Financial penalties trigger welfare exits, study finds

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Welfare recipients in Wisconsin who received financial sanctions for failing to comply with the program's work requirements were from two to 33 times more likely to exit welfare – with or without jobs – and the effect increased with the duration of the sanctions, according to a new study by a University of Illinois expert on poverty.

Even welfare recipients who weren't sanctioned directly were more likely to leave the welfare rolls when their peers were penalized, suggesting that just the "threat" of being sanctioned can dramatically affect continuing on welfare, said Chi-Fang Wu, who is a professor of social work at Illinois and was the lead author of the study.

"Once they have been sanctioned, recipients face different transition probabilities that may delay or hasten their exit from welfare," Wu said. "The higher the agency's sanction rate, the greater recipients' perceived risk of being sanctioned, which can influence behavior in ways that prompt people to leave the program."

Wu and her co-authors examined the effects of work-related financial sanctions on nearly 1,600 single mothers who were receiving cash benefits through Wisconsin Works, the state's welfare-to-work program.

The Wisconsin program, known as W-2, replaced the federal cash assistance program Aid to Families With Dependent Children beginning in September 1997. Many of the study participants were moved from AFDC to W-2 in March 1998. Wu and her co-authors tracked the women for up to 42 months, from the time they entered the program until they no longer received cash benefits or until August 2001 when the study concluded.

Recipients who earned less than $300 in the quarter after leaving W-2 were classified as having left without a job. Those whose post-welfare earnings ranged from $100 to $700 per month were considered having obtained a below-benefits job, and people whose monthly income exceeded $700 a month were classified as having obtained an above-benefits job.

While most states have implemented sanction policies that partially or fully reduce recipients' benefits for noncompliance with work requirements, W-2 is unique in that it directly reduces cash benefits at the rate of $5.15 per hour for every hour that recipients fail to participate in assigned activities, such as paid job placements, counseling or job-training programs.

Wu found in her prior research that Wisconsin's sanction rate was particularly high even though the duration of the sanctions tended to be short.

About 65 percent of participants in the current study were sanctioned at least once during the period studied. Slightly more than half – 51 percent – of the women were sanctioned during their first year in W-2, and 64 percent had been sanctioned by their fourth year with the program.

The duration of the sanctions varied from one month to more than seven months and reduced recipients' cash benefits by an average of $222 to $339 per month.

Recipients who were sanctioned in any given month were more likely than their counterparts to be sanctioned again the subsequent month and were five times as likely to leave welfare without a job. Moreover, they were up to 33 times more likely to exit public assistance for a job that paid less than the maximum welfare benefit, which was $673 at the time of the study.

The study also found links between increased sanctioning and relatively small increases in recipients leaving welfare for jobs that paid more than the maximum monthly cash benefit.

While sanctions reduced the length of time that people received benefits, they also substantially reduced economic support for vulnerable, low-income families by prompting women to leave public assistance even when it wasn't in their best interest financially, Wu said.

Prior research suggests that participants who receive sanctions tend to be long-term welfare recipients who have less education, limited work experience and serious personal, familial or other problems that impede their ability to comply with program requirements, Wu said.

"Caseworkers should pay particular attention to recipients who are sanctioned for long time periods so as to identify clients' personal and family challenges that affect program compliance and limit their employment and earnings after they leave welfare," Wu said. "The results from this study have important policy implications at a time when states are considering modifying the work requirements and sanction policies in the context of scarce, potentially diminishing resources and tough economic times."

The study will appear in the January issue of the journal *Children and Youth Services Review* and is available online.

More information: Chi-Fang Wu, Maria Cancian, Geoffrey Wallace, The effect of welfare sanctions on TANF exits and employment,

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