

## **Performing for Prizes:**

### **The High Performance Bonus as an Instrument for Improving Management of American Social Assistance**

9<sup>th</sup> Public Management Research Conference  
**Public Management Research Association**  
Tucson, Arizona, 25-27 October 2007

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22 October 2007

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## **Abstract**

The Personal Responsibility and Work Opportunity Act of 1996 authorized payment of a bonus to states with exceptional Temporary Assistance for Needy Families (TANF) programs based on a formula to be established by the Department of Health and Human Services. The resulting High Performance Bonus (HPB) awards were made for federal fiscal years 1998-2003. The HPB is an interesting attempt at creating positive financial incentives for improving public sector performance in context of multiple governments. This paper reviews the development of the HPB program, explores the underlying data related to employment, and identifies certain conceptual, statistical, and administrative problems. The reliability of HPB data as a source of information on state TANF programs improved over time, principally as the result of shift of responsibility for performance assessment to the federal government and to use of information from a national data source. The data reveal significant differences across states in patterns of TANF receipt that should be the object of study both as consequences of differences in client populations and specific state program content. The HPB measures and the underlying data had quirks that deserved more attention than was paid. The program was terminated when the TANF program was reauthorized in late 2005. The HPB experience presents a number of lessons for policymakers interested in the architecture and politics of performance incentive systems.

Keywords: High Performance Bonus, TANF, agency performance, National Directory of New Hires

# **Performing for Prizes:**

## **The High Performance Bonus as an Instrument for Improving Management of American Social Assistance**

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The Personal Responsibility and Work Opportunity Act (PRWORA), passed by Congress in 1996 and made law with President Clinton's signature, identified ending "the dependence of needy parents on government benefits by promoting job preparation, work, and marriage" as the third goal of the Temporary Assistance for Needy Families (TANF) program. To promote attainment of this end, the law authorized payment of a bonus to "high performing states" based on a formula to be established by the Department of Health and Human Services (henceforth DHHS) in consultation with the National Governors Association and the American Public Welfare Association (now the American Public Human Services Association). Over six subsequent award cycles the High Performance Bonus (HPB) program distributed \$1.2 billion dollars to states. Nevertheless, the HPB was eliminated when the TANF program was "reauthorized" by Congress in the Deficit Reduction Act of 2005. This paper reviews the development of the HPB program, explores the underlying data related to employment, identifies certain conceptual, statistical, and administrative problems, and discusses the factors that contributed to its demise.

Interest in the HPB is justified for a number of reasons. Obviously, awarding the bonus required measures of state government performance. How such measures should be designed and used in management of intergovernmental affairs is a matter of great practitioner and scholarly concern (Behn 2003); there may be lessons to be learned, confirmed, or contradicted from an HPB case study that will be of use in quite different contexts. HPB results are cast in the form of a league table, a report card that ranks states on several dimensions of performance (Gormley and Weimer 1999). The content of the HPB report card and the weights changed over time. Given some definition of "better," it is interesting to ask why these adjustments have come about and whether the HPB was improved as a result.

In social assistance research and management, we are accustomed to thinking, indeed often obsessing, about the nature and consequences of incentives for individual behavior that social assistance systems create.<sup>1</sup> In contrast, the incentives the HPB creates are aimed at state administrative and political leadership. It may be that the consequences of the publicity and information generated by the awards are of much greater import for influencing agency behavior than the cash. In Gormley and Weimer's (1999, 134) terms, we are interested in

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<sup>1</sup> For numerous examples across a variety of American means-tested programs, see Moffitt (2004).

whether responses to the HPB report card and cash are “functional,” that is increase the social value of TANF program outcomes.

Interest in the HPB might also be justified by links between HPB operation and assessment in other programs. The HPB employment-related performance measures are in most respects identical to those promoted by the White House Office of Management and Budget for all employment training programs and incorporated in recent revisions of the performance standards used by the Department of Labor in assessing state employment services outcomes.<sup>2</sup> The Department of Agriculture has initiated a High Performance Bonus system for rewarding states judged to have exceptionally well managed Food Stamp Program operations (DOA/FNS 2003).

From the European perspective, most aspects of U.S. social policy seem odd, and the design and targeting of the High Performance Bonus will not be an exception on this score. However, some of the issues encountered in the design and implementation of the HPB in the context of American federalism are relevant to the evolving institutions for coordination of social policy across the member states of the European Union. Indeed, Robert Walker and I have argued that features of the much-maligned “Open Method of Coordination” deserve attention from American policymakers looking for ways to better structure how the HPB is done, should the policy be resurrected (Walker and Wiseman 2006).

Finally, the HPB program produced a new set of data on the experience of assistance recipients. These data may well prove useful for improving understanding of the consequences of variation in state TANF programs for the current and future well-being of the poor who come to government for help. Such information “spillovers” may be an important byproduct of performance management systems, and should be considered in their construction.

These justifications encourage using the HPB to address many different questions, any one of which could constitute a separate paper. The core purpose of this essay is to provide the detail on HPB system operation that is the essential base camp for such expeditions.

## **Background**

PRWORA was the culmination of a decade of struggle over welfare reform. PRWORA replaced the Aid to Families with Dependent Children program established (under a different name) by the Social Security Act of 1936 with TANF. AFDC was a joint federal-state program of cash and other assistance for poor (as the name indicates) families with children. AFDC was operated by states with substantial federal procedural regulation and under a financing arrangement whereby the federal government paid a portion of all benefit and administration costs. TANF, heralded as “ending welfare as we knew it” (Weaver 2000) altered both the administrative and financial relationship between the federal and state

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<sup>2</sup> See the April 24, 2002 memorandum to heads of federal executive departments and agencies from Mitchell E. Daniels, Jr., the OMB Director, on planning for the FY2004 federal budget (<http://www.whitehouse.gov/omb/budintegration/common.html>; accessed 5/18/2006). Recent changes in Workforce Investment Act performance measures are available on the Employment and Training Administration’s website: See the description of the agency’s Management Information and Longitudinal Evaluation (EMILE) Reporting System at <http://www.doleta.gov/performance/EMILE/EMILE.cfm> (accessed 5/18/2006). For a critical discussion of WIA performance measures, see Heinrich (2007).

governments.<sup>3</sup> States were granted much more discretion in design and administration of TANF programs than had been true for AFDC, and the federal role in finance was changed from an “open-ended” commitment to share in all expenses—a “matching” grant—to a block grant invariant with caseload. While PRWORA was intended by its authors to reduce the federal role in social assistance administration, the law included some requirements for participation by adult recipients in welfare-to-work programs and, famously, a time limit on federal contribution for assistance in individual cases.

Participation by states in the TANF High Performance Bonus program was voluntary, and the financial incentives were never large. The original HPB appropriation was \$1 billion, to be distributed on the basis of performance over each of the five fiscal years beginning with FY 1998.<sup>4</sup> The Department of Health and Human Services elected to distribute the funds evenly across the years, so approximately \$200 million was paid out for each year, with the last award from the initial appropriation, for performance in FY2002, made in September 2003. A sixth round of awards, made on the basis of a supplemental appropriation, occurred in 2004 for FY2003. States reported data to the administering agency, the Office of Family Assistance in the DHHS Administration for Children and Families (ACF) throughout 2004 in anticipation of an award in 2005.

The HPB fiscal stakes were small: \$200 million amounted to less than one percent of annual TANF expenditures (the total federal TANF block grant to states amounts to \$16.5 billion per year; combined federal funds and required state spending for FY 1999 was \$22.6 billion), and no state was allowed to receive in any year an amount greater than 5 percent of its TANF block grant. Nevertheless, the program was evidently viewed as important by states. In the first year of competition 46 states<sup>5</sup> competed; 49 and 50 participated for FY 1999 and FY 2000 respectively. New York was the lone FY2001 and FY2002 holdout, but that state chose to compete in FY2003 and submitted data for the FY2004 competition that was never funded.

As required by PRWORA, the HPB criteria were developed in consultation with the National Governors’ Association, the American Public Human Services Association, and a variety of other interested parties (DHHS 2000, 52816). The bonus awards for FY1998, FY1999, and FY2000 were based on four work measures: Job Entry, Success in the Work Force (a measure based on employment retention and earnings gains), and improvement from the prior fiscal year in each of these measures. For each, the ten states with the highest performance received awards. It was unusual for states to gain awards in all four categories, and therefore it was possible for more than 10 states to receive the accolade. The awards for FY 1998 went to 27 states (more than half of states entering the competition). Twenty eight states also won bonuses for performance in FY1999, and 27 states did so in for FY2000. In FY2000 two states—Iowa and Montana—received awards in three categories, nine received awards in two, and the remaining 16 received awards in one (DHHS 2002a, V-3). States were not obligated to compete on all performance measures, but most states eventually did.

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<sup>3</sup> For an overview of TANF operation, see Walker and Wiseman 2003, chapter 2.

<sup>4</sup> Some HPB documents draw a distinction between HPB Performance Year (the fiscal year to which data refer) and Award Year (the fiscal year in which awards are actually made). Unless otherwise noted, all references in this paper are to performance years. The federal fiscal year, denoted in this paper with the prefix FY, runs from October 1 to September 30<sup>th</sup>; thus FY1998 begins in October, 1997.

<sup>5</sup> Throughout this paper the term “state” will include the District of Columbia.

Over time, the program evolved. The horizon over which job retention was assessed was expanded, the relative weighting of employment retention and earnings gains in the success in the workforce measure was changed, and measurement of the various change indicators was changed from percentage change in rates to simple differences. In 1999, DHHS, with encouragement from various parties, began efforts to expand the criteria used for awarding the HPB to include measures of state success in raising participation in support programs for working families and in promoting family formation and stability (DHHS 1999, 68202). The effort proved controversial. In the course of negotiation over candidate performance indicators, the number multiplied. Beginning with the awards made for performance in FY2001 and continuing through FY2002, the bonus criteria included, in addition to the four employment-related measures, indicators for:

- The rate at which former TANF recipients enrolled in medical assistance programs for families and children (Medicaid/State Child Health Insurance Program)
- Increase in medical assistance program enrollment rates of former TANF recipients
- Food Stamp participation rates of low-income working households with children (the Food Stamp program is a national, means-tested subsidy for food purchase)
- Increase in Food Stamp participation rates of low-income working households with children
- State performance in payment of child-care subsidies
- Year-over-year Increase in the percent of children living in married-couple families

These additions increased the number of opportunities for winning something from four to ten. Table 1 shows the outcome; when awards for FY2001 and FY2002 were announced in late September 2003, 46 states won something. In what turned out to be the last HPB report (for FY2003), 38 states gained recognition in some category; 29 did it in 2 or more.

[\[Figures and tables are bound at the end of the paper\]](#)

**Table 1:** High Performance Bonus Winners, FY1999-2003

This paper concentrates on the employment measures. Despite the multiplication of performance indicators, the employment measures continued through FY2003 to be the basis for allocation of the lion's share (\$140 million) of the \$200 million annual reward. The TANF reauthorization bill passed in 2005 by the House of Representatives (H.R. 240, the "Personal Responsibility, Work, and Family Promotion Act of 2005") retained only the employment measures and relabeled the program the "Employment Achievement Bonus." While H.R. 240 was superseded by the reauthorization provisions in the Deficit Reduction Act of 2005, the bill did signal the importance attached to the employment measures by Congress. The employment indicators were seasoned by longevity; development of procedures for assessing performance on these other dimensions was difficult and delayed announcement of the FY2001 awards. While the structure of the employment indicators

remained constant, the information base for calculation changed in a way that offers promise for future analytic work by scholars interested in the consequences of variation in state TANF programs for welfare take-up, case duration, and movement to jobs.

## Construction

The motivation for and design of incentive systems is the province of agency theory, and it is natural to look to the agency literature as a source of ideas for study of bonuses as well as other features of intergovernmental fiscal relations (Dixit 2003). The “informativeness principle” in agency theory is that any source of information that adds to what the principal knows about agent performance should be used, subject to the usual benefit/cost assessment (Prendergast 1999). An important source of information on performance is comparison of achievement to that of others. The attractiveness of relative performance evaluation is enhanced in circumstances in which outcomes for all agents are subject to a common random element that changes absolute, but not relative accomplishment. In this circumstance use of relative evaluation reduces agent risk, and this raises effort.

Interstate comparison of performance was central to the High Performance Bonus, and insofar as some dimensions of state performance were contingent upon the national economy, this “random element” did threaten absolute state performance on the dimensions the HPB assessed. However, it is important that comparative performance assessment rely on comparable data. Understanding of both the construction and difficulty of administration of the employment indicators is facilitated by looking at the form—the “ACF-200”—states were expected to produce for the FY2000 award. While responsibility for calculations was subsequently assumed by the Administration for Children and Families, the calculation template established by this form continued to be employed throughout the life of the program. *Caveat lector*: Getting through these procedures is hard slogging; readers uninterested in detail may want to skip to the section summary on page 9 below.

### *Form ACF-200*

Form ACF-200 is reproduced as Figure 1. State TANF agencies engaged in any category of the HPB competition for performance year FY2000 were required to produce this form for each quarter and to send the results to the Administration for Children and Families. States were asked to record both outcomes for FY2000 and for FY1999; this was the basis for calculating changes in performance. The form includes a column for adults in “Separate State TANF-MOE (maintenance of effort) programs.” Expenditures in these Separate State Programs (SSPs) meet the federal definition of assistance and were counted in assessing whether or not states meet the expenditure requirements specified by PRWORA. They are nominally paid for using only state, and not federal, funds. Adults in these programs are not included in the HPB competition. SSPs and the consequence of the SSP option for the HPB are discussed later in the paper.

[\[Figures and tables are bound at the end of the paper\]](#)

**Figure 1:** State TANF High Performance Bonus Report

### *The Job Entry Rate*

Items (1)-(4) were the source of the state’s Job Entry Rate (JER). The first row is simply the number of adult recipients receiving a TANF payment during the quarter. The HPB

employment measures cover only adults, so cases involving only benefits for children are not involved. There are no exclusions, even though some of the counted adults might be exempted from TANF work requirements. The second row is a running total: Adults were added to this figure by virtue of (a) being TANF recipients at some point during the fiscal year and (b) being simultaneously jobless. An adult got counted only once. As a result, for the first quarter the totals for line (2) are subsets of the figures reported in line (1), but this is not the case in subsequent quarters.

In contrast to the unemployed count, item (3) is not a cumulative number; it is simply the number of adult recipients who worked at some job during the quarter. The same adult could appear in this total for several quarters running, as long as she was also at some point during the quarter a TANF recipient and also at some point had a job for which earnings were reported. However, recipients could score a “first time job entry” (Item (4)) only once during the year.

The JER is the sum over all four quarters of (4), adults who had a first-time job entry during the fiscal year divided by the final quarter entry for (2), adults who were ever unemployed TANF recipients during the fiscal year. This is just the proportion of ever unemployed TANF recipients who found at least one job. Therefore the calculation of the JER calls for (a) an adult recipient roster, (b) a means of identifying those recipients who were at any point during the year simultaneously receiving benefit and unemployed, and (c) a means of identifying job-takers, the subset of (b) who became employed at some point during the year. The “first time” restriction is intended to prevent states from gaining credit for multiple placements of the same individual.

Note the following:

- Construction of the Job Entry did not require information on earnings, just TANF and employment status. The “as a recipient in the quarter” restriction in (4) ensured that the only new employment that counted was jobs taken by recipients, but the duration of joblessness required to count a recipient as unemployed was unspecified.
- Some states have diversion programs, and use TANF money to fund them. The object of these programs is to prevent families seeking TANF assistance from “going on the rolls” by job placement or with a single-payment buyout. As of mid-2003 more than half of all state TANF programs included provision for diversion payments (Rowe with Versteeg, 2004, Table I.A.1). Despite the importance attached by the HPB to moving TANF recipients to work, job placements for applicants are not included in the HPB because a diverted applicant never counts as a recipient.
- All job entries count the same. Job placements are not differentiated, for example, on the basis of factors—like recipient skills and experience—affecting ease of placement and likely duration of joblessness in the absence of intervention.
- There was in the 2000 procedures considerable room for state discretion in defining both what counted as unemployment and what counted as job entry.

Both the level of the Job Entry Rate and the change from the preceding year were considered in ranking states for the FY2000-FY2003 awards. Inclusion of both level and change dimensions was justified on grounds that while levels might be influenced by exceptional

state advantage or disadvantage due to economic or social circumstances, any states could presumably improve and compete for award for change.

### *The Job Retention Rate*

The Success in the Workforce measure had two components, the “Job Retention Rate” (JRR) and “Earnings Gain Rate” (EGR), which were independently ranked and then combined. (After some false starts this is done by summing the two ranks and then ranking the sum.) In this discussion the two measures will be considered separately. They are linked in that all of the information required for the EGR is required as well for the JRR.

The JRR was based on employment *at any time* during the quarter. This encouraged use of earnings data reported quarterly by employers to State Employment Security Agencies (SESAs) as part of the Unemployment Insurance system. SESA data include neither hours of work nor wage rates or information on the monthly pattern of work within the quarter. As a result, it is possible that counted employment could occur in a month of the quarter in which the adult is not actually a TANF recipient. This is less rigorous than the definition used for the JER, which referred explicitly to entering employment *as a recipient*.

Interpreted on a quarterly basis, the Job Retention Rate was the ratio of the number in item 5(c) of ACF-200 to item (3) expressed as a percent, that is the percentage of the quarter’s recipients who were employed at some time in the measured quarter who were also employed in the two subsequent quarters. In practice, the values for the 5(c) were summed over all four quarters and divided by the sum of (3); this makes the annual figure the weighted average of the quarterly rates, with the weights determined by the relative number of employed recipients in each quarter.

Again, some notes: First, while the JRR was anchored in the set of adults receiving TANF at some time in the current quarter, being counted for Job Retention does not require sustained TANF receipt or even receipt beyond the current quarter. Second, *job* retention is a misnomer. All that was required was employment, so jobs could change. Moreover, it was possible for the adult to have several periods of joblessness and still be counted as retaining jobs. What counts is some employment in the current, following, and second following quarters. Third, use of SESA data is consistent with analysis frameworks generally used in evaluating the employment effects of state welfare initiatives in the U.S., and in principal it meant states would be using a dataset accumulated under standard rules and maintained under federal supervision. However, by definition state SESA data include only earnings gained in the reporting state, so job placements made across borders in FY2000 did not get “scored” for the HPB, just as such employment is missed in many state program evaluations. Employment in the federal government was missed altogether, because such employment is not reported to state agencies.

### *Earnings Gain Rate and the Time Frame*

Finally, the Earnings Gain Rate was item (7) summed over all four quarters divided by the sum over all four quarters of item (6). It is the weighted quarterly average of the ratio of earnings two quarters hence to earnings in the current quarter for recipients with earnings in both quarters. The EGR amounts to a weighted average of the earnings gain rates for each quarter. The weights are each quarter’s aggregate current earnings for those recipients who have earnings both in the current quarter and two quarters in the future.

Both the JRR and EGR for the last quarter of the fiscal year require information on earnings during the subsequent two quarters—six months into the future. While sensible (job retention surely means retaining over time), the JRR and EGR formulas substantially extended the time lag between program accomplishment and data delivery. Assembly of earnings data at the state level requires at least a month after a quarter ends. So even under the most favorable of circumstances a state's complete fiscal year HPB report would be available only by the *fourth* quarter of the following fiscal year, for it is only at that point that all the data required for calculation of results for the last quarter will be available. The consequence was over a year's lag between the completion of the reference period for bonus award and announcement of state performance. This substantially reduces the relevance of the information collected to management decision making. In principle, states wishing to have more timely information on HPB indicators could have kept track of the development of the various measures as data were accumulated and, in years subsequent to the first, compared current to past performance as data for each quarter of the fiscal year are completed. I have found no examples of states that did so.

Presumably state performance on these dimensions reflects managerial competence. However, there can be little doubt that success in finding jobs, sustaining employment, and improving earnings is dependent as well upon the nature of state economies and the characteristics of adult recipients and their family situations. The HPB measures were not adjusted for variations in state circumstances over the interval covered by the award that were beyond the control of policy makers and program operators. Moreover, some of the outcomes were likely influenced by state policies that are not directly related to employment-oriented services. For example, a state with a liberal policy of access to benefits for unemployed workers may take in more recipients for whom return to work is prompt; this would under ACF 200 procedures raise job entry rates with or without active efforts at employment promotion.

#### *Implementation and Early Experience*

As might be anticipated, the first rounds of data collection for the HPB were administratively traumatic. Not only are the item definitions arcane, but most states lacked experience with matching TANF case rosters to SESA data and performing the calculations required.

The performance results submitted by states to DHHS were not audited. The consequence was uncertainty and questions about their reliability. Suspicions were fueled by some exceptional accomplishments. Indiana won \$6 million in FY2000 for achieving a Job Entry Rate in FY1998 of 88.4 percent, 3.4 standard deviations above the participating state mean of 42.6 percent. Significantly, the greatest variance in state performance was associated with the Job Entry Rate, the measure that offered the greatest opportunity for variation in state interpretation, data sources, and computation procedures.

These problems, combined with concern that the focus of the employment-related HPB elements was too narrow, prompted a decision to shift responsibility for HPB calculation to the Administration for Children and Families and to include additional measures of assistance outcomes. Beginning with the HPB awards for FY2001, ACF assembled the data for the HPB indicators and performed the required calculations both for the employment indicators as well as the additional measures already cited. The employment indicators continue to be the focus of this discussion.

### *Summary*

Performance assessment requires data. Comparison of performance is informative only if standard procedures are applied to data collected in similar fashion across units. The employment measures developed for the High Performance Bonus—the Job Entry Rate, the Job Retention Rate, and the Earnings Gain Rate—relied on the ability of states both to identify recipients and to determine employment status and earnings. The principal source of earnings data was the national system of earnings reports created to support the Unemployment Insurance Benefits program and operated by State Employment Security Agencies. The SESA data are limited to aggregate earnings (not wage rates or hours of work) and are reported quarterly, while recipient status for adult is assessed on a monthly basis, so use of SESA data to identify job taking, employment retention, and earnings gain inevitably involved compromises. The greatest opportunity for variation in state procedures initially occurred in computation of the Job Entry Rate, and early results suggested that states were not all following the same method in compiling this measure. None of the employment-related performance measures was adjusted for differences across states in economic or demographic factors that might influence outcomes apart from management expertise. It was argued by some that inclusion of measures of year-over-year change in performance compensated for lack of control for exogenous performance determinants, since poor performers presumably had greatest opportunity for change. Problems in ensuring uniformity of data collection and assessment as well as a desire to broaden the collection of outcomes used to judge performance led to shift of responsibility for HPB calculation to the federal government.

### **Federal Assumption**

In addition to ensuring uniformity in procedures, the shift to ACF gained the potentially great advantage of access to the Federal Parent Locator Service (FPLS) database (Committee on Ways and Means 2004, 8-5). Established by the same legislation that created TANF, the FPLS is a national repository of earnings and employment information. It was created to provide a national location system to assist states in locating parents to enforce and modify orders for child support, child custody, and visitation. The core of the FPLS is the National Directory of New Hires (NDNH). The NDNH gains its name from the federal requirement that all employers report to State Directory of New Hires services the names and social security numbers of new employees; but from the perspective of the HPB what counts is that the NDNH includes all quarterly wage data. The agency also receives information on most federal employees. These advantages led the Administration for Children and Families to decide to base all the employment indicators on NDNH data.

### *Using the FPLS*

The FPLS is operated by the Office of Child Support Enforcement (OCSE) within the Administration for Children and Families. This administrative connection (as well as geographic connection, since the agencies reside in the same building) to the Office of Family Assistance facilitates use of NDNH data. However, the privacy of the data is jealously guarded. Satisfying the OCSE protocols required development of a complex procedure for information exchange.

The new regime substantially reduced state computational burdens. States were required only to report monthly rosters of adult TANF recipients that included the recipient's name and Social Security number. Staff at the Office of Family Assistance combined the monthly

rosters into a quarterly roster by eliminating duplicates. Cases missing Social Security numbers received follow-up attention by states. Once each quarter's roster was completed, the files were transmitted to the OCSE for matching with NDNH data. Each adult was assigned a "pseudo" social security number, and the observations were returned to ACF with quarterly earnings reported for the original SSN. The returned data include earnings for the current quarter, the preceding quarter, and the two following quarters, as illustrated for FY2000 in Figure 2.

[Figures and tables are bound at the end of the paper]

**Figure 2:** The HPB Time Line

The key that links actual Social Security Numbers to the pseudo-SSN substitutes was maintained by OCSE. Significantly, the same substitute was used for each quarter, offering the prospect of using the HPB data to accumulate longitudinal information on TANF receipt, something otherwise available only from specialized surveys lacking the size or the reliability of the administrative data used in the HPB.

### *The Quarterly Earnings Window and HPB Performance*

Given the focus on NDNH data, some modification of procedures for calculation of the HPB indicators was required. In general ACF analysts attempted to mimic the procedures organized by Form ACF 200. As might be expected given the latitude originally granted states in defining what counted as job entry and unemployment, the most significant procedural changes occur in scoring of job entries.

Beginning in FY2001, a state scored a Job Entry (item 4 from ACF-200; see Figure 1) if a recipient: (a) had not previously in the fiscal year been counted as a job entry; (b) had positive earnings in the NDNH database for the current quarter; and (c) had no earnings in the preceding quarter. A recipient is counted as an unemployed adult recipient if (i) she had not previously in the fiscal year been counted as an unemployed recipient and (ii) she had no earnings in the current quarter, or (iii) if she was receiving TANF in the first quarter of the fiscal year, had earnings in the first quarter the fiscal year, and had no earnings in the last quarter of the preceding year. People in case (iii) therefore counted simultaneously for job entry, unemployment, and as an employed recipient.

These adjustments were required largely because of the ambiguity surrounding the timing of TANF receipt and employment when only quarterly earnings data were used to identify job-taking. Note the new data made the standard for job entry much more rigorous than that originally applied. Under the earlier procedures (see the discussion of Form ACF-200 above), a job entry was scored for each TANF adult who moved into employment while receiving benefits, subject to the restriction that only one job entry could be counted per recipient per fiscal year. The requirement for being counted among the unemployed was any spell of joblessness while receiving benefits, no matter how brief. After the switch to the NDNH, it is necessary that employment occur only during the same quarter as TANF receipt, but such employment counted as job entry only if preceded by at least three months of joblessness in a spell that at minimum covered a calendar quarter.

The consequences of the restriction are illustrated by Figure 3. Consider a TANF-eligible adult in some state who was employed at the beginning of federal fiscal year 2000, i.e. in October, 1999. This person's monthly pattern of TANF receipt and employment are marked

by shading the cells representing each month. Suppose this person loses her job at the end of October and, after a month of unsuccessful job search, applies and qualifies for TANF beginning in January. Her job search continues, presumably prompted and facilitated by her TANF agency. The effort pays off and she begins work again in March. She closes her TANF case at the end of April, but, as the chart indicates, she loses her job in May. This time she returns to TANF more quickly (in many states case restoration under such circumstances would be conducted on a “fast track”) and resumes benefits in July. She again finds a job and, after working for two months, her case closes. The job—and separation from TANF—continues through the end of calendar 2000 and presumably beyond.

[Figures and tables are bound at the end of the paper]

**Figure 3:** Hypothetical TANF Receipt and Employment Example

How would the history revealed schematically in Figure 3 be scored? Clearly under the rules reflected in ACF 200, the job entry in March would have counted. The depicted recipient was receiving TANF, she was unemployed, and she went to work. But under the new system, there is *no* job entry here. She was employed in the previous quarter (FY2000:1), so the NDNH data should include an earnings record. By virtue of her new job, she is employed in FY2000:2. Indeed, she is employed in every quarter, so there is no job entry. On the other hand, she will be counted in calculations of both the Job Retention Rate and Earnings Gain Rate. Oddly, despite the checkered pattern of employment, she will count as having retained her employment, since she has at least one month of employment in each quarter. Her FY2000:2 experience will contribute as well to the state’s earnings gain measure: Her March earnings will go in the denominator, and her earnings in July, August, and September will go in the numerator. She will also contribute for FY2000:3. We cannot evaluate her contribution during the last quarter of the fiscal year without knowing what happens to her in FY2001:2—off the diagram.

But here’s the (or at least another) problem: Suppose everything depicted in the diagram occurred just one month later—as in Figure 4. Then the new job (now beginning in April) would count as a job entry, because the recipient would have been jobless for the entire second quarter. Job retention would be lost, since the first following quarter is spent jobless. Earnings gain would change, because now the comparison is between quarters with different numbers of months worked and for one quarter—FY2000:2—there’s no employment, so no gain is computed. This would not happen under the old system, assuming the state would count the job entry as such and recognize that, prior to the event, the recipient was jobless.

[Figures and tables are bound at the end of the paper]

**Figure 4:** TANF Receipt and Employment Example Delayed One Month

### *Outliers*

It is common in discussions of strategies for improving welfare management in the U.S. for analysts to promote use of administrative data as a timely and reliable source of information. Indeed, administrative data has the virtue that it is generated by the systems being managed and is often available much more quickly than data from other sources. However, in practice the acquisition, filtration, and interpretation of such data presents substantial problems. The NDNH data were not exceptional in this regard.

The NDNH database was created to assist in collection of child support. For this activity, it is finding the parent and establishing and enforcing a child support order that is important. The success indicator is the number of such connections that are made, not the accuracy of reporting of individual quarterly data by the SESA. Early on in data analysis for the HPB, it was discovered that a small number of earnings records contained obvious errors. The problem is illustrated in Table 2, which shows the largest observed earnings report for all participating states for each of the quarterly data in the FY2000 data in each of the quarterly data sets. The champion, at \$21.4 million, was reported for FY2001:2 for a person who received TANF benefits in FY2000:4 in Illinois. This would seem a significant achievement for a TANF recipient, even in the Midwest!

[\[Figures and tables are bound at the end of the paper\]](#)

**Table 2:** Outliers, FY2000 HPB Dataset

In fact, the number of such outliers was in all HPB years very small; the vast majority of earnings reports fell within the range of conceivable accomplishments for TANF recipients. For example, out of 2,008,309 unduplicated adult files in the data for FY2001, only 1,277 observations included an earnings report in excess of \$25,000. This is slightly greater than six one hundredths of a percent. The rate is not much higher if the threshold is set at \$15,000. Nevertheless, it was obvious that some adjustment is needed, but the Office of Family Assistance did not have access to the primary data. Even were it possible to investigate such cases, there were too many outlier observations to pursue on an individual basis. After discussions with the APHSA and the NGA, the Office of Family Assistance chose to “zero out” all individual employer reports of earnings greater than or equal to \$25,000 in any quarter, but to retain all observations and include as earnings any employer report less than \$25,000.

There are two problems with this adjustment. First, it amounts to an imputation of \$0 earnings for one employer for these cases. There seem little basis for believing this is the correct figure, and setting at zero means such observations will on average reduce calculated job entry, job retention, and earnings gain rates (there are some cases that work the other way). Second, and more importantly, zeroing out individual employer reports of earnings greater than or equal to \$25,000 does not preclude cases in which recipients’ combined earnings reported by multiple employers exceeds \$25,000. Again, the incidence of such cases is small but not irrelevant: In FY2003 about half of all observations with total quarterly earnings in excess of \$25,000 still had more than \$25,000 in earnings *after* the OFA adjustment. This is because the persons (actually, the Social Security numbers) involved had many earnings reports that were large, yet less than the OFA cutoff. For the analysis that follows, I adopt the convention that any report on *total* quarterly earnings in excess of \$25,000 is an error, and I exclude the observation. As a result, the outcomes reported in subsequent analysis differ in minor detail from what would appear if official procedures were employed.<sup>6</sup>

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<sup>6</sup> The NDNH data have “inlier” problems as well: Cases with very small (i.e. <\$100) quarterly earnings reports, sometimes no more than \$1. Since any positive earnings amount counts for the employment measures, \$1 in a quarter could qualify a TANF recipient as a job entry score. This problem is small and could be dismissed as noise except that states apparently differ in the reporting requirements for employers; some states tell employers that no filing is necessary for earnings levels <\$100, and others do not. Like the outlier problem, this “inlier”

(continued next page)

*The Awkward Transition*

As noted, the HPB employment indicators include data on both level and change. The last data reported by states were the basis for the performance assessment summarized in the FY2000 column in Table 1 and announced, as indicated, on July 2, 2002. The subsequent official HPB report included levels for FY2001 and data on change in indicators from FY2000 to FY2001. This presented a problem, for the FY2000 reported in the change calculations for FY2001 revealed the results of federal calculation of performance indicators already reported by states.

The federal and state calculations were certain to be different, for several reasons. First, there is little doubt that in completing Form ACF-200 some states got the methods wrong. Second, as indicated above, the NDNH database includes information on employment anywhere in the U.S. and includes federal jobs. States did not have access to federal employment data or to information on employment in bordering jurisdictions. Third, as already discussed, procedures changed. In particular, states had much greater latitude in data sources and procedures for calculating job entry than for the other measures, and the new federal procedure is uniform. Nevertheless, life would have been easier for the federal personnel who pushed for the change if rankings under the new procedure were not much different from rankings under the old.

*A priori* it was reasonable to anticipate that (a) job entry rates from federal data would be less than state reports, (b) the correlation between the original and revised measures would be lowest for the Job Entry Rate, and (c) incidence and levels of earnings will be higher in the federal than the state data. The job entry prediction (a) comes about because, as discussed, the standard for counting a job entry is now more stringent. This effect may be offset somewhat because the NDNH data are more comprehensive, encompassing multiple states and including federal employment. Prediction (b) arises because the original procedure offered states the greater latitude in how they scored job entry than was available for the Job Retention and Earnings Gain measures, both of which were to be based on the employer earnings reports that constitute the bulk of NDNH data. Prediction (c) follows from recognition that the information base for the NDNH is in principal more comprehensive than that to which states have access. Finding out what happened requires looking further at the data.

*Summary*

To sum up, the HPB indicators surely have face validity: Employment is a goal of the TANF program, and employment begins with job entry. Once employment is initiated, it makes sense to be concerned about retention and, ultimately, earnings growth. Federal assumption of responsibility for HPB calculation imposed greater uniformity and substantially improved the information base by linking the program to the National Directory of New Hires. At the same time, by taking calculations out of the hands of states, the transfer may have weakened

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(footnote continued)

issue is an example of why the use of administrative data for program evaluation is often more problematic than advocates recognize, and details of data preparation (and censoring) need to be carefully investigated and presented.

state capacity for performance analysis. The quarterly structure of NDNH data has forced restructuring of the Job Entry Rate so that many significant job entries may be missed, and the very long lag between the events monitored by HPB indicators and the actual delivery of data means that such information is of little utility for state program management.

### **An HPB Sampler: What the Data Reveal**

The case for keeping the HPB and working on the details rests on the expected utility of the results. This section presents examples of what can be done with the HPB data. In this section I look at the evidence for the hypotheses posed above regarding the state-to-federal transition and present a small sample of more detailed analytic work.

#### *Correlations*

Table 3 and Table 4 present a series of results from analysis of the HPB data for FY2000-2001. At first glance, Table 3 suggests the changeover from state calculations to the NDNH didn't produce much change. The Job Entry Rate is lower (as anticipated), and the earnings gain rate is higher. The results also do not seem to be sensitive to adjustment for outliers.

[Figures and tables are bound at the end of the paper]

**Table 3:** Comparison of State Reports and Subsequent NDNH-Based Calculations, High Performance Bonus Employment Measures, FY2000

However the aggregate numbers mask a lot of variation across states and give a very misleading impression of the consequences of the shift from state reports to uniform calculation using the NDNH. Table 4 tells this story. The first row of numbers in the table shows the correlation across states between the figures originally reported by states and the corresponding measures derived from the NDNH. The most striking outcome is the statistically insignificant negative correlation between job entry rates reported by states and the rates calculated with NDNH data. Only two of the states in the published top ten list for FY2000 survive the transition. Both the correlations and the carryover are stronger for the Job Retention and Earnings Gain measures, but had the NDNH data been employed for FY2000, the list of winners would have been different.

[Figures and tables are bound at the end of the paper]

**Table 4:** HPB Indicator Correlations, FY2000

The second set of numbers in the table show correlations among the three earnings measures in FY2000. The patterns are similar for the FY2001-FY2003. Interestingly, the Earnings Gain Rate is inversely correlated with both Job Entry and Job Retention. This may be a selection effect. To be included in the earnings gain calculations, an adult must be employed in both the current and the second following quarters. When people with little prospect of earnings gain don't take jobs or drop out at an exceptional rate, what's left may be the winners.

The third set of numbers in the table show the correlation of the employment measures across years. The correlation is strongest, of course between the annual rates for the same measures, especially for the Earnings Gain Rate. In some ways this is reassuring, especially if part of the difference across states in these outcomes is attributable to the differences in economy, demography, and policy that endure over time. At the same time, we know from other

calculations and what has been reported in connection with the HPB announcements that there is a wide range of state performance on all of these measures. So we are interested in what the determinants of this variation are. The extent of variation in state experience is illustrated with variations in turnover, considered next.

### *Turnover*

Between FY2000 and FY2001 the aggregate TANF caseload fell by 6.5 percent, from 2.26 to 2.12 million cases. It is common to describe the caseload decline in terms suggesting that reductions occur only because people leave. In fact, of course, turnover in welfare has always been significant. The HPB data may be used to study the extent of turnover and its change over time.

For this purpose I define turnover as the ratio of total adults ever receiving TANF benefits over the year to the largest of the quarterly unduplicated recipient counts. I would prefer to use the largest of the monthly recipient tallies, but this is not available for the HPB data used here. Note that evaluating “total adults ever receiving TANF benefits over the year” requires merging quarterly HPB recipient lists and using the pseudo-social security numbers created by OCSE to sort out duplicates, so doing these turnover calculations exploits the potential of the HPB data for supporting longitudinal TANF analysis. The tabulations appear in Table 5 below.

[\[Figures and tables are bound at the end of the paper\]](#)

**Table 5:** Turnover Ratios, FY2000 and FY2001

To provide a sense of the turnover distribution, I report the mean for all reporting states in FY2000 as well as the five states reporting the lowest and highest values. These data do not include Massachusetts, New York, Ohio, Oklahoma, and Virginia. These states either did not participate in the FY2000 HPB or submitted data too late for inclusion in OFA’s subsequent analyses. For the states for which data are available, the unduplicated quarterly roster of adult recipients declined by 20 percent between years. If the change was the result solely of exodus, turnover in FY2000 would have been 1.2. In fact the ratio is much higher than this in FY2000—1.46—and is higher still in FY2001. But what is more interesting is the dramatic range of variation across states, from 1.20 in Illinois to well over 2.0 in Idaho. There is consistency here: The correlation across years is .907. The same five states are at the low end in both fiscal years, and three of the five are the same at the top. What accounts for this stability? What features of, for example, Illinois policy or environment lead to admission of so few new people to TANF?

### *Relative Performance*

As a final example, I turn to data for specific states on earnings change. Consider California, Florida, and Texas. These states have relatively large TANF caseloads and quite different TANF policy structures, as is evident from Table 6. Benefits in Texas are much lower than in California (about a third of this difference is offset by compensatory variation in food stamp benefits. In 2000, the maximum level of earnings consistent with application approval is about the same for Florida and Texas but both well below the threshold for California. However, thereafter Texas treats recipients with earnings much less generously than does either Florida or California.

[\[Figures and tables are bound at the end of the paper\]](#)

**Table 6:** TANF Program Parameters, Sample States (July 1, 2000)

Now, consider the distribution of adult TANF recipients in these states in FY2001:3. This is summarized in Figure 5. Two types of data are included in the figure. On the left-hand side the incidence of employment (i.e. the presence of positive HPB earnings reports) is shown with a bar chart. The line portion of the graph shows the distribution of earnings by amounts. There are 25 categories. Categories 1-12 increase in \$334.75 per quarter steps; this is the equivalent of adding one more hour of work per day every working day of the quarter at \$5.15, the minimum wage (i.e. 5 hours per week, 4.333 weeks per month, 3 months). The increase is then a 10 percent per jump for categories 11-20 and 20 percent per jump for categories 21-24. The last category, from \$16,367 to \$25,000, is a catch-all increase of 51 percent. The upper categories are largely irrelevant: Reported quarterly earnings for over 95 percent of recipients are less than \$4,456, the top of the 14<sup>th</sup> category. The message of the left-hand side of the figure is that combining work and welfare is most common in California, least common in Texas—precisely what one would expect from the program parameters reported in Table 6. The message of the right-hand side of the figure is that in general those California TANF recipients who are employed have higher earnings than do their counterparts in Texas and Florida.

[\[Figures and tables are bound at the end of the paper\]](#)

**Figure 5:** Earnings Incidence and Distribution, FY2001:3, Sample States

But now consider the incidence of *change* in earnings between FY2001:3 and FY2001:4. For each starting earnings category I look at the proportion of TANF adults who move upward by \$669.50, the equivalent of two of the lower categories or more (two is an arbitrary choice). For workers reporting between \$2,008.50 and \$2,343.25 (category 8) this means a jump upward to some amount greater than \$2,678. For this exercise the recipients in the upper categories should be ignored, both because the numbers are small and because the bandwidth for the categories is not homogeneous, as it is for categories 1-12

[\[Figures and tables are bound at the end of the paper\]](#)

**Figure 6:** Proportion of Adults in Indicated Earnings Category with Two-Category or Greater Earnings Jump, FY2001:3-FY2001:4

Note that now the probability that non earners will become employed and earn at least \$669.50 (the threshold for jumping two categories and the starting point for the three lines) is least for California, greatest for Florida (this is conceivably a selection effect) but for the range of earnings that is pertinent to consideration (i.e. earnings at which there are sufficient observations for comparison), the incidence of earnings gain from one quarter to the next is substantially greater for Florida and virtually identical for California and Texas. What's going on here?

### *Summary*

If there were no differences in method or outcome across “agents,” there would be no information in relative performance assessment. The data presented in this section indicate that in the early years of HPB operation comparison of performance across states, especially performance in promoting job entry, was apparently complicated by differences in state

assessment methodology. While not without problems, the shift to a common data source and uniform definition of job entry did improve the integrity of the HPB assessment procedure. The data reveal intriguing differences in certain outcomes across states. Had they been cleaned up and made available to researchers under appropriate protocols, the HPB data potentially offered an important new resource for study of TANF policy and recipient experience. In practice they were never used by the Department for Health and Human Services for any activity save awarding the HPB.

### **Awaiting the Second Coming**

This paper has described data sources and calculation procedures for employment-related elements of the “High Performance Bonus” award created by Congress in the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. I have argued that the reliability of HPB data as a source of information on state TANF programs improved substantially over the first five years of PRWORA. I have shown that the data reveal significant differences across states in patterns of TANF receipt that should be the object of study both as consequences of differences in client populations and specific state program content. Nevertheless, the HPB measures and the NDNH data have quirks that deserved more attention. In the cross-national context for which this paper has been prepared, such quirks may be of little interest, but they point to issues that led to demise of the HPB. In the last section I will point to some more general lessons likely to be of interest to the larger international community of public management scholars.

How might the workforce features of the HPB program have been improved? Several possibilities deserve attention. The issue is not mute, for while Congress eliminated funding for the HPB, it did not eliminate authorization. Hence the HPB might rise again, and pondering changes appropriate for the Second Coming is the scholarly thing to do. In any event a number of states, most notably California, have developed performance bonuses for counties—often the operating units for TANF—that are based on imitation of the federal HPB measures. These may well be expanded as states struggle to meet new federal performance standards in the future. I begin with the Job Entry Rate and then consider some more general alterations.

#### *Improving the JER*

Calculation of the Job Entry Rate is a far more daunting task than is calculation of the other employment measures. The source of the difficulty is the effort to avoid counting multiple job entries for the same person. This problem may have been an issue in the early years of the HPB when the definition of job entry and what counted as an “unemployed recipient” was pretty much left to the states. With the transition to federal calculation using the NDNH and the stringent standard for recipient employment thereafter applied, the multiple counts problem was dramatically diminished; indeed it became impossible for a recipient under any circumstances to score more than two job entries.<sup>7</sup> This suggests it would have been appropriate to recasting the JER as a weighted average of quarterly achievement to parallel what was done with Job Retention and Earnings Gain Rates. The denominator would be the unduplicated count of TANF recipients during the quarter with no earnings in the preceding

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<sup>7</sup> Two countable job entries would require two spells of joblessness of at least three months duration that coincided with or completely overlapped two full fiscal quarters within a fifteen month period.

quarter; the numerator would be the subset of the denominator with earnings in the current quarter. The annual JER would be the sum of the quarterly numerators divided by the sum of the quarterly denominators. Again, this produces a weighted average, with each quarter's JER weight proportional to the number of current TANF recipients with no reported earnings in the preceding quarter. This change would definitely lower the annual job entry rate. To see why, consider an adult who is an unemployed TANF recipient all year. Under the procedure suggested here, this person would add four quarterly "trials" for job placement to the annual outcome, but no job entries. Under the current system, this person counts as only one (unsuccessful) trial.

This recasting of the JER would not have fixed the timing problem revealed in the Figure 3/ Figure 4 comparison. As revealed by the example, the Job Entry measure seems far too stringent. Surely responsible TANF management requires encouraging and rewarding all placements while creating incentives for tackling placement of those with significant barriers. The NDNH data are simply not up to this task. Consideration should be given to developing a common definition of job entry that is administratively feasible, auditable, and specific about the precondition of unemployment and what counts as gaining a job. If states can transmit the social security numbers of adult TANF recipients each month to OFA, they surely could send a list of numbers for those recipients counted as job entries. The OCSE could then determine for which of the recipients claimed as job entries earnings are actually reported and help to draw distinctions between those placements that involve people with little work history and those with much. The practice of creating such lists could be made an important source of management information in those states in which such data are not now collected.

### *Timely Reporting*

Even in the final year of the program, the HPB data were revealed at the earliest over a year after the underlying performance occurred. The outcomes were as a result largely irrelevant to management strategy. This is unfortunate for the HPB data were in some respects superior to what state and local program managers otherwise had at hand. There are two interrelated changes that, if adopted, could result in delivery of HPB information in a more timely fashion.

The first change would be to restructure the indicators so that the data requirements for each end as of the reference quarter, not begin then, as is currently true for the JRR and EGR measures. Let us assume for the sake of illustration that with effort quarterly earnings data can be assembled, cleaned, and matched with recipients in six months, and we are considering an award for FY2003. Then it would be possible to report on performance by the end of *March* 2004 if the Job Entry Rate were evaluated over the four quarters of FY2003 and the Job Retention/ Earnings Gain Measures were evaluated over the period FY2002:3-FY2003:2.

The second change would begin with altering the JER as proposed above so that the annual measure is the weighted average of quarterly outcomes. Then given the time alteration proposed above, quarterly outcomes for each of the measures could be reported within six months of the quarter assessed. Quarterly reporting would culminate with the weighted annual average that, in turn, would be the state's entry in the HPB competition. In each quarter's report the reference quarters for the Job Entry Rate (two quarters earlier) would be more recent than the reference quarters for the Success-in-the-Labor-Force measures (four quarters earlier), but the difference would be comprehensible and readily explained.

### *Gaming*

As indicated in the discussion of the HPB state reporting form (Figure 1), it is important to address the consequences for performance in TANF of not including data on adults in Separate State Programs. The HPB covers only adults receiving assistance that is funded at least in part from the federal TANF block grant. SSPs are funded with “state dollars,” but such expenditures count toward federal maintenance of effort requirements. State regulations rarely distinguish between the two: Adults in two-parent families receiving TANF benefits in Los Angeles through CalWorks (the name California gives its TANF program) don’t know that they’re not really in TANF, and neither do their caseworkers. The numbers are growing: On average in FY2000 9.1 percent of adults receiving TANF-related (i.e. TANF and SSP) cash assistance were in SSPs; by FY2003 this had increased to 14.7 percent. Had the stakes for the HPB been a little higher—and had the rules been better understood—this exception would have created an incentive to move adults least likely to accomplish job entry into SSPs and transfer them back to TANF as soon as barriers to employment were reduced. The point of the HPB was to encourage positive performance, not gaming.

### *Regression Control*

It is also important to develop a better understanding of how much of the variation across states in these measures was the result of influences beyond policymakers’ control. While we know nothing about these adults save their presence on the rolls, we do know a great deal about both general features of each state’s caseload (from the OFA’s annual survey of case characteristics) and each state’s economy. It would be reassuring to find that the top ten didn’t change when controls were introduced for a state’s economic and demographic characteristics, but one suspects that this will not be the case (Rubenstein, Schwartz, and Stiefel 2003).

Table 7 provides an indication of the effects of rankings adjustment of one of the HPB performance indicators, the Job Entry Rate, for external influences on TANF outcomes. The data are for FY2003; the calculations are based on the “revised” job entry rate proposed above and thus are not comparable to official JER results. The “top 10” states are presented both overall and for those states with an average of at least 20,000 adult recipients each quarter. The number reported in the “Unadjusted JER” column for Idaho is 0.287; this means that on average across the four quarters of FY2003 28.7 percent of those adults receiving TANF at any time during the quarter and unemployed in the previous quarter had earnings reported in the National Directory of New Hires. Obviously, Idaho’s performance on this measure is much better than Pennsylvania’s 18.7 percent.

[\[Figures and tables are bound at the end of the paper\]](#)

**Table 7:** Sample Adjustment Effects, Job Entry Rate, FY2003

The second set of rankings in the table contrast actual JER with what is predicted by a logistic regression of quarterly state Job Entry rates on a extensive set of descriptors of state economic conditions (current and past unemployment rates), characteristics of the TANF cases with adult recipients (race, average age of household head, proportion of adults with a high school education, average size of families, presence or absence of very young children),

state policy choices (benefit levels, use of Separate State programs),<sup>8</sup> and time (seasonal dummies plus a quadratic trend) using all available TANF data for FY2000-FY2003.<sup>9</sup> The estimated equation is used to predict JER for each quarter and the result is aggregated to a predicted annual average. The states in the two groups are then ranked on the basis of the ratio of actual to predicted JER. “High performance” in this case means achievement above prediction. All the top 10 among all states have actual job entry rates above what would be predicted given what is contained in the prediction equation. For example, Missouri did almost 19 percent better.

It is telling that most of the states in the top 10 are small. For a variety of reasons it is arguably inappropriate to compare what very small states like Idaho accomplish with what is managed in California. Idaho averaged only slightly more than 400 adult recipients in each quarter of 2003; Wyoming had less than 200. In contrast, California had over 160,000. Wyoming’s TANF management simply does not play in the same “league” as California. The bottom half presents results for the top ten performers among the 15 states with 20,000 or more adult TANF recipients. The bottom panel indicates that there are four big states that performed above expectation, but in the absence of regression adjustment only one—Missouri—would have earned an HPB prize.

I conclude that adjustment for demographic, economic, and policy decisions can be important.

### *Multiplication of Targets*

While the impulse to recognize the many objectives of poverty policy is familiar and understandable, it is doubtful that much was gained by the multiplication of HPB indicators that occurred beginning in FY2001. Many of the non-employment measures were available only with even greater delay than is the case for the employment outcomes, and whereas the use of the entire case roll for HPB analysis produced a sizable data set for each state, some of the sources used for the expanded indicator set were very small samples. Given the imprecision of inference from such data, the state rankings produced were not reliable. What is possibly most to be feared in these circumstances is a sort of dynamic Gresham’s Law: It’s not so much that bad indicators will drive out the good, it’s that the multiplication of indicators will distract attention from and slow improvement of those with most promise.

### **Lessons from the HPB**

I close with a list of lessons that are suggested or affirmed by the HPB episode.

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<sup>8</sup> Some state policy choices are appropriately left out of the adjustment regression, since they involve the strategies states adopt to accomplish job placement. However, some policies do not deserve reward. Two such choices are important in the context of this analysis. Benefit rates affect the likelihood of job-taking: Low benefits encourage turnover but at the same time reflect lack of concern for need. Use of separate state programs can be a state strategy for moving difficult-to-place recipients out of the competition. The adjustment incorporated here controls for the effects of both benefits and SSP strategy on job entry rates for adult TANF recipients.

<sup>9</sup> See Wiseman 2006 for the multivariate models on which this discussion is based.

*Small prizes may have leverage*

Viewed from the perspective of overall TANF expenditures, the HPB was trivial. However, the exercise served to focus attention on performance and to provide a useful package of discretionary resources to the agencies involved. These effects are probably independent of the general source of funding for the programs involved; even had all TANF resources come from the states, the prize would probably have been attractive from the perspective of public assistance agency leadership. Thus it may be possible to use bonuses of this type in contexts—the European Union?—in which the administering government unit pays only for the prize.

*To influence management, link aggregate to local measures*

The focus of development of the HPB performance measures was generally on gaining access to a national data source—the National Directory of New Hires. This posed a problem, because in general local operators had no comparable source of information. While in principal the linked TANF/ NDNH data could have been returned to states for disaggregation by county or local office, this did not occur over the life of the program. In 2005 the Department of Health and Human Services arranged for states to gain access to NDNH files for management purposes, but this was too late for specific linking to the HPB. Some states took steps to develop HPB-like systems for awarding local operators (California is implementing such a system under the title “Pay for Performance”), but these developments occurred with little federal input or effort at integration with the HPB.

*Beware target multiplication*

A common nostrum of the performance management literature is that measurement drives focus: If only a subset of agency responsibilities is subject to performance assessment, those not measured may be neglected. On the other hand, if the system for evaluation identifies only exemplary achievement, multiplication of targets may serve to reduce, rather than increase effort. This clearly happened with the expansion of HPB targets in 2001. With so many performance indicators and prizes for being in the top ten, most states “won” something; the nuances of the number of prizes won and deficiencies possibly revealed by measures with low ranks were lost. The implication is that focus on winning, while politically comforting, may not be enough.

*Uniform data collection is very important*

In the first years of operation, the political legitimacy of the HPB was threatened by suspicion that states were inconsistent in methods of outcome measurement. These concerns were alleviated by transfer of responsibility for measure computation to the federal government and reliance on a single national data source, the National Directory of New Hires, under federal control. This transfer came at a cost, however, for the NDNH has deficiencies, and the change to this source further weakened the link between measures of accomplishment available to TANF field managers and the indicators used for making HPB awards.

In some situations there may be no common source of data across competing states or agencies. This is certainly the case for cross-national efforts such as the European Union’s recent attempts at extend the “Open Method of Coordination” to social policy (Atkinson, Marlier, and Nolan 2004). The challenge in such instances will be to develop auditable standards for the measures employed by participating governments.

*Collaborate in architecture*

Development of HPB procedures followed procedures common in the translation of statutory requirements for programs into regulations appropriate for management. The sponsoring agency begins with a “Notice of Proposed Rulemaking” that is published in the *Federal Register* (see DHHS 1999). The NPR outlines the agency’s statutory obligations, presents a draft of the regulations, and invites commentary from interested parties. In some cases input may be invited from organizations known to represent stakeholders in the regulation outcomes. Once these comments are obtained, revised regulations are issued with commentary on responses to the original NPR and an explanation for decisions made (DHHS 2000). While this formal apparatus does not prevent general discussion among stakeholders in open forums, the procedure principally encourages bilateral interaction with federal officials. Assuming there is general commitment to performance improvement, development of effective systems for measuring performance and awarding achievement might be facilitated by development of more multilateral exchange. More collaboration might also serve to build common commitment and to give participating governments a sense of ownership for the program itself.

*Level the playing field*

Few outcomes in government service are the product of management alone. While comparative performance assessment typically begins without adjustment for external influences, the development of procedures for doing so must be a central feature of system evolution. Otherwise, truly effective strategies may be missed, and good managers treated unfairly. Making such adjustments is technically demanding, but addressing such issues is presumably itself part of good public management.

*Make the system reflexive*

Once established, HPB procedures changed only once, when the collection of performance measures were expanded. At no time did the Department of Health and Human Services sponsor a review of the program or contemplate proposing significant alterations. The potential of the system for providing more detailed information on the features of state TANF systems that appear to affect outcomes went untapped. This seems to be inconsistent with a general policy emphasis on performance improvement, an emphasis that should be extended to review of the program itself.

**Rest in Peace**

So why did the High Performance Bonus die? Answering this question falls in the domain of political science, not public management. But if pressed, I would point to two factors as major suspects in the crime. The first, already apparent in the “lessons” above, is a set of failures in public management. The system simply did not evolve in a way that appeared to stakeholders to address the program’s many obvious faults. Had from the beginning Health and Human Services management established a systematic review process to identify and address problems and to use the HPB data to identify exactly what states with apparently exemplary achievement were doing, interest in the system might have been sustained or possibly enhanced.

The second factor is the changing nature of the relationship between the executive agencies of government and the states. Traditionally most intergovernmental assistance programs in

the United States have operated on rules that stressed uniformity in treatment of states and in state operation of programs once in place. Fund allocations have tended to be formula-driven. Thus funding for the Medicaid (low-income health insurance) program is allocated principally on the basis of population and per capita income; funding for the Food Stamp program is related solely to the number of persons eligible by federal standards. Such procedures are generally the product of congressional decisions. While the High Performance Bonus did not go to all states, the rules were general and treatment uniform. In contrast some federal programs do not pretend to cover all eligibles, and the necessity of selecting participants raises the opportunity for discretionary allocation of funds. This increases the importance of the executive branch and presents opportunities for alliance between the national executive and certain subgroups of states (and state governors) willing to promote a national executive agenda.<sup>10</sup> In this connection, the money saved from the High Performance Bonus was re-allocated for grants to support state programs aimed at encouraging and strengthening marriage. The distribution of these funds is entirely discretionary, based on executive evaluation of proposed state initiatives. Since the programs are diverse and their effects difficult to observe, it is not clear how performance, high or low, will be evaluated.<sup>11</sup>

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<sup>10</sup> For an excellent discussion of these trends, see Gais and Fossett (2005).

<sup>11</sup> See Administration for Children and Families (2006) for an overview.

## References

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Table 1: High Performance Bonus Winners, FY1999-2003

Table 1 High Performance Bonus Winners, FY1999-2003						
	Performance Year					
	1998	1999	2000	2001	2002	2003
Number of participating states*	46	49	50	50	50	51
Award date	12/4/1999	12/16/2000	7/2/2002	9/23/2003	9/30/2003	10/12/2004
States winning in:						
• Any category	27	28	27	42	41	38
• Two categories	11	6	9	12	23	18
• Three categories	1	3	2	7	2	9
• Four categories		0		4	4	2
*Includes District of Columbia Source: Office of Family Assistance, Administration for Children and Families, U.S. Department of Health and Human Services Table HPBWINNERS						

Figure 1  
**TANF High Performance Bonus Report for Fiscal Year 2000**  
**(Sample)**

State: \_\_\_\_\_

Quarter Ending: \_\_\_\_\_

	TANF Program		Separate State TANF-MOE Programs
	FY 2000	FY 1999	FY 2000
1. Total number of unduplicated adult recipients who received at least one payment during this quarter			
2. Cumulative number of unduplicated adult recipients who, by the end of this quarter, were <b>unemployed</b> recipients at some point during this fiscal year			
3. Total number of unduplicated adult recipients <b>employed</b> at any time during this quarter			
4. Total number of employed adult recipients in Item 3 who, as a recipient in this quarter, entered employment for the <b>first time</b> this fiscal year			
5. Total number of employed adult recipients in Item 3 who were also employed in --			
(a) The following quarter			
(b) The second following quarter			
(c) both the first and second following quarters			
6. Total amount of earnings in this quarter of employed adult recipients reported in Item 5(b)			
7. Total amount of earnings in second following quarter --of employed adult recipients reported in Item 5(b)			

Source: Abridged and reformatted from original posted at <http://www.acf.dhhs.gov/programs/opre/hpb/acf-200-2001form.doc>

Note (see text for detailed explanation):  
 The HPB **Job Entry Rate** (JER) is the sum over all four quarters of (4) divided by the final quarter entry for (2);  
 the HPB **JOB Retention Rate** (JRR) is the sum of 5(c) for all four quarters divided by the sum of (3); and  
 the HPB **Earnings Gain Rate** (EGR) is item (7) summed over all four quarters divided by item (6).  
 [Figure FormACF200]

Figure 2  
**The HPB Calculation Time Line**

The HPB data set for a fiscal year actually includes information drawn from seven quarters

For all adults receiving TANF during	The HPB Data set includes information on earnings for:						
	FY1999:4	FY2000:1	FY2000:2	FY2000:3	FY2000:4	FY2001:1	FY2001:2
FY2000:1							
FY2000:2							
FY2000:3							
FY2000:4							

Figure HPBTimeLine

Figure 3: Hypothetical TANF Receipt and Employment Example

**Hypothetical TANF Receipt and Employment Example**

<b>TANF</b>															
<b>Employed</b>															
Month	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Quarter	FY2000:1			FY2000:2			FY2000:3			FY2000:4			FY2001:1		

Note: Shaded months indicate periods of TANF receipt or employment, as indicated by row.  
[Figure HypExamp]

Figure 4: TANF Receipt and Employment Example Delayed One Month

**TANF Receipt and Employment Delayed One Month**

<b>TANF</b>															
<b>Employed</b>															
Month	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Quarter	FY2000:1			FY2000:2			FY2000:3			FY2000:4			FY2001:1		

Note: Shaded months indicate periods of TANF receipt or employment, as indicated by row.  
[Figure DELAY]

Table 2: Outliers, FY2000 HPB Dataset

Table 2 <b>Outliers, FY2000 HPD Dataset</b>							
	Maximum Earnings Reported for:						
Dataset	FY1999:4	FY2000:1	FY2000:2	FY2000:3	FY2000:4	FY2001:1	FY2001:2
FY2000:1	\$4,776,696	\$5,304,368	\$9,000,581	\$9,000,581			
FY2000:2		\$5,304,368	\$972,692	\$336,525	\$1,167,152		
FY2000:3			\$972,692	\$336,525	\$1,167,152	\$1,310,246	
FY2000:4				\$282,600	\$1,167,152	\$1,051,111	\$21,400,000
Source: Calculations by author. Table OUTLIERS							

Table 3:

<b>Comparison of State Reports and Subsequent NDNH-Based Calculations, High Performance Bonus Employment Measures, FY2000</b> (National Totals for Participating States)			
Annual Performance	State Reports Aggregated to National Totals	Revised Calculations, National Aggregate Performance	
		All observations retained; earnings $\geq$ \$25,000 zeroed out (OFA adjustment)	All observations with quarterly earnings $\geq$ \$25,000 deleted
Job Entry Rate	46.4%	39.3%	39.1%
Job Retention Rate	65.2%	64.6%	64.7%
Earnings Gain Rate	24.8%	27.9%	27.9%
Source: Office of Family Assistance and calculations by author using NDNH data Table COMPARE			

Table 4: HPB Indicator Correlations, FY2000

<b>HPB Indicator Correlations, FY2000</b>			
FY2000 Correlations, Original State Reports and NDNH Calculations			
	Calculations for this Paper		
	Job Entry (JER)	Job Retention (JRR)	Earnings Gain (EGR)
State Reports	-0.021	0.559	0.703
Top Ten States List Overlap	2	8	7
FY2000 Correlations, HPB Employment Measures			
	JER00	JRR00	EGR00
JER00	1.00		
JRR00	0.41	1.00	
EGR00	-0.13	-0.33	1.00
FY2000/FY2001 Correlations, HPB Employment Measures			
	JER01	JRR01	EGR01
JER00	0.60	0.16	-0.24
JRR00	0.00	0.66	-0.37
EGR00	-0.15	-0.27	0.91
Source: Calculations by author from HPB data. Job Entry, Job Retention, and Earnings Gain Rates are calculated using a different procedure for outlier exclusion than is employed in DHHS calculations. See text.			
Table CORRELATIONS			

Table 5: Turnover Ratios, FY2000 and FY2001

<b>Turnover, Adult TANF Recipients FY2000 and FY2001</b>						
	FY2000			FY2001		
	State	Total Cases	Turnover Ratio*	State	Total Cases	Turnover Ratio
US		2,157,404	1.46		1,728,799	1.63
Lowest 5 turnover ratios						
	Illinois	97,290	1.20	Illinois	67,289	1.26
	DC	17,298	1.23	DC	16,366	1.28
	Rhode Island	20,374	1.27	Rhode Island	19,030	1.29
	California	457,517	1.29	California	399,214	1.31
	Hawaii	19,721	1.32	Hawaii	17,659	1.33
Highest 5 turnover ratios						
	South Dakota	3,146	1.78	Arkansas	15,939	1.78
	Wisconsin	14,148	1.81	South Dakota	3,018	1.87
	South Carolina	23,408	1.81	Florida	79,494	1.99
	Wyoming	828	2.03	Wyoming	613	2.10
	Idaho	1,698	2.30	Idaho	1,547	2.52
*Ratio of total adults receiving TANF during year to highest quarterly roster count. Source: Calculated by author from HPB data Table TURNOVER						

Table 6: TANF Program Parameters, Sample States (July 1, 2000)

<b>Program Parameters, Analysis States (July 1, 2001)</b>			
State	Maximum Grant (Family of three)	Maximum Earnings for Initial Eligibility	Maximum Earnings for Continuing Eligibility (7 months past job accession)
California <sup>1</sup>	\$645	\$906	\$1,515
Florida	\$303	\$393	\$806
Texas	\$201	\$401	\$308
<sup>1</sup> Figures listed for California are for families with an adult not exempted from employment requirements. Source: Welfare Rules Database (Rowe with Versteeg, 2004) Table PARAMETERS			

Figure 5: Earnings Incidence and Distribution, FY2001:3, Sample States

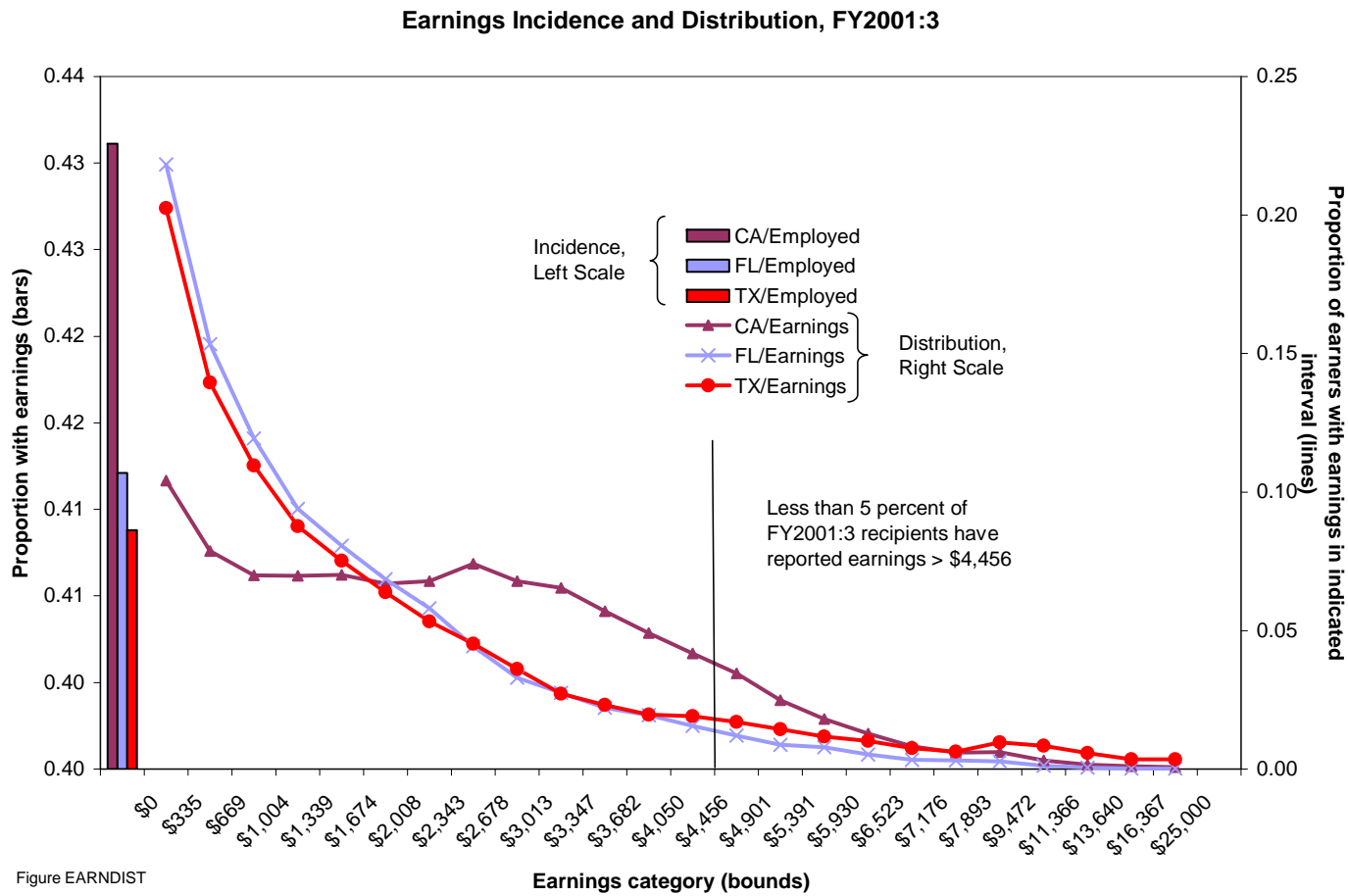


Figure 6: Proportion of Adults in Indicated Earnings Category with Two-Category or Greater Earnings Jump, FY2001:3-FY2001:4

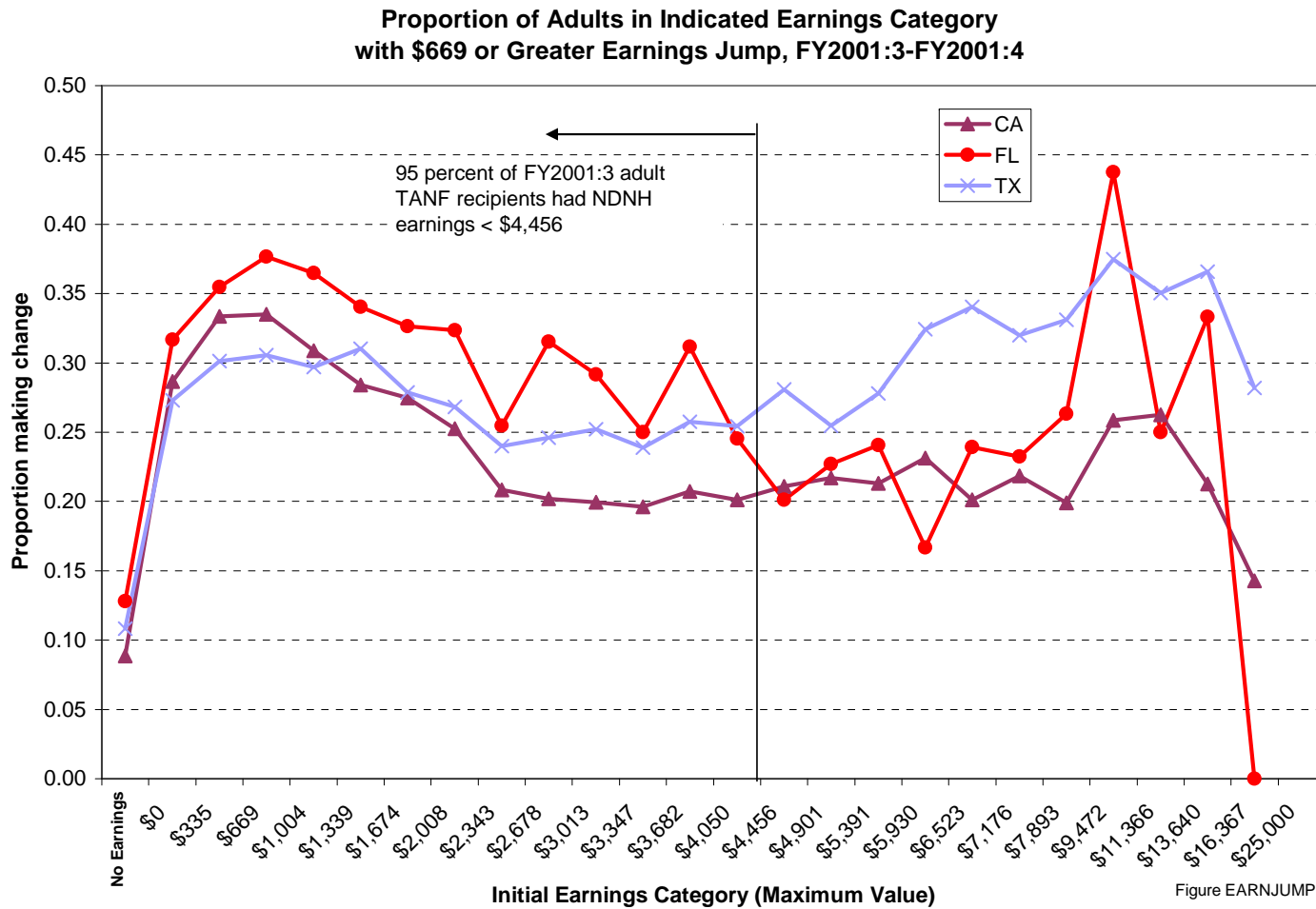


Table 7: Sample Adjustment Effects, Job Entry Rate, FY2003

<b>Sample Adjustment Effects, Job Entry Rate FY2003</b>						
(Shaded states appear in top 10 both with and without regression adjustment)						
Rank	<u>Ranked without Adjustment</u>		<u>Ranked by Ratio, Actual/ Predicted Given</u>			Correl- ation, Un- adjusted, adjusted rankings*
	State	Un- adjusted JER	State	<u>Characteristics</u> Un- adjusted JER	Pre- dicted JER	
(Among all states except New York, Alaska, and Hawaii)						0.726
1	Idaho	0.287	Idaho	0.287	0.234	1.228
2	Wyoming	0.257	New Mexico	0.210	0.173	1.208
3	Arkansas	0.250	Missouri	0.241	0.204	1.184
4	Kansas	0.245	Kansas	0.245	0.208	1.180
5	Missouri	0.241	Arkansas	0.250	0.213	1.170
6	Nebraska	0.235	Michigan	0.200	0.175	1.140
7	Virginia	0.231	Washington	0.191	0.169	1.134
8	Iowa	0.229	Oklahoma	0.229	0.204	1.124
9	Oklahoma	0.229	Wisconsin	0.179	0.159	1.122
10	North Carolina	0.226	Florida	0.223	0.201	1.106
(Among 15 largest states other than New York)						0.692
1	Missouri	0.241	Missouri	0.241	0.204	1.184
2	Florida	0.223	Michigan	0.200	0.175	1.140
3	Indiana	0.212	Washington	0.191	0.169	1.134
4	Texas	0.200	Florida	0.223	0.201	1.106
5	Michigan	0.200	Texas	0.200	0.196	1.020
6	Tennessee	0.195	Indiana	0.212	0.211	1.006
7	Washington	0.191	Pennsylvania	0.180	0.187	0.963
8	Georgia	0.191	California	0.134	0.139	0.961
9	Ohio	0.191	Illinois	0.172	0.183	0.941
10	Pennsylvania	0.180	Ohio	0.191	0.208	0.920
*Calculated over entire sample set.						
Source: Calculated by author using unpublished HPB data. See text.						
Table ADJUST; File AdjustedHPB(060522).xls						