WorkFirst Wage Progression and Returns Report: Through Second Quarter 2010

Introduction

The 2009-2011 Biennial Operating Budget (Section 207(1)(b) of ESHB 1244) mandates a quarterly report on performance measures of WorkFirst clients 12, 24, and 36 months after leaving the program. These measures are:

1. median percentage increase in earnings and hourly wage;
2. percentage with earnings above 100 and 200 percent of federal poverty guidelines;
3. a comparison group of similar workers who did not participate in WorkFirst; and
4. the percentage of WorkFirst returns.

Statutory Requirement

Section 207(1(b) of ESHB 1244 requires the Department of Social and Health Services to do the following:

> Continue to implement WorkFirst program improvements that are designed to achieve progress against outcome measures specified in RCW 74.08A.410. Valid outcome measures of job retention and wage progression shall be developed and reported quarterly to appropriate fiscal and policy committees of the legislature for families who leave assistance, measured after 12 months, 24 months, and 36 months. An increased attention to job retention and wage progression is necessary to emphasize the legislature's goal that the WorkFirst program succeed in helping recipients gain long-term economic independence and not cycle on and off public assistance. The wage progression measure shall report the median percentage increase in quarterly earnings and hourly wage after 12 months, 24 months, and 36 months. The wage progression report shall also report the percent with earnings above one hundred percent and two hundred percent of the federal poverty level. The report shall compare former WorkFirst participants with similar workers who did not participate in WorkFirst. The department shall also report percentage of families who have returned to temporary assistance for needy families after 12 months, 24 months, and 36 months.

Performance Report

WorkFirst Exiters. For all tables in this report, the "exiters" column refers to WorkFirst exiters, and "comparison" refers to the comparison group described below. Exiters are defined as TANF clients who:

- received a TANF grant in January, February, March of the cohort year (for example, for the Q2 2007 cohort, January, February, March 2007), and
- did not receive a TANF grant in either April, May, or June of 2007.

The exiters columns and the comparison group columns include figures for three different cohorts, from the second quarters of 2007, 2008 and 2009. Numbers in the same column therefore may not be compared for quarterly or yearly changes.

For both the exiters and the comparison group, only individuals with earnings reported to the unemployment insurance system (by their employers) are included. Wage and earnings are not available for individuals without reported earnings.

Comparison Group. The ideal comparison group for WorkFirst recipients would be a sample of poor families, identical in all respects to WorkFirst recipients, *except that they did not receive TANF grants*. It is unlikely that such an ideal comparison group of poor families can be clearly identified. WorkFirst clients, viewed as a statistical population, are different from other state residents in many ways not captured by state data. In terms of their labor market characteristics, WorkFirst recipients have less work experience and lower educational attainment than the general state population. WorkFirst recipients also face other difficulties, such as high rates of physical abuse (47%), sexual abuse (32%), and work-limiting physical, emotional or mental conditions (36%). In addition, WorkFirst recipients are overwhelmingly female, and are much less likely to be married than women in the general state population. See *Chartbook*, The WorkFirst Study, 2001 (http://www.WorkFirst.wa.gov/about/WFSChartBook.pdf).

The comparison group for WorkFirst exiters used in this report, while less than ideal, is built upon a reasonable set of assumptions. It is based on the hypothesis that low-wage workers in comparable industry groups are similar in their labor market behavior. Because most WorkFirst clients tend to work in certain industries, the following methods were used to simulate the economic characteristics of WorkFirst exiters:

- From the *WorkFirst Study of 3000 Washington Families (WFS)*, employment industries reported by survey respondents were coded into Standard Industry Code (SIC) classifications, according to *Employment and Payrolls in Washington State by County and Industry* (LMEA, 1999).
- From the Unemployment Insurance employer and wage data (UI data), records were extracted for all individuals in the state who worked in these SIC codes in the target quarters (2007 Q2, 2008 Q2, and 2009 Q2).

- Total earnings for these identified individuals, in the WFS SIC codes and other industries, were pulled from the UI data for the target quarters.
- The bottom 50% of earners in each quarters' data set were selected, as most likely to represent an accurate comparison group for WorkFirst exiters.
- Median wages for WorkFirst exiters and the comparison group were calculated to validate the selections. For both groups, wages above $50/hour and below $5/hour were excluded, as they were likely to represent employers' reporting errors.

Table 1 lists the selected industries from which the comparison group was created. The Standard Industry Code (SIC) is a four digit number. Two digit numbers are used in many cases to indicate a group of SIC codes related to a broader industry group. For example, "08" (forestry) is a broad definition of industries related to forest products. They include "0811" (timber tracts), "0831" (forest products), and "0851" (forest services). For details of all two digit SIC codes in Table 1, see *Employment and Payrolls in Washington State by County and Industry* (LMEA, 1999).

Table 1: SIC codes for selection of the comparison group

SIC Code	Description
01-07	Agriculture
08	Forestry
09	Fishing
10-14	Mining
15-17	Construction
20-39	Manufacturing
41-47	Transit, transportation, and warehousing
48	Communications
49	Electric, gas & sanitary services
50	Wholesale trade--durable goods
51	Wholesale trade--non-durable goods
52	Building materials and garden supply stores
53	General merchandise stores
54	Food stores
55	Auto dealers and gas stations
56	Apparel and accessory stores
57	Furniture and home furnishing stores
58	Eating and drinking places
59	Miscellaneous retail
60-67	Finance, insurance, and real estate
70	Hotels and other lodging places
72	Personal services
73	Business services
75	Auto repair, services & parking
76	Miscellaneous repair
78	Motion picture theaters, rental, etc.
79	Amusement and recreation services
80	Health services

81	Legal services
82	Educational services
83	Social services
84	Museums, art galleries, et al.
86	Membership organizations
87	Engineering, accounting, research, management, et al.
88	Private households
91-97	Public administration

Mean Hourly Wage Rates. The Employment Security Department (ESD) does not collect workers' hourly wage information. While employers report both quarterly earnings and hours worked to the Unemployment Insurance program, the hours data are incomplete or, in some cases, inaccurate. Table 2 shows *real,* or inflation-adjusted, median hourly wagerate for exiters and the comparison group. Hourly wage figures in this update were estimated as described below:

For both WorkFirst exiters and the comparison group, the selection of wage records followed the rules of 1999 *Washington Wage Report* (http://www.wa.gov/esd/lmea/sprepts/wagerpt/wawagrpt.htm). The methodology used in *The Washington Wage Report* was augmented as follows:

- Wage records with missing hours were deleted from the dataset.
- In the wage record, an 'hours worked' variable exactly equal to 1000, or 999 indicates that room and/or board was received with wages. Since these are not actual hours worked, these records were also excluded from analysis.
- Outliers have been excluded. For both WorkFirst exiters and the comparison group, wages greater than $50/hour or less than $5/hour were excluded, since most of these were due to employers' reporting errors. Tests proved that eliminating these records did not affect the median wage or percentage change in quarterly earnings, although it did affect the means.
- The hourly wage was obtained by dividing quarterly earnings by hours worked in the quarter.

Table 2. Median hourly wages for adult TANF exiters and comparison group, inflation adjusted to year 2010.

	starting quarter		after 12 months		after 24 months		after 36 months	
Cohort	Exiters	Comp	Exiters	Comp	Exiters	Comp	Exiters	Comp
2007Q2	$10.23	$10.33	$10.81	$10.84	$10.70	$10.81	$10.59	$10.66
2008Q2	$10.37	$10.31	$10.29	$10.40	$10.24	$10.60	n/a	n/a
2009Q2	$9.51	$10.11	$10.00	$10.31	n/a	n/a	n/a	n/a

Median Percentage Increase in Earnings. Wage progression was measured as change in total earnings over one, two or three years. Earnings are a more accurate reflection of true progression than are wages, because they reflect both an individual's wage and any changes between part-and full-time work. Table 3 shows *real,* or inflation-adjusted, median quarterly earnings for exiters and the comparison group. Earnings progressions are expressed cumulatively in Table 4, indicating the change from the starting year's earnings; in Table 5, non-cumulative changes reflect the progression from the starting year's earnings.

Table 3. Quarterly earnings for adult TANF exiters and comparison group, inflation-adjusted to year 2009.

	starting quarter		after 12 months		after 24 months		after 36 months	
cohort	Exiters	Comparison	Exiters	Comparison	Exiters	Comparison	Exiters	Comparison
2007Q2	$3067	$2836	$3792	$4095	$3931	$4094	$3981	$4208
2008Q2	$2923	$2989	$3418	$3777	$3602	$3964	n/a	n/a
2009Q2	$2284	$2677	$3232	$3636	n/a	n/a	n/a	n/a

Table 4. Cumulative change in quarterly earnings

	after 12 months		after 24 months		after 36 months	
cohort	Exiters	Comparison	Exiters	Comparison	Exiters	Comparison
2007Q2	24%	44%	28%	44%	30%	48%
2008Q2	17%	26%	23%	33%	n/a	n/a
2009Q2	42%	36%	n/a	n/a	n/a	n/a

Table 5. Non-cumulative change in quarterly earnings

	after 12 months		after 24 months		after 36 months	
cohort	Exiters	Comparison	Exiters	Comparison	Exiters	Comparison
2007Q2	24%	44%	4%	0%	1%	3%
2008Q2	17%	26%	5%	5%	n/a	n/a
2009Q2	42%	36%	n/a	n/a	n/a	n/a

Earnings and the Federal Poverty Guideline. This report uses the WorkFirst assistance unit to estimate family size in determining the federal poverty guidelines for the WorkFirst group. Because family size information for the comparison group is not available, federal poverty guidelines for a family of three is used, according to OFM estimate of the average family size for all housing in the State of Washington (*Developing Trends in Household Size for Use in Population Estimates*, Research Brief No. 10, OFM Population Unit, August, 2000).

This performance measure understates the progress of WorkFirst exiters (and the comparison group members) in leaving poverty. For WorkFirst families, as with non-WorkFirst families, one adult's earnings frequently comprise only a portion of the total household income. For example, while 57% of the WorkFirst Study households reported earnings, 42% also reported income from the Earned Income Tax Credit (equal to up to one-third of annual earnings) and 28% reported income from other sources.

Table 6 and Table 7 examine the WorkFirst exiters and comparison groups' earnings against the federal poverty guidelines. Table 6 measures the earnings against 100% of the federal poverty guidelines. Table 7 measures earnings against 200% of the federal poverty guidelines. For a family of three, the federal poverty guideline (http://aspe.hhs.gov/poverty/index.shtml) is currently $17,600/year

Table 6. Earnings above 100% of the federal poverty guidelines

	starting quarter		after 12 months		after 24 months		after 36 months	
cohort	exiters	comparison	exiters	comparison	exiters	comparison	exiters	comparison
2007Q2	26.0%	26.6%	39.2%	41.5%	41.5%	42.4%	43.0%	44.8%
2008Q2	25.9%	27.9%	34.6%	37.9%	37.5%	41.1%	n/a	n/a
2009Q2	11.9%	24.1%	25.6%	36.1%	n/a	n/a	n/a	n/a

Table 7. Earnings above 200% of the federal poverty guidelines

	starting quarter		after 12 months		after 24 months		after 36 months	
cohort	exiters	comparison	exiters	comparison	exiters	comparison	exiters	comparison
2007Q2	3.8%	0.0%	7.7%	4.5%	8.5%	5.8%	9.4%	7.8%
2008Q2	3.6%	0.0%	8.9%	3.2%	7.1%	5.1%	n/a	n/a
2009Q2	0.7%	0.0%	3.1%	3.2%	n/a	n/a	n/a	n/a

WorkFirst Return Rate. Returned clients are defined as a client who received a TANF grant in January, February, or March of the cohort year (2007, 2008, or 2009), did not receive a grant in April, May, or June and then did receive a grant in the second quarter of the following year, two years, or three years later. For example, a client who received a grant in October and November of 2002 and then not again until March 2005 was considered a 24-month returner. Table 8 shows the return rate of exiters in the second quarters of 2008, 2009, and 2010, which are 12, 24 and 36 months after leaving WorkFirst.

Table 8. WorkFirst return rates

cohort	12 months	24 months	36 months
2007Q2	19.67%	1.41%	0.21%
2008Q2	4.50%	0.68%	n/a
2009Q2	8.24%	n/a	n/a