

# Evaluating TANF Performance Contracting : Lessons from the Wisconsin Works (W-2) Program

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## W-2: New Welfare Administration

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- Contracting out TANF services
  - Promoting competition among public and private agencies
  - In 2004-05 period, 19%, 47%, 34% of W-2 participants received services from public, non-profit, and for-profit agencies respectively
- Performance-based contract
  - Aligning W-2 agencies' goals with the state' goals by providing administrative & financial incentives (e.g. Right of First Selection\*, Performance Bonuses)
- Centralization of welfare services & job-related services
  - One stop service at W-2 agency (FEP)

\*"Right of First Selection" (RFS): W-2 agencies can achieve the right to run the W-2 program without having to compete with other public or private agencies, as long as they meet required base level performance standards

## W-2 Performance-based Contracting

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- Right of first selection (RFS) & performance bonuses
  - Determined based on the extent to which W-2 agencies achieve a set of (required) performance standards with varying target levels
  
- Performance standards
  - Composed of a) Required, b) Optional, and c) Information Only Standards
  - e.g.) job placement rate, job retention rate, earnings gain rate
  
- Biannual Performance Contracting (1997-99, 2000-01, 2002-03, & 2004-05)
  - RFS: based on the performance of 1<sup>st</sup> contract year in each period
  - Performance bonuses: based on the performance of both 1<sup>st</sup> & 2<sup>nd</sup> year
  
- Financial incentives have been weakened over contracting periods

# How did W-2 agencies respond to performance contracting? : The Example of the Earnings Gain Standard

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Q1: Is there evidence that W-2 agencies tried to meet the earnings gain standard by:

- Altering the entry / exit of W-2 participants?
- Selecting participants with higher earnings capacities?

Q2: Is there evidence that the introduction of the earnings gain standard improve earnings gain of W-2 participants?

## W-2 Job Tier Placements

	W-2 Job Placements	Employment in Unsubsidized Jobs
Upper Tier (w/o cash benefits)	CMF (Case Mgt. Follow-up)	0
	CMU (Case Mgt. for Working Individuals)	0
	CMS (Case Mgt. for Job Ready Individual)	X (unemployed)
Lower Tier (w/ cash benefits)	TJB (Trial Job)	X (subsidy to employers)
	CSJ (Community Service Job), CS1,CS2,CS3 (partial employment)	X
	W-2 T (W-2 Transition Job)	X
	CMC (Case Mgt. for Care-taker of New-born)	X

## Definition: Earnings Gain Standard

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- Earnings Gain:

Monthly earnings at end month – Monthly earning at begin month

- Earnings Gain Rate:

Number of exited W-2 participants w/ any earnings gain

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Number of exited W-2 participants

## Application of "Earnings Gain" Standard

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	1 <sup>st</sup> Contract 1997-99	2 <sup>nd</sup> Contract 2000-01	3 <sup>rd</sup> Contract 2002-03	4 <sup>th</sup> Contract 2004-05
Unsubsidized Employment (CMF/CMU)	X	O	O / X	X
Other Placements (e.g.TJB,CSJ)	X	O	X	X
	Not introduced	Applied to all participants	Applied only to "unsubsidized employment" participants. Changed into information only (Feb.2003)	"Information only" standard

- Identifying the effect of earnings gain standard

: The variation in applying & eliminating earnings gain standard among different W-2 participant groups over time provides a natural experiment that has the potential to identify the effect of earning gain standard on the performance of W-2 participants

## How to meet earnings gain standard in 2002-03

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- Concentrating more agency resources to performance target groups to which earnings gain standard is applied
  - Provision of intensive services to earnings gain std. applied groups
  - Devising innovative ways to improve earning capacity the groups
  
- Changing entry into performance target groups
  - Reducing caseload flows into the earnings gain std. applied groups
  - Selecting participants with higher earning capacity into the groups
  
- Adjusting exit from performance target groups
  - Deferring exit of participants in target groups until following year

# Data

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- CARES (Client Assistance for Re-employment and Economic Support) system
  - Information on characteristics of W-2 participants and their participation history in W-2 and other public assistance programs
  
- Wisconsin UI Data
  - Information on employment and earning history of W-2 participants.
  
- State W-2 Policy Documents
  - Features of W-2 contracting and their changes over time
  - Performance reports on W-2 agencies

# Performance of W-2 Agencies

: Percent of W-2 Agencies meeting base target level

- W-2 Agencies responded to performance contracting

Performance Measure	2000-01	2002-03	2004-05
Entered Employment*	99%	94%	96%
Job Retention: 30 days*	100%	96%	96%
Job Retention: 180 days*	99%	94%	
Full and Appropriate Engagement*	96%	93%	98%
Basic Education Activities*	90%	88%	96%
<b>Educational Activities Attainment</b>	<b>4% (optional)</b>	<b>88% (required)</b>	Literacy & Numeracy Gain (74%), Degree/Certificate Attainment (89%)
<b>Average Wage (2000-01)/ Earnings Gain (2002-03)</b>	<b>100% (required)</b>	<b>42% (information only)</b>	96%** (information only)

Source: updated from Heinrich & Choi (2007)

\* Required standards for obtaining RFS and performance bonuses

\*\* Using UI dataset for calculating earning gain

## To achieve earning gain standard,

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Q1-1: Did W-2 agencies alter the entry / exit of W-2 participants?

- In 2002, there was a decline in the share of exited W-2 participants to whom earnings gain standard was applied
- In 2002, percent of exit in entering year is lower for W-2 participants in the earnings gain std. applied group (CMF)

Q1-2: Did W-2 agencies select participants with higher earnings capacities?

- Since 2002, W-2 participants with higher earning have been placed in the earnings gain std. applied groups (CMF/CMU)

## Composition of W-2 Job Placements (1997~2005)

### Proportion of Exited Caseloads

	1st Contract			2nd Contract		3rd Contract		4th Contract	
	1997	1998	1999	2000	2001	2002	2003	2004	2005*
<b>CMF</b>	3.9	17.5	20.8	19.8	20.4	12.5	14.7	13.2	17.9
CMU	25.9	16.9	4.3	4.1	2.8	2.5	1.8	1.8	2.1
CMS	19.9	7.6	8.6	11.2	11.3	11.0	11.9	6.6	7.6
TJB	3.0	1.0	0.6	0.5	0.2	0.3	0.2	0.2	0.2
<b>CSJ</b>	22.7	34.3	37.1	30.9	30.7	38.0	35.1	39.1	31.7
W2T	11.0	11.2	15.0	17.8	17.9	18.8	19.2	21.4	22.4
CMC	12.2	11.1	13.2	14.9	15.7	15.9	15.9	16.6	17.4
Other	1.5	0.4	0.4	0.7	1.1	1.1	1.2	1.0	0.7
<b>N</b>	2,041	28,675	32,594	32,218	34,508	35,169	39,228	39,279	19,621

\* Includes exited participants in Jan-June/2005

- Since 2002, proportion of earnings gain std. applied group (CMF) has declined
- Share of lower-tier participants to whom earnings gain std. was not applied (e.g. CSJ) has increased since 2002

# Exit Pattern

: Earnings Gain Standard Applied Group (CMF)

		Exit Year							
		1st Contract			2nd Contract		3rd Contract		4th
		1997	1998	1999	2000	2001	2002	2003	2004
Entry Year	1997	25.5	72.3	1.3	1.0				
	1998		69.8	29.1	1.0	0.1			
	1999			66.2	33.2	0.6			
	2000				57.4	42.0	0.5		
	2001					71.2	27.6	1.2	
	2002						52.2	47.0	0.8
	2003							64.2	35.5
	2004								58.1

- Compared with other years, participants who entered in 2002 show lower percent of exit in the entering year

## Annual Earning Prior to Enter W-2 : Earnings Gain Standard Applied Group (CMF,CMU)

Year	1st Contract			2nd Contract		3rd Contract		4th Contract	
	1997	1998	1999	2000	2001	2002	2003	2004	2005
No Earning	13.3	12.7	14.3	40.4	56.8	41.3	33.3	30.9	31.9
\$1-5000	71.0	68.5	63.1	47.0	35.5	39.8	42.7	43.1	44.6
\$5000-15000	14.9	17.4	20.4	11.4	7.1	15.2	19.5	20.2	18.3
\$1500-25000	0.8	1.2	2.0	1.1	0.5	3.2	4.0	4.7	4.7
\$25,001+	0.1	0.2	0.1	0.1	0.1	0.5	0.6	1.0	0.5
N	2,027	10,873	8,532	8,119	6,732	6,148	5,646	6,558	1,328

- Since 2002, W-2 participants with higher earning have been placed in target groups

# Regression Analysis

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- **Dependent Variables**

- \$ quarter earnings gain (OLS regression), using 2004 constant \$
- Any earning gain (Probit Analysis)

- **Control Variables**

- Demographic characteristics
- Earning history
- Regional characteristics
- W-2 job placements when enter W-2

- **Comparison of “earnings gain std. applied group” with “non-applied group” across contracting periods**

- Selected CS1/TJB as a comparison group (employed participants, comparable with earnings gain std. applied group, CMF/CMU)
- Set CS1/TJB as base categories
- Difference-in-Difference estimator (Year\*CMFCMU)

Q2: Did the introduction of the earnings gain standard improve earnings gain of W-2 participants?

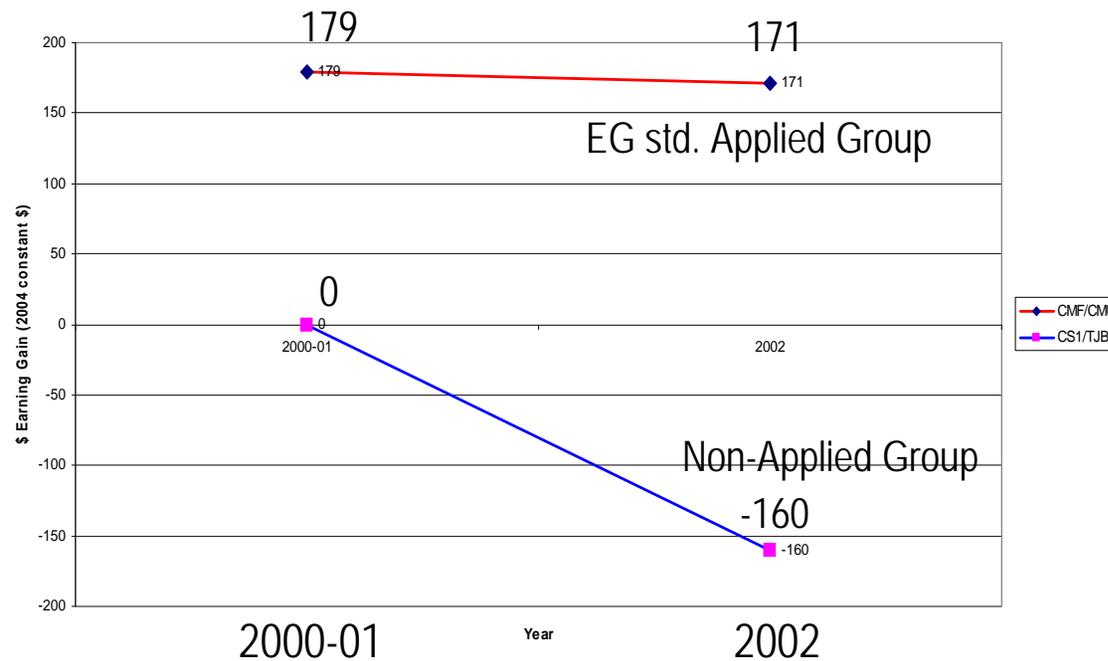
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Both OLS and Probit analysis suggest that:

- Applying earnings gain standard prevented decline in earning gain for the standard applied group in 2002, whereas other groups show decline in earnings gain
- Elimination of earning gain standard in 2003 reveals there is no difference in changes in earnings gain of the performance target group and the comparison group

# Earnings Gain Change from 2000-01 to 2002

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- While earnings gain std. applied group (CMF/CMU) maintain almost same level of earning gain (only \$8 decrease), comparison group (CS1/TJB) suffers \$160 decrease in earning gain from 2000-01 to 2002

# Conclusion

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- Performance contracting works
  - Under weak financial incentives and high unemployment rate, applying earnings gain standard contributed to maintaining earning gain for target group in 2002
  - Enforcing other employment related performance standards (e.g. entered employment, job retention) as required standards might induce W-2 agencies to improve economic performance of W-2 participants