

Stimulating Opportunity:
An Evaluation of ARRA-Funded Subsidized
Employment Programs
Summary of Findings

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Summary of Findings

In 2009, in its efforts to stimulate the economy through the American Recovery and Reinvestment Act (ARRA), Congress included funding in the Temporary Assistance to Needy Families (TANF) Emergency Fund (EF) to help states cover the costs of creating new or expanding existing subsidized employment programs. All told, 39 states and the District of Columbia received approval to spend \$1.3 billion of the Emergency Fund on subsidized employment programs. While the goals and structures of the TANF EF-supported subsidized employment programs varied from jurisdiction to jurisdiction, they generally sought to create job opportunities for unemployed individuals so that they could earn immediate income and build experience and skills. Many programs also sought to reduce the costs and risks to employers of hiring during a slack economy and to stimulate local economies. In a short period of time, states implemented large-scale programs, creating more than 260,000 subsidized jobs.

While the TANF EF grants expired in September 2010, the programs had strong support from employers, workers, and state and local officials from across the political spectrum. Several states continue to operate subsidized employment programs and significant new investments in the strategy have been proposed at the federal level. With support from the Rockefeller Foundation, the Economic Mobility Corporation (Mobility) conducted a retrospective study of TANF EF-supported subsidized employment programs in five locations to investigate what we could learn about workers' and employers' experiences to inform future policy and program design decisions. Our findings are based on an analysis of data provided by the states on participants' characteristics, subsidized employment experiences, and pre-and post-program employment and earnings and a survey we conducted with participating employers.

Our report provides evidence about the effectiveness of subsidized employment programs in helping the unemployed re-enter the labor market while stimulating job growth and addressing employers' workforce needs. It also offers lessons about how program design influences worker and employer outcomes. Our main findings about program effectiveness include the following:

- **Subsidized employment programs can have a significant positive impact on low-income job seekers' employment and earnings.**

In Florida, where we have information about the outcomes of a strong comparison group of individuals who were eligible for but did not take part in subsidized employment, program participants experienced significantly greater increases in unsubsidized employment and earnings than members of the comparison group did. Notably, participants experienced a \$4,000 average increase in earnings from the year before the program to the year after the program compared to a \$1,500 average increase among comparison group members.

Participants in three of the other four study sites had similar increases in unsubsidized employment and earnings as those experienced by participants in Florida, although in these locations, we do not have employment and earnings data for comparison groups. The results show that workers participating in different types of subsidized employment programs experienced positive outcomes.

- **Most employers created jobs that would not have existed otherwise.**

Sixty-three percent of employers across the states we examined said they generated jobs that would not have existed otherwise in order to employ the subsidized workers, suggesting that subsidized employment programs can help stimulate business growth. Employers also saw benefits to their bottom line and were eager to participate in similar subsidized employment programs in the future.

- **The long-term unemployed experienced particularly large employment and earnings gains.**

The subsidized employment programs we studied offered particular benefits to job seekers who have been unemployed for more than six months. In most sites, a large part of the changes in participant earnings from the year before to the year after program participation were driven by improvements made among these long-term unemployed workers.

- **Programs also benefitted participants with significant barriers to employment.**

Individuals with significant barriers to employment, including TANF recipients and those with criminal records, also experienced large increases in unsubsidized employment and earnings from the year before to the year after participating in the programs.

The findings also suggest some lessons for policymakers and practitioners designing subsidized employment programs.

- The flexibility of the ARRA funding allowed for wide variations in program goals, job seeker eligibility, the lengths and depths of subsidies, and required employer commitments. While the details of the programs varied, the sites we studied implemented subsidized employment programs that followed one of two basic models. In one, subsidized workers were hired by employers, earned prevailing wages for their jobs, and did not receive support beyond assistance obtaining a subsidized job. In the other, subsidized workers were on the payroll of a third party rather than the employer where they performed the work, were paid a fixed wage, and received job readiness training and counseling to help them succeed in their subsidized positions and transition to unsubsidized employment. Workers in both types of program models experienced increases in unsubsidized employment and earnings after participating in the programs.
- Subsidized workers were more likely to be retained by their employers after the subsidy period ended if the programs required employers to place subsidized

workers on their payrolls immediately, offered partial or stepped-down subsidies that required employers to begin partly covering wages soon after employment began, and set expectations that employers retain workers who perform well.

- Programs that placed subsidized workers on the payroll of a third party intermediary and required minimal commitment from the employers where the work was performed were able to serve more disadvantaged participants, including more long-term unemployed participants, TANF recipients, and individuals with criminal convictions. While retention rates by the subsidized employers were lower in these programs than in programs where employers hired subsidized workers directly, participants in these programs experienced substantial increases in unsubsidized employment rates from the year before to the year after program participation, indicating that many participants found unsubsidized employment elsewhere after working in subsidized positions.
- When programs did not ask employers to commit to retaining workers after the subsidy period ended, participant outcomes were better where the programs provided workers individualized assistance with obtaining unsubsidized employment and subcontractors received monetary incentives for making unsubsidized placements. Post-program employment rates in such programs were also better when the hourly wages participants earned in the subsidized jobs were lower. In order to promote the transition to unsubsidized employment, when setting wage rates for subsidized jobs or limits on the wages of jobs that are eligible for subsidies, programs should consider whether participants can obtain unsubsidized employment at similar or better wages either on their own or with the assistance of program staff.
- Across the sites, employers reported retaining 37 percent of the subsidized workers after the subsidy period ended, and the most common reasons given for not retaining workers were poor attendance and other performance issues. Program designers may need to build more supports into subsidized employment programs for workers with limited work histories to help them succeed on the job and to increase post-subsidy retention. The most common supports needed, according to employers, were child care, transportation, coaching on communication skills, and computer training.
- All of the sites were successful in engaging for-profit employers in the programs, and these employers were more likely than non-profits and public agencies to retain workers after the subsidy period ended. For-profits were also more willing to participate in programs that offered partial subsidies.
- Non-profits and public agencies may be more willing to take on workers with less work experience and education than their typical employees, providing opportunities for those more disadvantaged in the labor market to gain work experience. However, they were less likely to have the resources to keep the workers on after the subsidies ended.

In sum, the results of the comparison group analysis in Florida and the similar gains participants realized at the other study sites suggest that subsidized employment can be an effective strategy for helping unemployed, low-income individuals move into employment and increase their earnings. Unlike subsidized employment programs of the past that relied on public sector employment, the EF-supported programs engaged the private sector in creating job opportunities, and private employers realized substantial benefits from participating in the programs. The findings are particularly important for the nation's millions of long-term unemployed workers, including those who lost jobs as a result of the economic downturn and those who face barriers to employment due to limited work histories and skills.