient who did not receive them in the period immediately preceding the current one.

<sup>2</sup> Blank and Ruggles (1995) find that somewhat less than 50% of recipients actually leave AFDC although they are apparently still eligible.

### 3.2 New Participation and Take-Up Rates

New participants are found by multiplying the eligible population net of those who were eligible and participated last period by the proportion of these individuals who decide to participate. This population consists of both newly eligible individuals, whose first period of eligibility is the current period, and previously eligible individuals, whose first period of eligibility occurred at some period prior to the current one. Among the eligible population, two factors drive take-up rates: eligibility and waiting time to participate. Take-up rates will fall (rise) if there is an increase (decrease) in the eligible population. There may also be a change in take-up rates due to longer or shorter waiting periods. The longer an individual waits to seek benefits, the more likely it is that the spell will end due to ineligibility.

### 3.3 Estimation

The standard technique to estimate spell duration is through the use of hazard models. Define  $F(t, Z_t)$  as the cumulative density function (cdf) of time spent on welfare, where  $Z_t$  is a time-dependent vector of all characteristics which may affect the decision process. The survival function,  $S(t, Z_t)$ , is the percent still on welfare at time  $t$ ;  $S(t, Z_t) = 1 - F(t, Z_t)$ . The instantaneous probability of the spell ending at time  $T = t$ , conditional on its having lasted up to  $t$  is the hazard rate,  $h(t, Z_t)$ , where

$$\begin{aligned} h(t, Z_t) &= \lim_{\Delta t \rightarrow 0} \frac{P(t \leq T \leq t + \Delta t | T \geq t, Z_t)}{\Delta t} \\ &= \frac{f(t, Z_t)}{S(t, Z_t)} \\ &= \frac{-d \log S(t, Z_t)}{dt}. \end{aligned}$$

By integrating both sides, the survivor function and the pdf can be expressed in terms of the hazard function

$$S(t, Z_t) = \exp\left(-\int_0^t h(u, Z_u) du\right)$$

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$t$  is

given by  $f(t, Z_t)$ , while the likelihood that the spell is censored is given by the survival function at time  $T$ ,  $S(T, Z_T)$ . Then, for a sample of  $n_1$  completed spells and  $n_2$  right-censored spells, the total likelihood is given by

$$L = \prod_{i=1}^{n_1} f_i(t, Z_t) \prod_{i=1}^{n_2} S_i(T, Z_T)$$

Both eligibility and participation spells can be thought of in a competing risks framework.

Participation spells have three possible exit routes. Spells may end (1) due to ineligibility caused by a change in family status, (2) due to ineligibility caused by an increase in income, or (3) voluntarily.

Eligibility spells may end (1') due to ineligibility caused by a change in family status or (2) due to ineligibility caused by an increase in income. The determinants of leaving a spell by a given route are likely to be quite different. Define  $h_j(t, Z_t)$  as the hazard associated with exit route  $j(j = 1, 2, 3)$ .

Assuming that the risks are independent, the total instantaneous probability of exiting at time  $T = t$ , conditional on its having lasted up to  $t$ , is given by the sum of the individual hazards:

$$h_{CR}(t, Z_t) = h_1(t, Z_t) + h_2(t, Z_t) + h_3(t, Z_t).$$

The survivor function is given by

$$S_{CR} = \exp\left(-\int_0^t h_{CR}(u, Z_u) du\right).$$

The likelihood that a completed spell ends via exit route  $j$  is given by

$$f_j(t, Z_t) = h_j(t, Z_t) \exp\left(-\int_0^t h_{CR}(u, Z_u) du\right)$$

Then, for a sample of  $n_j$  completed spells exiting via route  $j$  and  $n_4$  right-censored spells, the total likelihood is given by

$$L = \prod_{i=1}^{n_1} f_{1i}(t, Z_t) \prod_{i=1}^{n_2} f_{2i}(t, Z_t) \prod_{i=1}^{n_3} f_{3i}(t, Z_t) \prod_{i=1}^{n_4} S_{CRi}(T, Z_T).$$

#### 4. Waiver Provisions

This section summarizes the main provisions implemented under welfare reform. It includes a description of regulations under the traditional AFDC program as well as the changes implied by the waivers. Finally, it discusses the likely effect that these changes will have on the exit and take-up rates.

##### 4.1 JOBS Exemptions

Under the Family Support Act of 1988, the Jobs Opportunities and Basic Skills (JOBS) program was established. Most AFDC recipients whose youngest child was at least 3 years old were required to participate in JOBS. Individuals were exempt from JOBS participation if they were:

- (1) ill, incapacitated, or of advanced age; (2) needed at home because of the illness or incapacity of another family member; (3) the parent or other caretaker relative of a child under age 3 (or, at State option) any age less than 3 but not less than 1; (4) employed 30 or more hours a week; (5) a child under age 16 or attending, full time, an elementary, secondary or vocational school; (6) a pregnant woman (in at least the second trimester); or (7) residing where JOBS was not available. (US Ways and Means Committee, 1998)

In addition, recipients with children under the age of 6 could not be required to participate for more than 20 hours of JOBS activities per week. Individuals could be sanctioned for noncompliance with JOBS activities. For the first sanction, benefits were cut by the amount of the participant's needs until compliance. For the second sanction, the noncompliant recipient's benefits were cut for the longer of 3 months or until compliance. For each additional sanction, benefits were cut for the longer of 6 months or until compliance.

Many states waived JOBS exemptions for parents of young children (as young as 12 weeks old) and pregnant woman, except in the case of medical problems. Other states required the parents of preschool age children to participate for more than 20 others per week. In addition, many states increased the severity of the sanctions for noncompliance.

The increase in work requirements is likely to make AFDC receipt less attractive to both current participants and potential participants. As such, its likely effect is to cause a decrease in the take-up rate among potential recipients and an increase in the exit rate among current recipients.

#### *4.2 Time Limits*

Under the traditional AFDC program, individuals could receive benefits for as long as they continued to meet eligibility requirements. Of the 43 states with waivers, 32 made some type of time limit provision. These time limits have been classified into three main types based upon the outcome of reaching the time limit. "Termination" time limits, as the name implies, result in the complete loss of benefits once the time limit has been reached. "Work requirement" time limits require the recipient to begin working after the time limit has elapsed. Finally, "reduction" time limits result in reduced benefits once benefits have been received for the specified time limit. (Greenberg, Savner, and Swartz, 1996).

The introduction of time limits may potentially have effects on both the take-up rates and the exit rates. For current recipients, the potential consequence is twofold. The obvious result of having a time limit is that recipients become ineligible once their time has run out, forcing exit. However, there may be a second impact of having time limits by where recipients leave AFDC even though they remain eligible in order to save up some of their eligibility for future periods when things may be worse. Both consequences serving to increase the exit rate. For potential entrants, the logic is similar. There may be some hesitation or delay before applying for benefits due to concerns about future eligibility. This, in turn, may lead to periods of eligibility ending without benefits ever being sought.

#### *4.3 Family Caps*

Under AFDC, once receiving benefits, the maximum benefit that a recipient was eligible to receive increased with the birth of additional children. In the era of waivers, most states continued to establish different benefit levels for different family sizes for entering families. However, once a woman

became a participant in the program, her benefits were frozen at their entrance levels. Fifteen states enacted such child exclusion policies, or “family caps,” under Section 1115 waivers.

The effect of these family caps on take-up and exit rates is less clear in the case of family caps. Current recipients are the only ones subject to the caps. With an upper limit on the maximum benefit, recipients will reach the income eligibility limits sooner than they would have if there were no cap. This would tend to increase ineligibility and therefore increase exit rates. I would not expect this effect to be very pronounced as additional children seldom lead to increased labor force participation. Because nonrecipients’ benefits are unaffected by family caps, these provisions would seem to have little effect among the eligible population. However, if eligibles decide to have the additional child prior to taking up benefits, it may lead to an increased waiting time before taking up benefits

#### *4.4 Expanded Income Disregards*

All recipients who worked were entitled to a \$90 work expense disregard under AFDC rules. For the first four months of receipt, the next \$30 of earned income, plus one-third of the remainder was disregarded in calculating eligibility and benefits. After four months and up to one year, only the \$30 disregard continued. After one year of AFDC receipt, there was no earned income disregard. This meant that the benefit was reduced by a dollar for each dollar earned. Under the waivers, several states eliminated the time limit on the \$30 and one-third disregard, while others disregarded all earned income up to the poverty line.

Increases in the income disregards increase the eligible population. For those currently receiving benefits, the probability of remaining eligible in the next period increased. This would imply a decrease in the exit rate. For those not receiving benefits, the probability of becoming eligible increases. It is not clear whether the increased income disregards would increase or decrease take-up rates among those eligible.

#### *4.5 Increased Resource Limits*

AFDC families could have countable assets worth no more than \$1,000. Exclusions to countable resources varies by state, but may include up to \$1,500 in equity value (the resale value less any remaining debt) for an automobile and essential items such as clothing and furniture. In addition, most states excluded from countable resources farm machinery, livestock, and tools and equipment essential to employment. Under Section 1115, many states increased the level of asset ownership as well as the car value. In some states, these higher limits were limited to the recipient population in order not to expand the eligible population.

As with the income disregards, an increase in the level of asset ownership allowable will decrease the probability of becoming ineligible among current recipients, tending to decrease the exit rate. In the states with the differential limits for recipients and nonrecipients, this policy should not change take-up rate behavior. In states that do not implement differential limits, the policy will increase the eligible population. Again, it is uncertain whether this would serve as an incentive for more people to participate in these states.

#### *4.6 Expanded Medicaid & Child Care Coverage*

Under the AFDC program, transitional assistance was provided for families who had received benefits for at least three of the preceding six months. Families that lost benefits due to increased earnings were eligible to receive a full year of transitional Medicaid and transitional child care, while families that lost benefits due to child support collection were only eligible to receive transitional Medicaid for four months. Under Section 1115, many states increased the length of time that a family could receive transitional aid and eliminated the rule requiring participation in the three of six previous months.

The expanded Medicaid and child care coverage decrease the overall benefit of AFDC receipt. This should imply both an increased exit rate as well as a decreased take-up rate. In addition, provisions that eliminate the restrictions on previous receipt may encourage quicker exit.

## 5. *Data*

In this paper, I employ data from the NLSY79. This is a longitudinal data set that has collected detailed information on 12,686 individuals, aged 14 to 21 in 1979, since 1979.<sup>3</sup> Because respondents were fairly young when they were first interviewed, the number of respondents who are receiving benefits in the first year is relatively, limiting the number of left-censored observations. The length of the panel allows for extended observation of participation decisions, decreasing the proportion of the observed spells that are right-censored.

The data set contains a rich set of variables that make it particularly well-suited to studying both program eligibility and participation. During each interview, respondents are asked about AFDC participation in the previous year.<sup>4</sup> Respondents who report receipt are asked to report which months benefits were received and the average monthly benefit. This information allowed the creation of a monthly reciprocity event history for each respondent, giving a detailed record of participation. Between 1983 and 1996, AFDC receipt is reported by 4-6% of the sample.

In order to determine individual eligibility spells, information on income, assets, state of residence, marital status, and fertility is necessary. The NLSY79 has collected all of this information during each survey. What makes the NLSY79 particularly useful in determining eligibility is that exact dates are collected on changes in marital status, births of children, and work history. Unfortunately, the same is not true of the data on geographic mobility. From 1979 to 1982, the survey collected information on all residences and timing of the moves. Beginning with the 1983 survey, only the residence at the time of the survey is available. Due to difference in eligibility criteria by state, there is some difficulty in

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<sup>3</sup> From 1979 through 1994, respondents were interviewed yearly. Beginning in 1996, interviews are only scheduled to occur biannually.

<sup>4</sup> Beginning in 1994, the question was changed slightly. Instead of just asking about the previous year, respondents were asked about participation since the date of the last interview. This allows for the collection of retrospective information from all respondents who may not have been interviewed in a given year.

determining eligibility for individuals who move between surveys. To handle this problem, I have used data from the work history file to infer move dates. If the respondent moved and reported a job change, I have assumed that the job change and move coincided. Where there was no job change, I assigned the move to the midpoint between surveys.

Restricting my analysis to unmarried mothers between January 1978 and August 1996<sup>5</sup>, I am able to identify 4,099 spells of eligibility for 2,071 women and 2,327 spells of participation for 1,967 women<sup>6</sup>. I observe between one and twelve separate spells of eligibility or participation for each of these women. Table 1 summarizes information on the spells. The spells of eligibility and participation range in duration from a single month to the entire observation period, with nearly 20 percent of eligibility spells and 15 percent of participation spells lasting less than four months. Unlike Blank and Ruggie's data, less than 10 percent of the spells are left-censored (7.2 percent of eligibility spells and only 4.6 percent of participation spells). Non left-censored eligibility spells are approximately as long as non-left-censored spells of participation on average (30 versus 27 months), while left-censored spells of eligibility are much longer than left-censored spells of participation (76 months versus 42 months). Clearly, the left-censored spells of participation and eligibility are longer than the non-censored spells. Figure 2 depicts the participation rates for this period, which range from roughly 36% at the beginning of the sample to over 60% in 1984. As is evidenced by the jaggedness, there is a great deal of monthly variation in the decision to participate.

Table 2 provides a breakdown of the means of the within spell averages of personal and state-specific characteristics for spells of participation and eligibility according to how the spells end. Of the observed spells of AFDC participation, 72 percent end while the woman still appears to be eligible for benefits. For spells of eligibility and participation ending through increased earnings, the women are less likely to be disabled, more likely to be black and have more education and fewer children on average. These spells are also shorter on average than spells ending through a change in family circumstances or

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<sup>5</sup> I do not use observations after August 1996 due to the signing of PRWORA, which imposes new restrictions on all recipients.

<sup>6</sup> There are a limited number of cases where I estimate the women to be ineligible to receive benefits and she reports receiving them. This occurs in less than one percent of the data.

voluntarily. Spells that end due to increased earnings are also associated with lower maximum payment standards.

Table 3 provides a description of the progression of spells of eligibility. One of the most striking results highlighted in this table is the fact that over 50 percent of all eligibility spells end without the woman ever receiving benefits. Of these completed spells of eligibility without receipt, roughly 50 percent are over in less than six months. Of the spells of eligibility that do result in program participation, over 65 percent of these occur within the first three months of eligibility. Table 4 further illustrates these facts. The average duration of spells of eligibility that do eventually lead to participation is roughly four times as large as that of spells ending without participation. Eligibility spells are more likely to generate AFDC participation spells for disabled, younger, less well educated women who have never been married. Spells that result in no participation are more likely to be associated with all types of waivers and lower payment standards.

## **6. *Estimation Results***

Table 5 provides the results of the competing-risks hazard model for spells of participation and eligibility. Black, Hispanic women who are older when their spells begin and have more children are less likely to end their spells of eligibility through a change in income, while black women with young children are more likely to end their spells of eligibility through changes in family composition. Having been previously married significantly increases the probability of exiting eligibility via another marriage. Not surprisingly, increased earnings disregards and increased assets allowances decrease the probability that an eligibility spell ends due to earnings increases. The imposition of family caps increases the likelihood that a spell of eligibility ends through a change in family composition.

Participation spells are less likely to end through increased earnings for older, disabled, black women with more children and less education. Higher payment standards and increased asset allowances also make it less likely that the spell will end via increased earnings. A change in family composition is more likely to cause a participation spell to end if the woman is black, has young children and less

education and has been previously married. Surprisingly, an increase in the state's unemployment rate actually increases the probability that the participation spell will end through changes in family composition, seeming to indicate that, when market opportunities are limited, women are more likely to marry. While family caps slightly increase the probability of the spell ending through changes in family structure, increased asset allowances somewhat decrease the probability. Finally, spells are less likely to end voluntarily for younger, disabled women with more children and less education. Increased earnings disregards and the elimination of JOBS exemptions also retards voluntary exit.

While the above analysis provides some insight into how welfare reform waivers have impacted exit decisions, it does not sufficiently address the issue of how the decision to take up benefits is affected. To address this, I reestimate the eligibility hazards partitioning the sample by whether or not benefits are actually received. Table 6 contains the results of these estimates. For spells which result in participation, only increased asset limits significantly impacts the likelihood that the eligibility spell will end via increased earnings. However for spells which end without participation, increased earnings and assets limits, the elimination of JOBS exemptions, time limits and child care vouchers all play a significant role in determining the likelihood that the spell will end via either route. In particular, the presence of a time limit significantly increases the probability that the eligibility spell will end without participation via both routes, lending support to the notion of eligibility "hoarding."

## **7. Conclusion**

In this paper, I investigate the impact that individual welfare reform provisions have played in the current decline in the AFDC caseload. Employing individual-level data from the NLSY79, I estimate a competing risks hazard model to estimate the likelihood that participation and eligibility spells end via changes in family composition, increases in earnings or voluntarily. Unlike previous literature, I differentiate amongst the different types of welfare reform provisions, thereby allowing each a different impact on behavior. My results indicate that, while welfare reform provisions have played an important role in participation decisions, the impact has not been the same for current and potential recipients. With

the exception of family caps in the case of exits from AFDC due to changes in family compositions, the reform provisions that do significantly impact the exit decision actually prolong exit rather than expedite it. In particular, increased earnings disregards and diminished JOBS exemptions have deterred voluntary participation exits, while increased asset allowances have slowed exits from AFDC through increased earnings and changes in family compositions. Potential recipients, on the other hand, are deterred from taking up benefits by the presence of time limits.

The fact that changes in the unemployment rate only seem to matter for participation exit through changes in family composition should not be viewed as evidence of insensitiveness to labor market conditions. Rather, since there does seem to be some evidence of eligibility hoarding, rolls may be expected to rise if and when the economy experiences a downturn due to increased numbers of the hoarders taking up benefits.

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Table 1  
Eligibility and Participation Spells of AFDC

	Eligibility Spells				Participation Spells			
	Left-Censored		Nonleft-Censored		Left-Censored		Nonleft-Censored	
	Freq.	%	Freq.	%	Freq.	%	Freq.	%
Total spells	295	7.2	3804	92.8	107	4.6	2220	95.4
Right-censored	64	21.7	790	20.8	10	9.3	346	15.6
Spell distribution								
1-3 months	10	3.4	750	19.7	7	6.5	352	15.9
4-6 months	11	3.7	448	11.8	4	3.7	240	10.8
7-9 months	8	2.7	344	9.0	4	3.7	197	8.9
10-12 months	10	3.4	305	8.0	30	28.0	315	14.2
13-15 months	16	5.4	235	6.2	2	1.9	102	4.6
16-18 months	12	4.1	175	4.6	3	2.8	83	3.7
19-21 months	5	1.7	158	4.2	2	1.9	77	3.5
22-24 months	18	6.1	140	3.7	13	12.1	125	5.6
25-27 months	15	5.1	116	3.0	2	1.9	43	1.9
28-30 months	3	1.0	90	2.4	1	0.9	55	2.5
31-33 months	10	3.4	91	2.4	2	1.9	55	2.5
34-36 months	6	2.0	66	1.7	5	4.7	76	3.4
37-48 months	27	9.2	197	5.2	6	5.6	127	5.7
49-60 months	23	7.8	128	3.4	2	1.9	84	3.8
61-72 months	14	4.7	106	2.8	4	3.7	76	3.4
73-84 months	10	3.4	79	2.1	5	4.7	68	3.1
85-96 months	9	3.1	66	1.7	2	1.9	34	1.5
Mean length (Std deviation)	76.34 (72.3)		29.51 (40.8)		41.82 (50.1)		27.12 (33.2)	

Notes: Eligibility and participation spells calculated only for single mothers with children less than 19 years old.

Table 2  
Mean Characteristics of Eligibility and Participation Spells by Exit Route

	Eligibility Spells		Participation Spells		
	Ending with Increased Earnings (N=2267)	Ending with Changes in Family Composition (N=748)	Ending with Increased Earnings (N=312)	Ending with Changes in Family Composition (N=210)	Ending voluntarily (N=1352)
Disabled	0.02050 (0.11102)	0.07669 (0.21732)	0.02220 (0.11982)	0.06625 (0.17278)	0.05293 (0.18287)
Age	25.00265 (4.94462)	22.97861 (4.74118)	24.03205 (4.36652)	23.28571 (4.73249)	23.68861 (4.53948)
Ever married	0.38156 (0.48588)	0.48583 (0.45303)	0.27564 (0.44755)	0.37378 (0.42816)	0.23891 (0.42657)
Hispanic	0.12307 (0.32859)	0.16845 (0.37452)	0.13462 (0.34186)	0.17619 (0.38189)	0.14941 (0.35662)
Black	0.49140 (0.50004)	0.31283 (0.46396)	0.55128 (0.49816)	0.40000 (0.49107)	0.56805 (0.49553)
Immigrant	0.02867 (0.16692)	0.04679 (0.21133)	0.02564 (0.15832)	0.03810 (0.19188)	0.02367 (0.15207)
Young kids	0.22254 (0.34756)	0.35370 (0.39002)	0.23813 (0.36567)	0.30845 (0.36692)	0.29096 (0.37238)
All kids <19	1.54609 (0.70702)	1.64082 (0.84446)	1.58082 (0.75162)	1.86847 (1.05358)	1.84753 (0.97505)
Highest grade completed	12.16470 (1.67565)	11.34995 (1.67979)	12.07249 (1.46767)	11.06642 (1.59759)	11.38327 (1.67236)
Working	0.47694 (0.35674)	0.25253 (0.35312)	0.47410 (0.34876)	0.15351 (0.28357)	0.20252 (0.31778)
Earned Income	323.89231 (522.43284)	126.47198 (213.94452)	353.49249 (343.67674)	87.59346 (216.85054)	97.65536 (180.97285)
Urban	0.78589 (0.39749)	0.73649 (0.41981)	0.75327 (0.42436)	0.81038 (0.37167)	0.79598 (0.39045)

Table 2–Continued

	Eligibility Spells		Participation Spells		
	Ending with Increased Earnings	Ending with Changes in Family Composition	Ending with Increased Earnings	Ending with Changes in Family Composition	Ending voluntarily
Benefit eligible for	174.45919 (131.32620)	237.80613 (130.82792)	213.88241 (229.75953)	294.38295 (144.75749)	291.14388 (144.01801)
Benefit received	46.56131 (174.90568)	93.18679 (139.30076)	222.14943 (417.82190)	299.01641 (140.29121)	236.23973 (127.90236)
Maximum payment standard	330.96937 (151.66082)	386.19035 (169.34508)	325.54416 (146.36893)	425.99262 (174.71151)	385.32439 (169.07571)
State unemployment rate	7.03023 (1.89029)	7.36446 (2.13094)	7.30610 (2.05406)	7.69697 (2.15853)	7.19982 (2.04002)
Duration	19.95854 (27.30533)	26.79679 (34.76652)	19.47436 (23.23678)	25.39048 (28.76534)	22.54290 (26.81769)
<i>Waivers</i>					
Earnings Disregard	0.03649 (0.17211)	0.03124 (0.15528)	0.03381 (0.15346)	0.04214 (0.17280)	0.02298 (0.13274)
Increased assets limits	0.03835 (0.17673)	0.02460 (0.14259)	0.01696 (0.10262)	0.01984 (0.12579)	0.02311 (0.13557)
JOBS exemptions	0.02377 (0.14275)	0.01049 (0.08993)	0.02069 (0.11970)	0.01239 (0.08787)	0.00648 (0.06906)
Time Limits	0.01430 (0.11067)	0.00880 (0.08247)	0.01055 (0.09080)	0.00239 (0.02289)	0.00309 (0.04961)
Medicaid expansion	0.02392 (0.14042)	0.02046 (0.13072)	0.01933 (0.11502)	0.02441 (0.14434)	0.01164 (0.09512)
Family cap	0.02179 (0.13656)	0.00919 (0.08104)	0.01815 (0.11685)	0.01338 (0.09229)	0.00582 (0.06339)
Expanded child care	0.01535 (0.10907)	0.01464 (0.11065)	0.00997 (0.07545)	0.01727 (0.12309)	0.00840 (0.08034)

Notes: Table only refers to non-left-censored spells. Standard deviation shown in parentheses. Means are the within spell means calculated using the following formula:  $\bar{X} = \sum_n (\sum_m X_m / T_n) / N$ .

Table 3  
Summarizing Eligibility Spells

Duration of Eligibility Spell (Months)	Ongoing spells of eligibility without receipt	Spells taking up benefits this month	Spells ending this month without receipt	Spells right censored this month
0	3804	17.32%	0.00%	0.00%
1	3145	3.75	7.82	0.99
2	2750	2.87	7.31	0.55
3	2455	2.20	6.88	0.69
4	2215	2.66	6.14	0.72
5	2004	2.20	5.64	0.55
6	1836	2.45	5.07	0.76
7	1684	1.37	5.11	0.77
8	1562	1.02	5.44	0.90
9	1447	1.11	5.53	0.83
10	1339	1.94	4.56	0.82
11	1241	0.89	5.48	1.53
12	1143	1.84	7.17	0.35
13	1036	2.12	6.08	1.16
14	939	1.60	4.26	0.96
15	875	1.14	4.69	0.34
16	821	1.71	3.41	0.61
17	774	1.55	3.88	1.29
18	722	0.83	3.88	0.97
19	681	0.88	3.82	0.88
20	643	1.40	2.64	0.93
21	611	0.82	3.60	1.80
22	573	1.05	3.14	1.75
23	539	1.30	4.27	2.78
24	494	1.01	3.04	0.81
25-30	470	7.02	16.60	4.47
31-36	338	5.62	10.95	5.92
37-48	262	7.63	21.76	9.92
49-60	159	9.43	18.87	6.29
61-72	104	4.81	17.31	10.58
73-84	70	8.57	20.00	7.14
85-220	45	22.22	20.00	57.78
<i>Totals</i>	<i>3804</i>	<i>36.70</i>	<i>52.94</i>	<i>10.36</i>

Notes: Table refers only to non-left censored spells of eligibility.

Table 4  
Mean Characteristics of Eligibility Spells by Participation and Exit Route

	Spells with participation		Spells with no participation	
	Ending with Increased Earnings (N=708)	Ending with Changes in Family Composition (N=332)	Ending with Increased Earnings (N=1559)	Ending with Changes in Family Composition (N=416)
Disabled	0.02865 (0.11250)	0.07640 (0.19257)	0.01680 (0.11018)	0.07692 (0.23544)
Age	22.74153 (4.47051)	22.09337 (4.53989)	26.02951 (4.80750)	23.68510 (4.78495)
Ever married	0.29802 (0.45771)	0.37533 (0.45425)	0.41950 (0.49364)	0.57402 (0.43277)
Hispanic	0.12147 (0.32690)	0.16265 (0.36960)	0.12380 (0.32946)	0.17308 (0.37877)
Black	0.55932 (0.49682)	0.38855 (0.48816)	0.46055 (0.49860)	0.25240 (0.43491)
Immigrant	0.01695 (0.12917)	0.04217 (0.20128)	0.03400 (0.18128)	0.05048 (0.21920)
Years education	11.94887 (1.50066)	11.21864 (1.59814)	12.26272 (1.74100)	11.45474 (1.73700)
Urban	0.77515 (0.39492)	0.78823 (0.38193)	0.79076 (0.39868)	0.69479 (0.44409)
Working	0.36468 (0.31706)	0.18864 (0.27514)	0.52792 (0.36215)	0.30353 (0.39774)
Earned income	225.49864 (259.42235)	97.28621 (186.60061)	368.57654 (600.02400)	149.76446 (231.06892)
Young kids	0.28202 (0.31317)	0.37272 (0.33520)	0.19553 (0.35896)	0.33852 (0.42857)
All kids < 19	1.54571 (0.69317)	1.72421 (0.87720)	1.54627 (0.71344)	1.57427 (0.81233)

Table 4–Continued

	Spells with participation		Spells with no participation	
	Ending with Increased Earnings	Ending with Changes in Family Composition	Ending with Increased Earnings	Ending with Changes in Family Composition
Maximum payment standard	347.63138 (160.28867)	425.15755 (168.34314)	323.40253 (147.00669)	355.09153 (163.80628)
Benefit eligible for	227.78514 (177.83807)	294.88881 (132.39596)	150.24189 (94.09133)	192.24976 (110.18555)
State unemployment rate	7.37299 (1.92017)	7.43313 (1.94743)	6.87456 (1.85639)	7.30965 (2.26759)
Duration	40.45339 (37.91007)	43.53313 (43.38957)	10.65106 (12.43629)	13.43990 (16.46731)
<b>Waivers</b>				
Earnings Disregard	0.02307 (0.12093)	0.02553 (0.12774)	0.04259 (0.19059)	0.03580 (0.17418)
Increased Assets limits	0.01662 (0.09228)	0.02212 (0.13202)	0.04822 (0.20311)	0.02658 (0.15062)
JOBS exemptions	0.00995 (0.07888)	0.00710 (0.05769)	0.03004 (0.16337)	0.01319 (0.10902)
Time Limits	0.00582 (0.06377)	0.00562 (0.05778)	0.01815 (0.12617)	0.01133 (0.09781)
Medicaid expansion	0.01044 (0.07680)	0.01686 (0.10857)	0.03004 (0.16088)	0.02334 (0.14608)
Family cap	0.01016 (0.08045)	0.00737 (0.06157)	0.02707 (0.15523)	0.01064 (0.09377)
Expanded child care	0.00623 (0.05338)	0.01041 (0.08444)	0.01945 (0.12651)	0.01605 (0.11998)

Notes: Standard deviation shown in parentheses. Means are the within spell means calculated using the following formula:  $\bar{X} = \sum_n (\sum_m X_m / T_n) / N$ .

Table 5  
Competing Risk Duration Estimates of AFDC Participation and Eligibility Spells

	Eligibility Spells		Participation Spells		
	Ending with Increased Earnings	Ending with Changes in Family Composition	Ending with Increased Earnings	Ending with Changes in Family Composition	Ending voluntarily
Age at start of spell	-0.129364*** (0.00844)	-0.410656*** (0.02349)	-0.181974*** (0.01905)	-0.449913*** (0.04234)	-0.164677*** (0.01126)
Ever married	0.1570255* (0.08389)	6.361274*** (0.32575)	0.2322476 (0.16742)	6.774613*** (0.53340)	0.0530093 (0.09747)
Disabled	-1.358387*** (0.24115)	0.2770028 (0.27537)	-1.948272*** (0.56292)	0.3880792 (0.33789)	-0.2994848* (0.17280)
Hispanic	-0.1990418** (0.10057)	0.1265701 (0.21668)	0.0720726 (0.20811)	0.0260548 (0.38791)	-0.0154102 (0.11818)
Black	-0.406817*** (0.08197)	0.4390532** (0.19039)	-0.570282*** (0.17617)	0.7796211*** (0.28998)	-0.1294653 (0.09959)
Urban	0.224001*** (0.08439)	-0.1830931 (0.13675)	0.0670438 (0.16786)	0.2164744 (0.27988)	-0.0361305 (0.09997)
Immigrant	-0.4218763** (0.21575)	-0.1367591 (0.44104)	-0.1177692 (0.43502)	0.4213515 (0.70042)	0.1239172 (0.24309)
Young kids	-0.455037*** (0.08580)	0.8657927*** (0.11727)	-0.3259459* (0.17537)	0.8463836*** (0.20456)	-0.1274852 (0.08789)
Kids	-0.5560491** (0.04758)	-0.358452*** (0.08426)	-0.490797*** (0.08486)	-0.1502626 (0.12244)	-0.083446* (0.04659)
Education	0.1824845*** (0.01735)	-0.0083862 (0.05058)	0.3461872*** (0.04686)	-0.1980945** (0.08936)	0.0444383* (0.02580)
Max AFDC benefit	-0.002172*** (0.00025)	0.0009914** (0.00043)	-0.003376*** (0.00053)	0.0021408*** (0.00075)	0.000144 (0.00027)
State unemployment rate	-0.0082198 (0.01580)	0.0352947 (0.03054)	-0.0471239 (0.03337)	0.1460641*** (0.05425)	0.0171338 (0.01765)
More than first spell	0.4488497*** (0.08126)	0.752242*** (0.08891)	0.3209846*** (0.10837)	0.8596153*** (0.15718)	0.3598446*** (0.09492)

Table 5–Continued

	Eligibility Spells		Participation Spells		
	Ending with Increased Earnings	Ending with Changes in Family Composition	Ending with Increased Earnings	Ending with Changes in Family Composition	Ending voluntarily
<i>Waivers</i>					
Increased earnings disregards	-0.633763*** (0.23417)	-0.3591329 (0.31871)	-0.291442 (0.38986)	0.2524922 (0.61221)	-0.785514*** (0.28639)
Increased asset limits	-0.556391*** (0.18345)	-0.5590053 (0.40186)	-0.7783047* (0.47619)	-1.699911* (0.93431)	0.2140534 (0.26945)
JOBS exemptions	-0.3966215 (0.34313)	-0.2139311 (0.49718)	0.8097 (0.69327)	-0.0610267 (0.73232)	-1.252828* (0.69696)
Time limit	0.3255521 (0.31288)	1.310016** (0.55370)	-0.2763624 (0.70385)	-1.476209 (0.92948)	0.438309 (0.59223)
Expanded child care/ Medicaid <sup>a</sup>	0.3168594 (0.35612)	-0.0084563 (0.48790)	0.485214 (0.73880)	1.221671 (1.12962)	-0.82527 (0.52035)
Family Cap	0.003207 (0.29226)	0.4350856 (0.46279)	-0.7008028 (0.71646)	1.324486* (0.74917)	-0.7226168 (0.64084)
N	83,364	109,206	58,155	60,605	38,159
Log Likelihood	-7233.4299	-3557.4595	-1560.6295	-836.21024	-4809.6323

Notes: Robust standard errors shown in parentheses. \*\*\* indicates significance at the 1% level; \*\* indicates significance at the 5% level; \* indicates significance at the 10% level.

<sup>a</sup> Expanded child care and Medicaid coverage are correlated with a correlation coefficient of 0.9. Hence, the coefficient identified is the impact of the sum of the two provisions.

Table 6  
Competing Risk Duration Estimates of AFDC Eligibility Spells: By Participation Status

	Spells with participation		Spells with no participation	
	Ending with Increased Earnings	Ending with Changes in Family Composition	Ending with Increased Earnings	Ending with Changes in Family Composition
Age at start of spell	-0.1334257*** (0.01465)	-0.4759873*** (0.03824)	-0.2660809*** (0.01459)	-0.4617025*** (0.02912)
Ever married	0.0873804 (0.13540)	6.659678*** (0.42735)	0.1101453 (0.11283)	5.778172*** (0.46130)
Disabled	-1.223332*** (0.32890)	0.3550568 (0.30763)	-1.57171*** (0.43824)	-0.1403144 (0.49407)
Hispanic	-0.2170141 (0.15587)	0.2307351 (0.38426)	-0.106491 (0.13489)	-0.0057293 (0.23040)
Black	-0.5429166*** (0.12531)	0.4161032 (0.26181)	0.1062885 (0.11696)	0.6036493*** (0.22219)
Urban	0.2081821 (0.13636)	-0.300535 (0.20085)	0.3211736*** (0.10715)	-0.0985819 (0.16508)
Immigrant	-0.6998852* (0.39008)	-0.573037 (0.64822)	-0.2825969 (0.22337)	0.3677535 (0.36505)
Young kids	-0.9375776*** (0.14883)	0.9411671*** (0.17193)	-0.3570189*** (0.10817)	0.6682806*** (0.16435)
Kids	-0.4406579*** (0.06681)	-0.3213647*** (0.11255)	-0.3266066** (0.07492)	-0.1545742 (0.10912)
Education	0.2764377*** (0.02933)	0.0139785 (0.08333)	0.0810565*** (0.02526)	-0.0173828 (0.04493)
Max AFDC benefit	-0.0029049*** (0.00039)	0.0010522* (0.00062)	-0.0009015*** (0.00033)	0.0015297*** (0.00055)
State unemployment rate	-0.0278605* (0.02485)	0.0821961* (0.04580)	-0.0266148 (0.02195)	-0.0039984 (0.03538)
More than first spell	0.2268872 (0.13361)	0.8603247*** (0.16481)	0.3809575*** (0.10276)	0.5393288*** (0.09738)

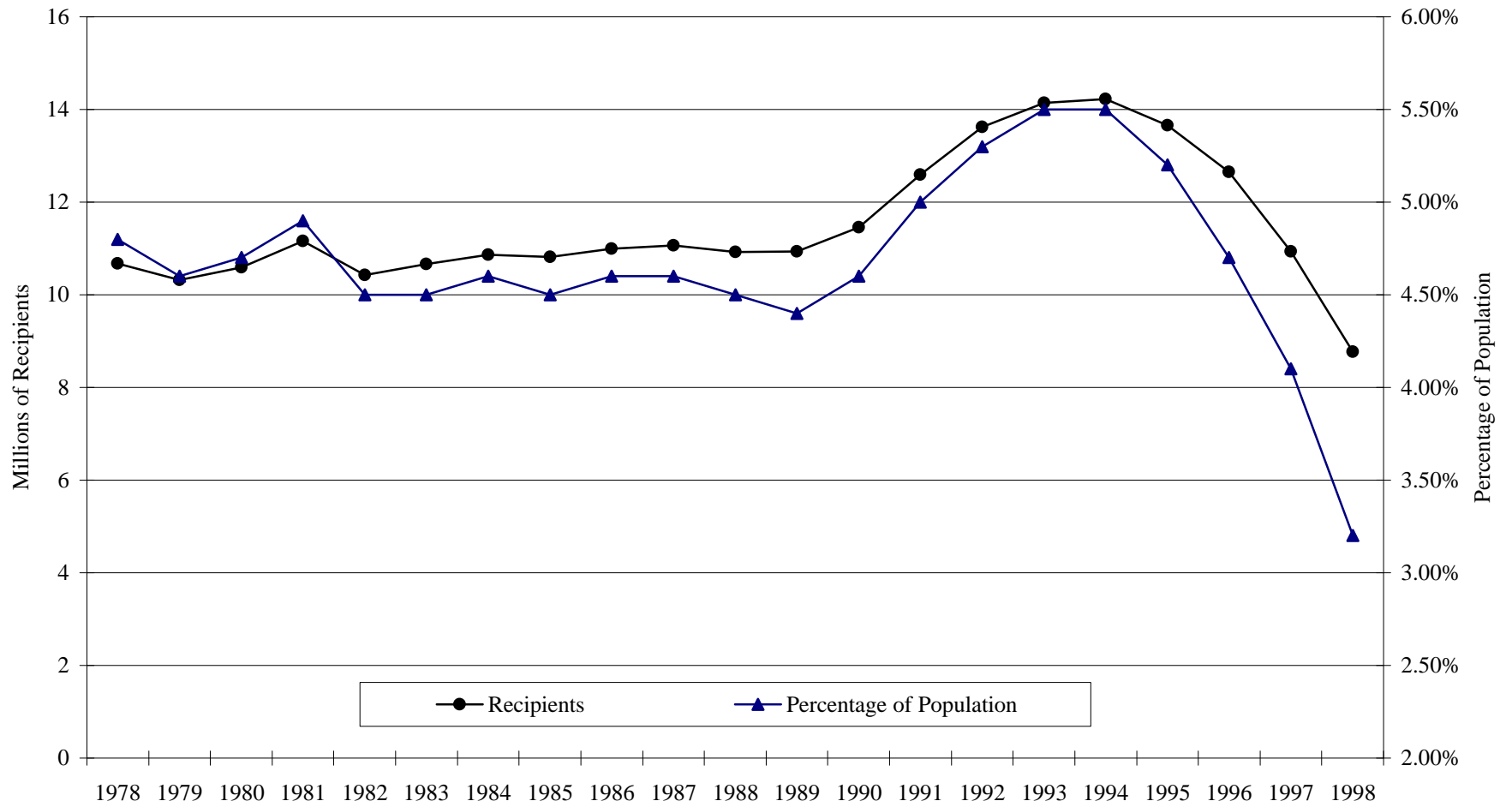
Table 6–Continued

	Spells with participation		Spells with no participation	
	Ending with Increased Earnings	Ending with Changes in Family Composition	Ending with Increased Earnings	Ending with Changes in Family Composition
<i>Waivers</i>				
Increased earnings disregards	-0.3989958 (0.32570)	-0.5370517 (0.43398)	-0.8977992*** (0.36959)	-0.3917684 (0.46710)
Increased asset limits	-0.7238395** (0.37442)	-0.5331715 (0.60583)	-0.3960133* (0.22057)	-1.262461** (0.62260)
JOBS exemptions	0.3507503 (0.52626)	0.1545757 (0.74267)	-1.028121** (0.47209)	-0.7753426 (0.90577)
Time limit	-0.3848206 (0.53264)	0.940078 (0.83561)	1.216511*** (0.44015)	2.496007*** (0.78779)
Expanded child care/Medicaid <sup>a</sup>	0.767387 (0.57890)	0.9236821 (0.72378)	-0.1725816 (0.50743)	-1.043928* (0.62272)
Family Cap	-0.2085189 (0.53177)	0.5666475 (0.62081)	0.4308286 (0.29337)	-0.0395355 (0.74001)
N	83,364	80,748	67,139	28,458
Log Likelihood	-7233.4299	-1312.5057	-2769.1235	-1719.168

Notes: Robust standard errors shown in parentheses. \*\*\* indicates significance at the 1% level; \*\* indicates significance at the 5% level; \* indicates significance at the 10% level.

<sup>a</sup> Expanded child care and Medicaid coverage are correlated with a correlation coefficient of 0.9. Hence, the coefficient identified is the impact of the sum of the two provisions.

Figure 1 Average Monthly AFDC Participation: 1978-1998



Source: HHS Administration for Children and Families, <http://www.acf.dhhs.gov/news/stats/6097rf.htm>.

Figure 2 AFDC Participation Rates among NLSY79 Respondents: 1978-1996

