



# ASPE

## RESEARCH BRIEF

### Successful Transitions out of Low-Wage Work for TANF Recipients

Researchers at the Urban Institute recently completed a study of employment and wage growth among TANF recipients and low-wage workers.<sup>1</sup> The study's three main questions were:

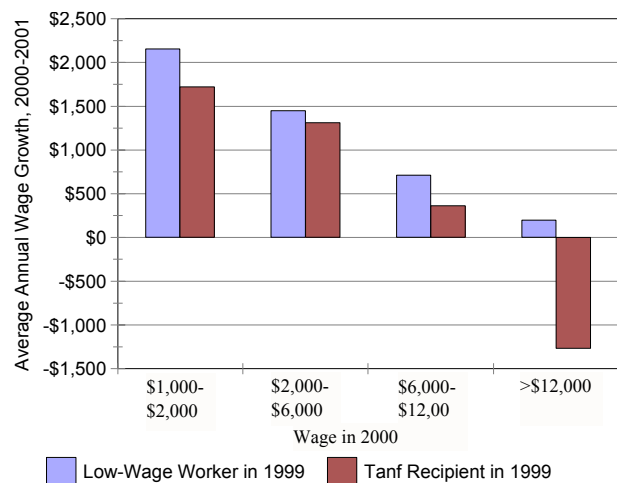
- How much are low-wage workers and TANF recipients working and what are their earnings? What wage growth do they experience and do they escape low-wage status?
- What factors contribute most to these job outcomes, and what types of employers are most associated with positive wage gains for low-wage workers and TANF recipients?
- How are opportunities for securing jobs with these types of employers changing in the low-wage labor market and how are low-wage job opportunities changing overall?

#### How much do they work and what do they earn?

Continued employment was high among those who began on TANF and were working in 1999, with 90% still working in 2000-2001, and workers averaging about 6 quarters of employment. Quarterly wages while working were roughly \$3,500. Employment outcomes were similar for all others who began as low-wage workers in 1999. Those who had been TANF recipients but did not work in 1999 had much poorer outcomes in 2000-2001, with only 30% working and averaging four quarters of work at \$1,900 per quarter.

#### How much wage growth do they experience?

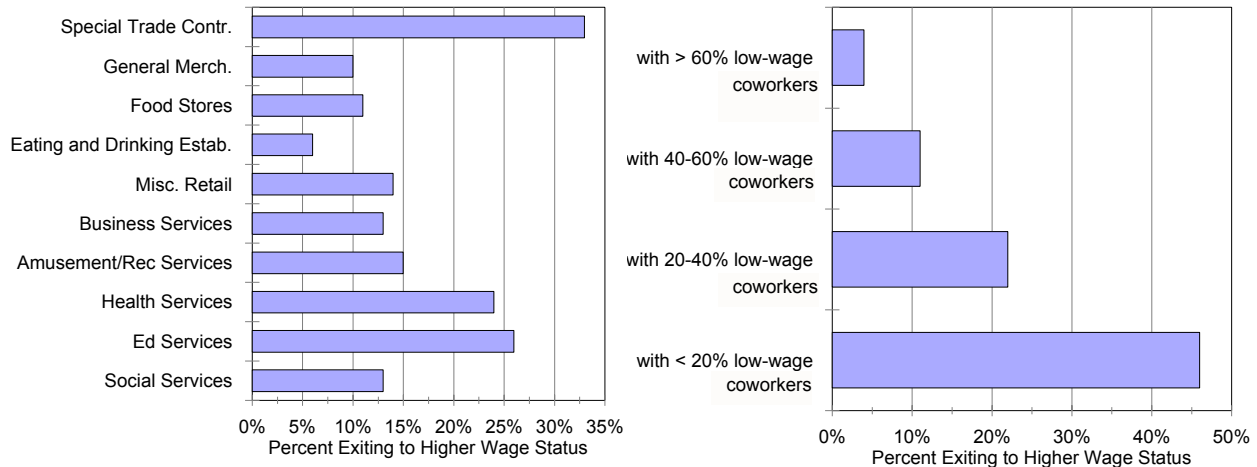
Average wages grew from 2000 to 2001 for both those who were low-wage or on TANF in 1999, although growth was smaller for those that had been on TANF. Average wage growth was greatest at the very bottom of the income distribution, as shown in graph to the right. Although average wages grew for most income groups, nearly 50 percent of workers within each group experienced wage declines (not shown).



<sup>1</sup> Based on Longitudinal Employer Household Dynamics (LEHD) data. Data link administrative records for workers and firms longitudinally. Data covered 9 states and over half of the labor market at time of study. Low wage defined as less than \$12,000 annually for two consecutive years. TANF receipt identified in 1999 and unknown thereafter.

### What types of jobs lead to an exit from low-wage status?

Overall, just over 20 percent of workers who had been on TANF in 1999 and just under 10 percent of low-wage workers fully exited into higher wage work by the 2000-2001 period (earning above \$15,000 in both years). Rates were noticeably higher, however, for low-wage workers in certain industries and for those working alongside higher-wage coworkers. For example, as shown in the graphs below, among those receiving TANF in 1999, 33 percent of those in special trade construction industries and 46 percent of those in firms with few (<20 percent) of low-wage co-workers entered higher wage status by the 2000-2001 period (according to the industry and the concentration of low-wage workers where they worked in 1999).



Multivariate analysis confirms that these and other factors had a significant effect on likelihood of exiting into higher wage status when controlling for a number of firm and worker characteristics. For example:

- Working in a firm larger than 25 employees raised the chances about 3 percentage points.
- Working in a primarily low-wage neighborhood lowered the chances nearly 4 points.
- In downsizing firms, chances fell by 4 points for every 1% of contraction in the firm.
- Working for a firm paying a “wage premium” raised the changes by about 18 points.<sup>2</sup>

### Are low-wage opportunities with these types of employers expanding?

The study found that the number of job opportunities in the low-wage labor market grew substantially from 1997 to 2001. At the same time, there was little change in the share of job opportunities associated with greater wage growth. For example, employment growth by industry varied widely, with no clear trend toward or away from industries with greater exits into higher wage status. Low-wage workers’ opportunity to work alongside higher-wage coworkers did improve, but only minimally. The same was true of the opportunity to work in neighborhoods with higher-wage workers. The study did find an increase in the wage premium (defined in footnote 2), both overall, and to a lesser extent, in firms, industries and neighborhoods where low-wage workers are most likely to be employed.

A full copy of the report is at: <http://aspe.hhs.gov/hsp/low-wage-workers-transitions04/>

<sup>2</sup> Wage premiums are above the going wage for a particular skill level. Reasons may include unionization, a preference to retain workers once they are trained, or tough working conditions that make recruitment difficult.