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The Economic Status of Current and Former MFIP Recipients

SUMMARY

Minnesota's system of government assistance appears to be meeting several public policy goals. First, earnings and the state's package of cash and non-cash benefits lifted most 1998 MFIP families above the Census Bureau's poverty threshold in 2000. Over three-quarters of these families were above the poverty threshold, and the average income for all these families was about $22,000. This included families that left MFIP and those still on it. Second, to some extent, the system of benefits rewards work instead of dependency. On average, former MFIP families had significantly more cash income than current recipients ($22,153 compared with $13,674), but this difference diminished significantly when non-cash resources were included in the comparison ($23,511 compared with $21,811). Third, most families (88 percent) had at least one member working at some point during 2000. Fourth, some families moved off MFIP and became less dependent on welfare. About one-third of the families were off MFIP for all of 2000, and this group was far less dependent on government assistance than families that remained on MFIP for all of 2000. The average former MFIP family received only 13 percent of its cash and non-cash income through government assistance, while the average current recipient received 82 percent. While many families have had success under MFIP, some families are not working or earning enough to leave the program.

As described in Chapter 1, government assistance programs in Minnesota underwent a fundamental change in the last decade. Under the new system, the state expects and encourages families to work and move off the Minnesota Family Investment Program (MFIP). According to documents from the Minnesota Department of Human Services (DHS), MFIP's goals are to:

1. Encourage and enable all families to find employment,
2. Help families increase their income, and
3. Prevent long-term dependence on welfare as a primary source of income.[1]

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1 Department of Human Services, *Minnesota Family Investment Program Employment Services Manual* (St. Paul, 2001), 1.1.

In addition, while the goal of lifting families above the federal poverty level is not explicitly stated in state law or DHS documents, it is implicit because families are eligible to continue receiving MFIP until their earned income equals about 120 percent of the poverty level. The state is trying to accomplish these goals by (1) imposing work requirements and time limits for MFIP participants, (2) allowing families to keep a greater share of their earned income without decreasing their MFIP grant, and (3) providing resources for families moving off MFIP, such as MinnesotaCare, child care assistance, and earned income tax credits.

While MFIP expects families to become less dependent on welfare, some legislators question the ability of certain families to meet their financial needs. Two years ago, our office attempted to address this issue but limited the analysis to three sources of income (private income, MFIP, and the earned income tax credits).[2] Yet, as Chapter 1 of this report showed, Minnesota has a wide array of programs from which poor families can receive support. Consequently, the Legislature asked us to evaluate the economic status of current and former MFIP families and their incentives to increase their earnings, taking into account the wide array of government assistance that is available. Specifically, this chapter addresses the following questions:

- **How well are current and former MFIP recipients doing financially?**
- **To what extent does the state's package of government assistance benefits encourage MFIP recipients to work more and increase their earnings?**
- **How dependent are current and former MFIP families on government assistance?**
- **How does the financial standing of former recipients in Minnesota compare with that of former recipients in other states?**

We examined a sample of 1,159 current and former MFIP families.

To answer these questions, we developed a random sample of 1,159 families that received MFIP sometime between May and October 1998. In 2000, 403 of these families were on MFIP the entire year, 384 were on MFIP part of the year, and 372 were off MFIP the entire year. For each of these families, we collected data about the amount of income and benefits received and taxes paid in 2000. Table 2.1 lists the types of income and taxes included in our analysis.[3] We combined the data to determine average net incomes and poverty rates for the three types of MFIP families—full-year, part-year, and former participants. Appendix A provides more details about our sample and methodology.

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2 Joel Alter and Dan Jacobson, Office of the Legislative Auditor, memorandum to Representative Lee Greenfield, *Poverty Status of MFIP Recipients*, March 22, 2000.

3 Unfortunately, we could not get administrative data for Section 8 housing, public housing, National School Lunch, and the Women, Infants, and Children program. As a proxy, we used information that a portion of the families in our sample reported to the Department of Human Services (DHS) as part of a longitudinal study that the department is carrying out. We chose to base our sample largely on DHS' longitudinal sample because DHS has been collecting a wealth of information about these people. Minnesota Department of Human Services, *Minnesota Family Investment Program Longitudinal Study: Baseline Report* (St. Paul, August 1999); and DHS, *Minnesota Family Investment Program Longitudinal Study: One Year After Baseline* (St. Paul, December 2000).

We collected data on 28 sources of income and 3 tax liabilities.

Table 2.1: Factors for Computing Net Income

CASH RESOURCES

Privately Generated Income

- Earnings
- Child Support
- Workers' Compensation
- Unemployment Insurance
- Other (e.g. interest, dividends, capital gains, veterans benefits, pensions, and Social Security)

Cash Assistance

- MFIP Cash
- Supplemental Security Income
- Minnesota Supplemental Aid
- General Assistance
- Diversionary Assistance
- Emergency Assistance

Refundable Tax Credits and Other Refunds

- Federal Earned Income Tax Credit
- Federal Additional Child Tax Credit
- Minnesota Working Families Tax Credit
- Minnesota Dependent Care Tax Credit
- Minnesota Education Tax Credit
- Minnesota Property Tax Refund

NON-CASH RESOURCES

Nutrition

- MFIP Food
- Food Stamps and State Food Program
- National School Lunch
- Women, Infants, and Children

Housing

- Section 8 Housing
- Public Housing
- Energy Assistance

Medical

- Medical Assistance
- MinnesotaCare
- General Assistance Medical Care

Other

- Child Care

TAX LIABILITIES

- Federal Income Taxes
- State Income Taxes
- Social Security and Medicare Payroll Taxes

SOURCE: Office of the Legislative Auditor.

Income from sources not reported in Table 2.1 were not included in our analysis. For example, we did not collect information about financial support from relatives and friends or income from "cash" jobs in the underground economy.

1998 MFIP FAMILIES' ECONOMIC STATUS IN 2000

An appropriate measure of poverty is a matter of considerable debate.

In this section, we compare a family's income to the poverty threshold established by the United States Bureau of the Census. The threshold is supposed to indicate whether a family has the financial resources to meet its basic needs. It was developed in the early 1960s by determining the cost of a minimum diet and then multiplying that cost by three to allow for expenditures on other goods and services. The Census Bureau adjusts the threshold each year for inflation. Over the years, the threshold has been criticized for being too low.[4] For example, the Jobs Now Coalition estimates that a Minnesota family with one parent and two children needed an annual income before taxes of $34,032 in 2000 to meet its basic needs.[5] In contrast, the Census Bureau's official poverty threshold for a family of three was $13,738. Other researchers have suggested thresholds between those two. An evaluation of the various measures of poverty is beyond the scope of this study; we used the Census Bureau's official threshold because it is the most widely referenced benchmark for poverty. (Table 2.2 shows the poverty thresholds for 2000.) Nevertheless, when we report that a family has an income above the Census Bureau's poverty threshold, the family may still have serious difficulty meeting its basic needs. We cannot determine if a family is actually out of poverty because an appropriate measure of poverty is a matter of considerable debate.

Table 2.2: U.S. Census Bureau's Poverty Thresholds, 2000

Family Size	Poverty Threshold
1	$ 8,794
2	11,239
3	13,738
4	17,603
5	20,819
6	23,528
7	26,754
8	29,701
9 and more	35,060

SOURCE: United States Bureau of the Census, *Poverty in the United States: 2000* (Current Population Reports, Consumer Income, P60-214) (Washington DC: U.S. Government Printing Office, September 2001), 5.

4 A report by the Census Bureau outlines the weakness of the current poverty measure and evaluates some alternatives—United States Bureau of the Census, *Experimental Poverty Measures: 1990 to 1997* (Current Population Reports, Consumer Income, P60-205) (Washington, DC: United States Government Printing Office, 1999), 2.

5 Herbert Cederberg, Kevin Ristau, and Bruce Steuernagel, *The Cost of Living in Minnesota* (St. Paul: Jobs Now Coalition, May 2001), 3.

As discussed early in this chapter, an implicit goal of MFIP is to bring families above the federal poverty level, which would theoretically allow them to meet their basic needs. We found that:

- **About half of 1998 MFIP families had *cash incomes* below the official U.S. poverty threshold in 2000.**
- **Far fewer of these families had *total incomes (cash and non-cash)* below the poverty threshold in 2000.**

The Census Bureau's official measure of "income" only includes cash resources.

Tables 2.3 and 2.4 show poverty rates and average incomes in 2000 for 1998 MFIP families under four alternative definitions of income. In its official poverty measure, the Census Bureau defines income as all cash income (excluding capital gains) before taxes. The Census Bureau also uses alternative measures of income in some analyses, including (1) all cash income after taxes, (2) all cash and non-cash income after taxes, and (3) all cash and non-cash income after taxes but excluding medical subsidies.[6] Clearly, the definition of income has significant ramifications for assessing a family's economic status. For example, the poverty rate for all types of MFIP cases declines from 55 percent under the official definition of income to 7 percent when all cash and non-cash resources are included, and average income increases from $16,905 to $27,554.

Table 2.3: Percentage of Cases Under the Federal Poverty Threshold, For Various Definitions of Income, 2000

	Alternative Definitions of Income			
Status of 1998 MFIP Cases in 2000	All Cash Resources (Except Capital Gains) Before Taxes[a]	All Cash Resources After Taxes[b]	All Cash and Non-Cash Resources, Excluding Medical Subsidies[c]	All Cash and Non-Cash Resources, Including Medical Subsidies[d]
All Types of MFIP Cases	55%	48%	20%	7%
Full-Year MFIP Cases	83%	77%	25%	1%
Part-Year MFIP Cases	56	41	18	9
Former MFIP Cases	26	23	16	13

NOTE: The two definitions of income that only include cash resources are based on our full sample of current and former MFIP recipients. N equals 403 for full-year recipients, 384 for part-year recipients, and 372 for former recipients. The two definitions of income that include non-cash resources are based on a partial sample. The families in this partial sample completed DHS' longitudinal survey for 2000. N equals 199 for full-year recipients, 213 for part-year recipients, and 184 for former recipients.

[a]This is the measure of income used in the federal government's official poverty measure.

[b]The same as the official poverty measure but includes capital gains, tax liabilities, and tax credits.

[c]The same as the total cash after taxes measure but includes non-cash resources, excluding medical subsidies.

[d]The same as the total cash after taxes measure but includes all non-cash resources, including medical subsidies.

SOURCE: Office of the Legislative Auditor.

6 United States Bureau of the Census, *Income, Poverty, and Valuation of Noncash Benefits: 1994* (Current Population Reports, Consumer Income, P60-189) (Washington, DC: United States Government Printing Office, 1996), xviii – xxiii.

Table 2.4: Average Incomes, 2000

Status of 1998 MFIP Cases in 2000	*N*	Alternative Definitions of Income: All Cash Resources (Except Capital Gains) Before Taxes[a]	All Cash Resources After Taxes[b]	All Cash and Non-Cash Resources, Excluding Medical Subsidies[c]	All Cash and Non-Cash Resources, Including Medical Subsidies[d]	Average Household Size
All Types of MFIP Cases	1,159	$16,905	$17,639	$22,364	$27,554	3.5
Full-Year MFIP Cases	403	$12,732	$13,674	$21,811	$29,316	3.9
Part-Year MFIP Cases	384	15,962	17,428	21,946	27,697	3.5
Former MFIP Cases	372	22,399	22,153	23,511	25,615	3.0

[a]This is the measure of income used in the federal government's official poverty measure.

[b]The same as the official poverty measure but includes capital gains, tax liabilities, and tax credits.

[c]The same as the total cash after taxes measure but includes non-cash resources, excluding medical subsidies.

[d]The same as the total cash after taxes measure but includes all non-cash resources, including medical subsidies.

SOURCE: Office of the Legislative Auditor.

It is difficult to place a "cash" value on some non-cash benefits.

How best to define income is a subject of considerable debate in the economics and public finance literature. While non-cash resources such as medical and housing subsidies provide an economic benefit to recipients, it is unclear how much. Valuing non-cash assistance at the cost of providing it is probably an overstatement. Under prevailing economic theory, cash resources are more valuable to recipients than non-cash resources because the recipients can spend the cash as they wish.[7] For example, if the state offered a recipient of Medical Assistance a choice between participating in the program or receiving $165 in cash per month (the average cost to subsidize an MFIP recipient in 2000), most poor people would probably choose the cash. With the cash, they can spend the subsidy on things other than medical care, and if they need medical care, they could probably still receive free indigent care through hospital emergency rooms. In fact, the Census Bureau estimates that Medical Assistance has no "cash" value for people in poverty.[8] Other non-cash benefits have a "near-cash" value, such as food stamps.[9] Because people would buy about the same amount of food if they were on or off the Food Stamp program, they see food stamps as being very similar to cash. Consequently, it is more appropriate to value these "near-cash" benefits at their cost.

While it is beyond the scope of this report to determine the most appropriate definition of income, we chose to focus on cash and non-cash resources excluding medical subsidies for two reasons. First, placing an appropriate "cash" value on medical benefits is problematic. Second, we did not have access to data on medical benefits provided by employers. This can be a sizable benefit for some people. For example, according to a DHS survey, 47 percent of former MFIP families received employer-based insurance for at least one of its members, while

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7 Edgar K. Browning and Jacquelene M. Browning, *Public Finance and the Price System* (third edition) (New York: MacMillan Publishing, 1987), 278.

8 United States Bureau of the Census, *Income, Poverty, and Valuation of Noncash Benefits: 1994*, footnote 15 on page xxi.

9 United States Bureau of the Census, *Experimental Poverty Measures*, 7.

only 2 percent of full-year MFIP families received this benefit.[10] By excluding all medical benefits in our primary measure of income, we treat all families consistently. In most cases, our tables present data based on all four definitions of income.

We made one modification to our sample when determining the poverty rates shown in Table 2.3 under the measures of income that include non-cash resources. We were unable to get administrative data for the (1) Section 8 housing, (2) public housing, (3) National School Lunch, and (4) Women, Infants, and Children (WIC) programs, but we received participation data for these programs for just over half of our sample from a survey that DHS carried out in 2000. The poverty rates that include non-cash resources only apply to this limited sample. Nevertheless, with some caution, we used the limited sample as a proxy for the entire sample. The limited DHS sample is a random sample of one-parent MFIP families from 1998 that the department selected for a five-year longitudinal study. In contrast, our sample is representative of all MFIP families from 1998. In creating our sample, we started with DHS' sample but added MFIP families not represented, such as two-parent families. On average, families in DHS' limited sample were smaller and had lower incomes than our complete sample, but the average incomes as a percentage of the poverty threshold for the two samples were statistically the same. Finally, we were able to estimate the cash and non-cash incomes shown in Table 2.4 for the complete sample by using information about housing, National School Lunch, and WIC subsidies from the limited sample as a proxy for the complete sample. Appendix A provides more details on our sample and methodology.

Seventeen percent of our sample had cash and non-cash resources above 200 percent of the poverty threshold.

While 80 percent of the limited sample had cash and non-cash resources (excluding medical) above the federal poverty threshold, critics argue that the poverty threshold understates the resources required to meet a family's basic needs. As a higher measure of need, we also examined the percentage of families with incomes above 200 percent of the official poverty threshold. Only 17 percent of the limited sample had resources above the 200 percent level. In Chapter 3, we discuss the variation in economic resources for our sample in more detail.

INCENTIVES TO WORK

As discussed at the beginning of the chapter, MFIP has the goal of encouraging people to work and increase their earnings. If working more and moving off MFIP will increase people's economic status, they will have an incentive to do so. In this section, we examine these incentives with two types of analyses. First, we compare the financial status in 2000 of current MFIP recipients as a group with the status of former recipients as a group. Second, we examine the incremental changes in cash and non-cash resources that an individual faces when deciding to start working and later increase his or her hourly wage. We discuss each type of analysis in turn.

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10 Office of the Legislative Auditor analysis of DHS' "MFIP Longitudinal Study: Two Year Follow-Up Survey," questions I3 and L3. N = 184 for former recipients, and N = 199 for current recipients.

Comparing the Economic Status of Current and Former MFIP Recipients in 2000

To have an incentive to work and get off MFIP, recipients need to understand that they will have a higher economic status when they leave the program. We found that:

- **In 2000, families that were on MFIP in 1998 but left the program by 2000 had *cash* incomes (after taxes) substantially higher than families still on MFIP.**

- **However, the income advantage of former MFIP families over current recipients narrowed considerably when *non-cash* resources were also counted as income.**

As Tables 2.3 and 2.4 from the previous section illustrated, when examining cash resources after taxes, full-year MFIP recipients had an average income of $13,674 and a poverty rate of 77 percent. In contrast, former recipients had an average income of $22,153 and a poverty rate of only 23 percent. However, full-year recipients received more non-cash resources than former recipients did. Consequently, by including non-cash resources without medical subsidies in the definition of income, the financial situation for the two groups became more similar. The poverty rate for full-year recipients dropped to 25 percent, while the rate for former recipients dropped to 16 percent. This is only a 9 percentage-point difference.[11] Similarly, the average cash and non-cash incomes increased to $21,811 for full-year MFIP recipients and $23,511 for former recipients. Nevertheless, former recipients still appear to be better off financially. On average, their total resources excluding medical subsidies were 166 percent of the poverty level, compared with 130 percent for full-year recipients.[12]

The economic status of former MFIP recipients appears to have been significantly higher than the status of current recipients.

MFIP recipients have a financial incentive to work and leave the program.

In this report, we try to give a complete and consistent picture of each family's financial status, but there are some notable gaps. As discussed earlier, we did not include medical benefits because we lacked data on

11 The poverty rates are statistically different at a 0.05 significance level.

12 The resources as a percentage of the poverty level are statistically different at a 0.05 significance level.

employer-provided insurance and the "cash" value that recipients placed on medical benefits. Also, we did not include child care subsidies because of consistency issues. People who are not working, looking for work, or attending training or school do not need child care. Once people start one of these activities and need child care, they may receive a child care subsidy but will also have a new expense. Consequently, it would be misleading to include child care subsidies without including the new child care expenses. However, we lacked adequate child care expense data.[13] If we had been able to include data on medical and child care subsidies, the financial situation for all types of MFIP cases would have improved, but current MFIP families would have likely seen the biggest improvement. Generally, lower-income families receive higher medical and child care subsidies.

Child care costs and subsidies can have a sizable impact on a family's financial situation. Based on child care data that we collected from seven large counties, 31 percent of 1998 MFIP families in these counties received government child care subsidies at some point during 2000.[14] On average, the families received the subsidy for eight months of the year. Many other families chose to use alternative child care arrangements, such as family and friends. While MFIP families are entitled to child care subsidies, only 30 percent of the full-year MFIP families received a subsidy.[15]

Child care expenses can have a significant impact on the economic status of low-income families.

Based on DHS' longitudinal survey, the average family that received a government subsidy had annual out-of-pocket expenses of $509 for child care and received an annual subsidy of $7,983.[16] As described in Chapter 1, child care subsidies decline as family income rises. Consequently, former MFIP families, with their higher than average cash incomes, would receive smaller than average subsidies, while full-year MFIP families, with their lower cash incomes, would have larger than average subsidies. In addition, some families receive free child care services from family and friends. According to the DHS survey data, average annual out-of-pocket expenses were $1,266 annually for former MFIP families and $262 for full-year MFIP families, regardless of whether they received a subsidy or not.[17] We did not include these expenses in our aggregate analysis because DHS' survey primarily applied to one-parent families, and we suspected that two-parent families had significantly different child care needs and expenses.

Considering the data gaps, we cannot definitely say that the financial situation of former MFIP families in 2000 was better than full-year recipients, but the former

13 While we also considered excluding the Minnesota Dependent Care Tax Credit because it is a type of child care subsidy, we decided to include it because it is also an income tax benefit provided to low-income families. Nevertheless, the inclusion or exclusion would have absolutely no effect on our findings.

14 These counties are Anoka, Dakota, Hennepin, Olmsted, Ramsey, St. Louis, and Washington and accounted for 68 percent of our overall sample.

15 Not all families need child care, such as those with older children or parents not participating in work-related activities.

16 Minnesota Department of Human Services, data collected by the department for its five-year longitudinal study (N = 147). DHS collected data about a single month, and we multiplied them by 12 for an annual figure.

17 Office of the Legislative Auditor analysis of DHS' "MFIP Longitudinal Study: Two Year Follow-Up Survey," question K20. N = 128 for former recipients, and N = 103 for current recipients. Again, we multiplied DHS' monthly data by 12 to get an annual figure.

recipients clearly had more cash income. Consequently, the financial incentive to work more and move off MFIP depended on how the families valued non-cash resources. The greater the value current recipients placed on non-cash resources the more similar their financial situation was to former recipients, and the less incentive current recipients had to work more.

Incentives Faced by Individual Families

The aggregate analysis from above examined how well a group of individuals at a certain stage of moving off MFIP were doing financially compared with another group at a different stage. We also examined the incentives an individual faces when he or she is making the decision to work or increase his or her earnings. Figures 2.1 through 2.3 illustrate this analysis. We included information for 2000 and 1988 to show how economic incentives have changed over the last decade. We discuss each year in turn.

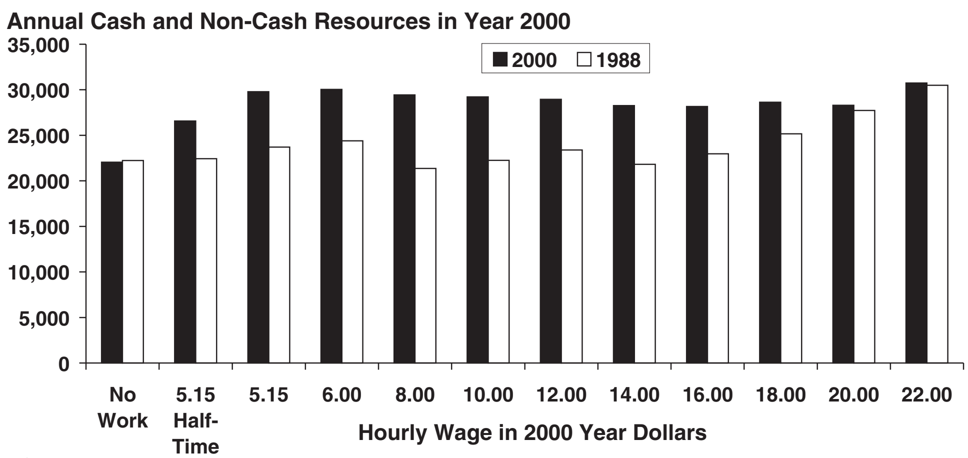
We found that:

- **Non-working MFIP recipients have strong economic incentives to work. For MFIP recipients working full-time, however, there is little economic gain when their hourly wage increases beyond minimum wage.**

As Figure 2.1 shows, a single parent who had two children and started working full-time at minimum wage in 2000 would have increased his or her family's total economic resources from $22,055 to $29,783. But, after that, the family's income would have remained largely unchanged (at about $30,000) as the parent's wage

After MFIP recipients worked full-time at minimum wage, their resources remained largely unchanged as their hourly wage increased in 2000.

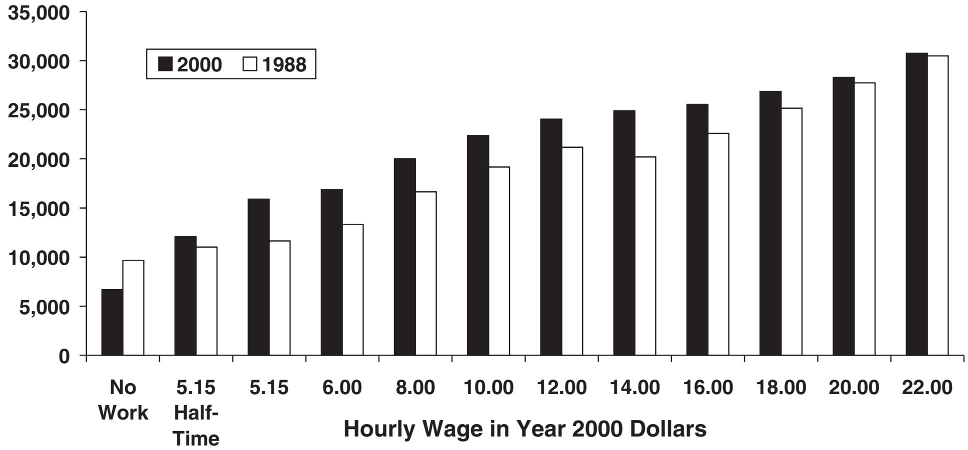
Figure 2.1: Annual Total Resources After Out-of-Pocket Child Care Expenses at Various Hourly Wages



NOTE: The cash and non-cash resources include: (1) after tax earnings, (2) MFIP cash and food assistance, (3) federal Earned Income Tax Credit, (4) Minnesota Working Family Tax Credit, (5) Minnesota Dependent Care Tax Credit, (6) Minnesota Property Tax Refund, (7) Food Stamps, (8) Medical Assistance, (9) MinnesotaCare, (10) Section 8, (11) Energy Assistance Program, (12) Women, Infants, and Children program, and (13) National School Lunch. In addition, 1988 and 2000 wages are equivalent after adjusting for inflation. In the chart, all dollar figures are expressed in 2000 dollars. Unless stated otherwise, the person worked full-time.

SOURCE: Office of the Legislative Auditor.

Figure 2.2: Annual Cash Resources After Out-of-Pocket Child Care Expenses at Various Hourly Wages

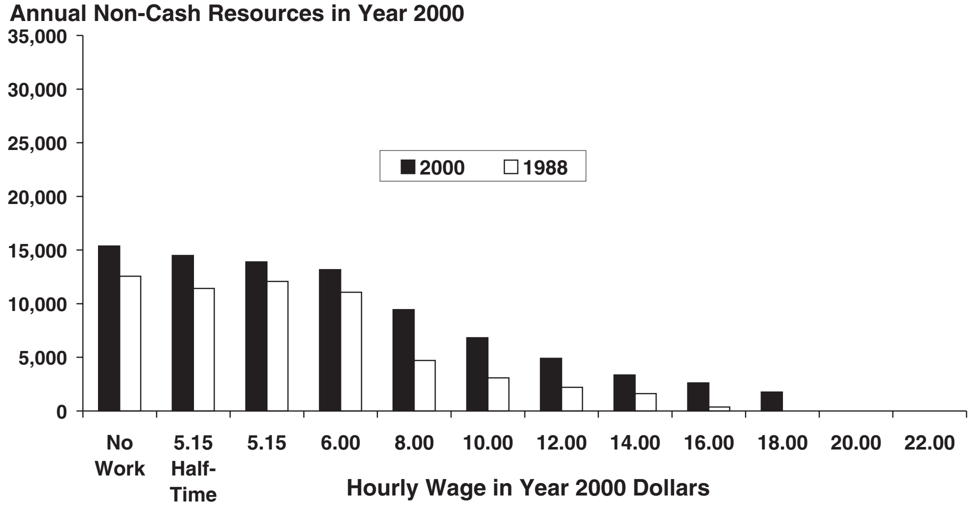


NOTE: The cash resources include: (1) after tax earnings, (2) MFIP cash assistance, (3) federal Earned Income Tax Credit, (4) Minnesota Working Family Tax Credit, (5) Minnesota Dependent Care Tax Credit, and (6) Minnesota Property Tax Refund. In addition, 1988 and 2000 wages are equivalent after adjusting for inflation. In the chart, all dollar figures are expressed in 2000 dollars. Unless stated otherwise, the person worked full-time.

SOURCE: Office of the Legislative Auditor.

As the hourly wage of MFIP recipients increased, their cash resources increased, but their non-cash resources decreased.

Figure 2.3: Annual Non-Cash Resources After Out-of-Pocket Child Care Expenses at Various Hourly Wages



NOTE: The non-cash resources include: (1) MFIP food assistance, (2) Food Stamps, (3) Medical Assistance, (4) MinnesotaCare, (5) Section 8, (6) Energy Assistance Program, (7) Women, Infants, and Children program, and (8) National School Lunch. In addition, 1988 and 2000 wages are equivalent after adjusting for inflation. In the chart, all dollar figures are expressed in 2000 dollars. Unless stated otherwise, the person worked full-time.

SOURCE: Office of the Legislative Auditor.

level increased up to $20 per hour. As the family's cash resources increased (Figure 2.2), its non-cash resources decreased by a nearly equivalent amount (Figure 2.3).

Similar to our aggregate analysis of the MFIP sample from the previous section, this analysis of an individual's incentives indicates that families that earned enough to get off MFIP had greater *cash* resources than those still on it, but the difference in resources diminished significantly when *non-cash* resources are also included. The economic incentive of people on MFIP (aside from work requirements and time limits) to increase their earnings and move off MFIP depends on how they value the non-cash resources that they receive. People who place a similar value on cash and non-cash resources have less incentive to increase their earnings than people who strongly prefer cash.

We created Figures 2.1 through 2.3 by assuming that a single-parent and two children (one in preschool and one in elementary school) participated in all the government assistance programs listed in Table 2.5 for which they were eligible.[18] We also subtracted out-of-pocket expenses for child care from the cash resources. The family only had to pay $5 per month for child care when the parent worked full-time at minimum wage; however, at $22 per hour, the family lost its child care subsidy and paid $587 per month. Appendix C provides details about our assumptions.

As we discussed earlier in this chapter, there is considerable debate within the economics and public finance literature about how to value non-cash resources, especially medical benefits. In Figure 2.4, we present the same information as in Figure 2.1 but without medical benefits. The overall picture is about the same, but the family would have less income for all wage levels below $20 per hour. Under this scenario, the family's financial situation would improve as earnings increase at the lower wages, then level off, and improve again at the higher levels. Nevertheless, the information in Figure 2.4 is consistent with the overall finding that the incentive to work is initially strong and then tapers off.

MFIP recipients have work requirements and a lifetime limit on cash assistance.

MFIP families have incentives to work besides financial incentives. The state requires most adult MFIP participants to participate in 30 hours of work-related activities per week (including employment, job search, training, and/or education). In 2000, those that did not comply faced up to a 30 percent sanction against their MFIP grant. (Starting in March of 2002, counties will have the option of disqualifying from MFIP assistance a family that does not comply with its work requirements.)

There is also a five-year lifetime limit on MFIP cash benefits. In 2000, the limit applied to most families. However, in 2001, the Legislature decided to allow extensions of MFIP cash benefits for certain families that reach the time limit, including families with various hardships or in which the parent works at least 25 hours per week.

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18 For each of the last couple of years, DHS has prepared a similar analysis. In our analysis, we assumed that the family did not receive workers' compensation, unemployment insurance, child support, Supplemental Security Income, Minnesota Supplemental Aid, Emergency Assistance, Diversionary Assistance, General Assistance, the Education Tax Credit, public housing, or General Assistance Medical Care.

Table 2.5: Cash and Non-Cash Resources at Various Employment and Wage Levels, 2000 and 1988

			Hourly Wage										
	Year	Not Working	$5.15 Half-Time	$5.15	$6.00	$8.00	$10.00	$12.00	$14.00	$16.00	$18.00	$20.00	$22.00
Cash Resources													
Earnings	2000	$0	$ 5,356	$10,712	$12,480	$16,640	$20,800	$24,960	$29,120	$33,280	$37,440	$41,600	$45,760
	1988	0	5,356	10,712	12,480	16,640	20,800	24,960	29,120	33,280	37,440	41,600	45,760
Federal and	2000	0	0	0	0	-94	-318	-811	-1,490	-2,031	-2,648	-3,574	-4,493
State Taxes	1988	0	0	0	0	-319	-1,148	-1,695	-1,401	-2,344	-3,276	-4,353	-5,300
Payroll Taxes	2000	0	-410	-819	-955	-1,273	-1,591	-1,909	-2,228	-2,546	-2,864	-3,182	-3,501
	1988	0	-402	-804	-937	-1,250	-1,562	-1,874	-2,187	-2,499	-2,812	-3,124	-3,437
Earned Income	2000	0	2,150	3,888	3,888	3,059	2,175	1,301	427	0	0	0	0
Tax Credit	1988	0	751	1,272	1,272	1,039	624	210	0	0	0	0	0
Working Family	2000	0	535	972	972	1,330	1,055	633	200	0	0	0	0
Tax Credit	1988	0	0	0	0	0	0	0	0	0	0	0	0
Dependent Care	2000	0	0	17	17	103	138	251	288	0	0	0	0
Credit	1988	0	0	16	21	41	85	404	699	210	0	0	0
Property Tax	2000	291	446	491	543	634	705	763	644	451	269	131	22
Refund	1988[e]	383	556	491	563	635	684	739	569	556	410	213	64
Child Care	2000	0	0	-60	-60	-396	-576	-1,140	-2,064	-3,600	-5,328	-6,672	-7,042
Expenses	1988	0	-3,025[a]	-52	-70	-140	-314	-1,555	-6,600	-6,600	-6,600	-6,600	-6,600
MFIP/AFDC	2000	6,384	4,010	689	0	0	0	0	0	0	0	0	0
Cash Grant	1988[c]	9,293	7,790	0[b]	0[b]	0	0	0	0	0	0	0	0
Total Cash	2000	6,675	12,087	15,890	16,885	20,003	22,388	24,047	24,897	25,554	26,869	28,303	30,746
Resources	1988	9,676	11,026	11,634	13,329	16,646	19,169	21,189	20,199	22,602	25,163	27,736	30,487
Non-Cash Resources													
MFIP Food	2000	$3,084	$3,084	$3,084	$2,677	$98	$0	$0	$0	$0	$0	$0	$0
Assistance	1988	0	0	0	0	0	0	0	0	0	0	0	0
Food Stamps	2000	0	0	0	0	0	0	0	0	0	0	0	0
	1988[d]	1,729	1,968	2,031	1,560	565	0	0	0	0	0	0	0
Women, Infants,	2000	363	363	363	363	363	363	363	0	0	0	0	0
and Children	1988	545	545	545	545	545	545	545	0	0	0	0	0
National School	2000	404	404	404	404	404	326	326	0	0	0	0	0
Lunch	1988	422	422	422	422	422	308	308	0	0	0	0	0
Medical	2000	5,952	5,952	5,952	5,952	5,952	0	0	0	0	0	0	0
Assistance	1988	4,273	4,273	4,273	4,273	0	0	0	0	0	0	0	0
MinnesotaCare	2000	0	0	0	0	0	4,716	3,876	3,360	2,616	1,764	0	0
	1988	0	0	0	0	0	0	0	0	0	0	0	0
Section 8	2000	5,477	4,582	3,989	3,666	2,519	1,325	246	0	0	0	0	0
Housing	1988[e]	5,588	4,207	4,797	4,272	3,180	2,231	1,355	1,620	372	0	0	0
Energy	2000	100	100	100	100	100	100	100	0	0	0	0	0
Assistance	1988[f]	0	0	0	0	0	0	0	0	0	0	0	0
Total Non-Cash	2000	15,380	14,486	13,893	13,163	9,436	6,830	4,911	3,360	2,616	1,764	0	0
Resources	1988	12,558	11,415	12,068	11,072	4,713	3,084	2,208	1,620	372	0	0	0
Total Resources	2000	$22,055	$26,573	$29,783	$30,048	$29,439	$29,218	$28,958	$28,257	$28,170	$28,633	$28,303	$30,746
	1988	22,234	22,441	23,701	24,401	21,359	22,253	23,397	21,820	22,975	25,163	27,736	30,487

NOTE: 1988 and 2000 wages are equivalent after adjusting for inflation. All figures are expressed in year 2000 dollars.

[a] Although the family had out-of-pocket child care expenses of $3,025, its AFDC grant was also $3,025 higher than if the family did not have child care expenses.

[b] The family was still eligible for AFDC at these wages levels, but the family's financial situation improved if it dropped AFDC in order to receive a higher child care subsidy. The resulting increase in child care subsidies was greater than the loss of AFDC assistance.

[c] The AFDC grant calucations ignores the $30 and 1/3 earned income disregard because the $30 disregard only applied to the first year of earnings and the 1/3 disregard only applied to the first four months of earnings. In this analysis, we tried to model long-term incentives.

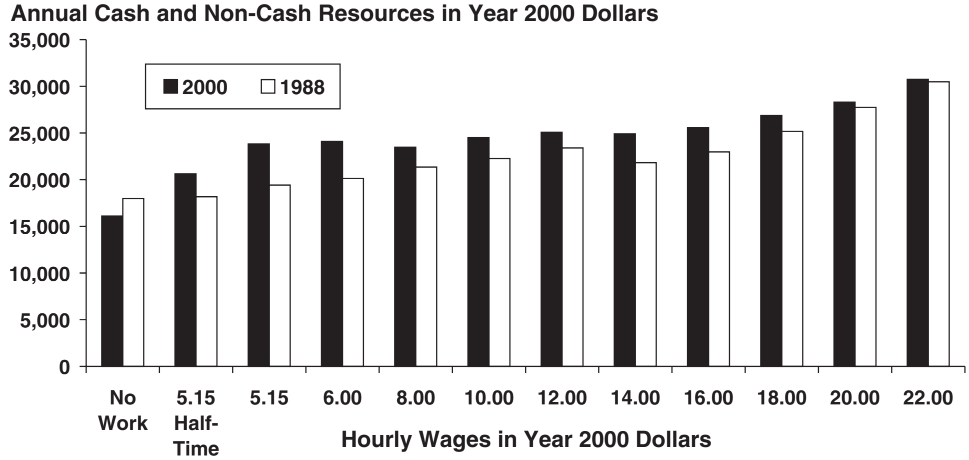
[d] Under our assumptions, food stamps initially increase as income increases due to interactions with other programs.

[e] The Section 8 subsidy in 1988 did not phase out gradually on a consistent basis because of interactions with other programs. As the housing subsidy fluctuated as earnings increased, the family's rent payments also fluctuated, which affected its property tax refund.

[f] In 1988, families that received Section 8 and had their heating costs included in their rent were not eligible for energy assistance, while in 2000, they were eligible for a $100 subsidy for the year.

SOURCE: Office of the Legislatiave Auditor.

Figure 2.4: Annual Total Resources Excluding Medical Subsidies



NOTE: The cash and non-cash resources include: (1) after tax earnings, (2) MFIP cash and food assistance, (3) federal Earned Income Tax Credit, (4) Minnesota Working Family Tax Credit, (5) Minnesota Dependent Care Tax Credit, (6) Minnesota Property Tax Refund, (7) Food Stamps, (8) Section 8, (9) Energy Assistance Program, (10) Women, Infants, and Children program, and (11) National School Lunch. In addition, 1988 and 2000 wages are equivalent after adjusting for inflation. In the chart, all dollar figures are expressed in 2000 dollars. Unless stated otherwise, the person worked full-time.

SOURCE: Office of the Legislative Auditor.

Currently, the state uses both carrot and stick approaches to encourage families to work. Families that work receive the carrot of improving their economic status, while families that do not participate in work-related activities face the stick of a sanction against their MFIP grant. In addition, families that do not work will eventually lose MFIP cash assistance altogether.

For comparison, we also examined the economic incentive to work in 1988. We found that:

- **The economic incentive to work in 1988 was lower than in 2000.**

Figure 2.1 showed that a 1988 family's total cash and non-cash resources remained largely unchanged as the parent went from not working to working full-time at $16 per hour. Figure 2.2 showed that a family's cash income increased as its wage level increased. Thus, there may have been some incentive to work, but less than in 2000. For example, as illustrated in Figures 2.1 and 2.2, a family with no earnings would have had about the same amount of total resources (but more cash resources) in 1988 than in 2000. In contrast, a working family would have had more resources in 2000 than in 1988 at any wage level.

AFDC did not have a lifetime limit on benefits.

In addition, as discussed in Chapter 1, most adult AFDC recipients were not required to participate in work-related activities, such as employment, job search, or training/education. Furthermore, the state and federal governments did not have a time limit on AFDC assistance. Families could receive welfare benefits for an unlimited period without working.

There is one incentive to work that we did not include in our analysis for 1988. For the first year that AFDC recipients had earnings, $30 were disregarded when computing the AFDC grant. In addition, for the first four months of earnings, 33 percent of the earnings (after the $30 disregard) were also disregarded. We did not include these work incentives in our analysis because they were short term, especially the more substantial 33 percent disregard. In contrast, the 38 percent earnings disregard for 2000 does not have a time limit. In the analysis, we were trying to illustrate the long-term incentives that these families faced.

DEPENDENCY ON GOVERNMENT ASSISTANCE

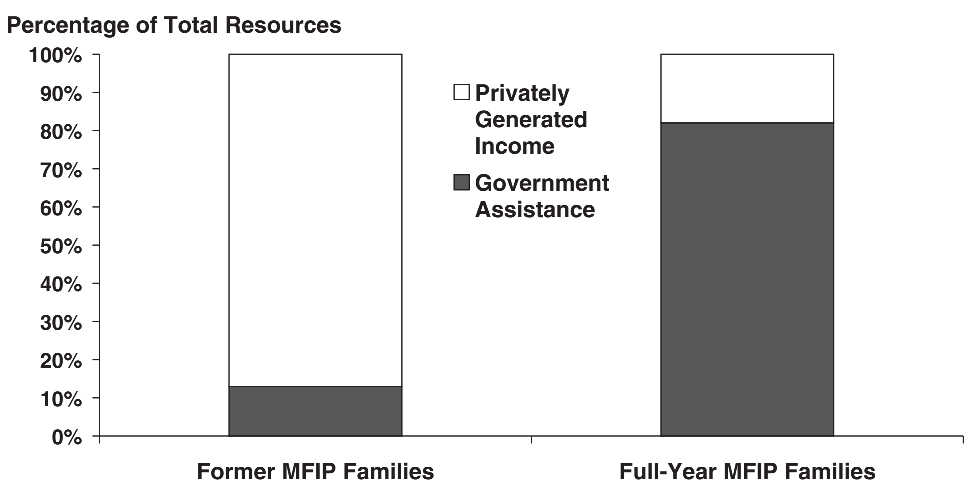
As mentioned earlier in this chapter, a third goal of MFIP is to prevent long-term dependency on welfare. We found that:

- **About one-third of 1998 MFIP recipients were off MFIP for all of 2000, and this group was not very dependent on any government assistance.**

As discussed earlier, 372 out of 1,159 families in our complete sample were off MFIP for all of 2000, while another 403 remained on MFIP the entire year. Figure 2.5 presents the breakdown of government assistance and privately generated income for these two groups. For former MFIP families, government assistance accounted for only 13 percent of their total resources (including medical), compared with 82 percent for full-year MFIP families. While we earlier

Only 13 percent of former MFIP families' resources came from government assistance in 2000.

Figure 2.5: Government Assistance and Privately Generated Income as a Percentage of Total Resources



NOTE: The figure applies to cash and non-cash resources (including medical subsidies) and the Department of Human Services' sample for its MFIP longitudinal study. *N* = 184 for former recipients and *N* = 199 for full-year recipients.

SOURCE: Office of the Legislative Auditor.

focused on total resources excluding medical subsidies, Figure 2.5 includes medical benefits to show the resources that government devoted to the families, not the value the families placed on the benefits.

The three primary sources of cash income after taxes for the entire sample were earnings (65 percent of the total), MFIP cash assistance (15 percent), and federal and state earned income tax credits (9 percent). Table 2.6 shows the complete breakdown. Similarly, these were the three sources of income with the highest percentage of recipients as shown in Table 2.7. However, the percentage of cash income provided by each source varied significantly by the type of MFIP case. For example, while most families from each type of MFIP case had earnings, earnings accounted for 87 percent of former MFIP families' cash income but only 33 percent for full-year MFIP families. While we did not analyze hourly wages or hours of work in this study, hours of work probably accounted for part of the

For families in our sample, earnings, MFIP cash assistance, and earned income tax credits were the primary sources of cash income.

Table 2.6: Percentage of Cash Resources by Source, 2000

	Status of 1998 MFIP Cases in 2000 - Complete Sample[a]			
	All Cases	Former MFIP Cases	Partial-Year MFIP Cases	Full-Year MFIP Cases
Privately Generated Income				
Earnings	64.9%	86.9%	64.2%	32.7%
Child Support	4.1	7.0	3.1	0.9
Workers' Compensation	0.2	0.2	0.1	0.2
Unemployment Insurance	0.8	1.3	0.6	0.3
Other	3.7	2.9	5.3	3.1
Subtotal	73.7%	98.4%	73.2%	37.2%
Cash Assistance				
MFIP Cash Assistance	14.5%	0.0%	12.6%	38.6%
Supplemental Security Income	6.7	2.5	4.6	15.5
Minnesota Supplemental Aid	0.0	0.0	0.0	0.0
General Assistance	0.0	0.0	0.1	0.0
Diversionary Assistance	0.0	0.0	0.1	0.0
Emergency Assistance	0.8	0.2	1.0	1.7
Subtotal	22.2%	2.8%	18.4%	55.9%
Refundable Tax Credits				
Federal Earned Income Tax Credit	7.0%	5.5%	9.8%	5.9%
Federal Additional Child Tax Credit	0.1	0.1	0.1	0.0
Minnesota Working Family Tax Credit	2.1	1.9	2.9	1.6
Minnesota Dependent Care Credit	0.2	0.3	0.2	0.1
Minnesota Educational Tax Credit	0.4	0.3	0.4	0.6
Minnesota Property Tax Refund	1.1	0.9	1.1	1.4
Subtotal	11.0%	9.0%	14.4%	9.6%
Tax Payments Before Refundable Credits				
Federal Income Tax	-1.0%	-2.1%	-0.5%	-0.1%
State Income Tax	-0.7	-1.3	-0.4	0.0
Social Security and Medicare Tax	-5.1	-6.7	-5.1	-2.6
Subtotal	-6.8%	-10.2%	-6.0%	-2.7%
Average Cash Resources	$17,639	$22,153	$17,429	$13,674
Number of Cases	1,159	372	384	403

[a]The "complete sample" refers to all 1,159 families in our sample.

SOURCE: Office of the Legislative Auditor.

Table 2.7: Percentage of Cases Receiving Various Cash Resources and Paying Taxes, 2000

	Status of 1998 MFIP Cases in 2000 - Complete Sample[a]			
	All Cases	Former MFIP Cases	Partial-Year MFIP Cases	Full-Year MFIP Cases
Privately Generated Income				
Earnings	88%	94%	94%	76%
Child Support	33	50	36	13
Workers' Compensation	2	3	2	1
Unemployment Insurance	7	11	6	3
Other	31	39	34	22
Cash Assistance				
MFIP Cash Assistance	66%	0%	94%[b]	100%
Supplemental Security Income	20	10	16	34
Minnesota Supplemental Aid	1	1	1	0
General Assistance	1	1	3	0
Diversionary Assistance	0	0	1	0
Emergency Assistance	15	5	20	21
Refundable Tax Credits				
Federal Earned Income Tax Credit	59%	62%	70%	45%
Federal Additional Child Tax Credit	2	5	3	0
Minnesota Working Family Tax Credit	58	62	69	45
Minnesota Depedent Care Credit	11	20	10	4
Minnesota Educational Tax Credit	16	19	14	15
Minnesota Property Tax Refund	38	37	36	39
Tax Payments Before Refundable Credits				
Federal Income Tax	15%	35%	10%	3%
State Income Tax	29	58	26	4
Social Security and Medicare Tax	88	94	94	76
Number of Cases	1,159	372	384	403

[a]The "complete sample" refers to all 1,159 families in our sample.

[b]Some families on MFIP only receive food assistance.

SOURCE: Office of the Legislative Auditor.

difference. In an earlier welfare reform study, we found that during May 1999 only 28 percent of MFIP cases with an eligible adult had at least 20 hours of work per week.[19]

Current MFIP families depend significantly on non-cash assistance.

Non-cash resources accounted for 35 percent of the average family's total resources (including medical subsidies) as shown in Table 2.8. However, full-year MFIP recipients were far more dependent on non-cash income than former recipients. While full-year recipients received 54 percent of their total resources from non-cash sources, former families only received 13 percent from these sources. For the overall limited sample, Medical Assistance, Section 8, and MFIP food assistance were the primary sources of non-cash income. Table 2.9 shows the percentage of families receiving each type of non-cash income.

19 Office of the Legislative Auditor, *Welfare Reform* (St. Paul, January 2000), 55.

Table 2.8: Non-Cash Resources as a Percentage of Total Resources, 2000

	Status of 1998 MFIP Cases in 2000 - Limited Sample[a]			
	All Cases	Former MFIP Cases	Partial-Year MFIP Cases	Full-Year MFIP Cases
Nutrition				
MFIP Food Assistance	6.1%	0.0%	5.9%	12.0%
Food Stamps	0.6	0.5	0.7	0.6
National School Lunch	1.7	1.1	1.9	2.0
Women, Infants, and Children	0.5	0.1	0.5	0.9
Subtotal	8.9%	1.7%	9.0%	15.4%
Housing				
Section 8	6.3%	2.9%	5.4%	10.4%
Public Housing	1.2	0.2	1.2	2.1
Energy Assistance	0.5	0.4	0.5	0.7
Subtotal	8.0%	3.4%	7.1%	13.2%
Medical				
Medical Assistance	17.7%	6.8%	20.1%	25.2%
MinnesotaCare	0.3	0.9	0.2	0.0
General Assistance Medical Care	0.1	0.1	0.1	0.0
Subtotal	18.1%	7.7%	20.4%	25.3%
Total Non-Cash Resources	35.0%	12.8%	36.5%	53.9%
Total Cash Resources	65.0%	87.2%	63.5%	46.1%
Average Cash and Non-Cash Resources	$26,493	$26,155	$27,181	$26,058
Number of Cases	596	184	213	199

[a]The “limited sample” refers to the 596 families that responded to the Department of Human Services’ longitudinal survey for the year 2000.

SOURCE: Office of the Legislative Auditor.

When examining program participation rates, we also found that:

- **Some families did not take advantage of government assistance benefits for which they appeared eligible.**

Not all eligible families participated in MFIP in 2000.

As described earlier in this chapter, an implicit goal of MFIP is to lift families above the federal poverty level. Families generally remain eligible for MFIP until their earned income reaches about 120 percent of the poverty level.[20] Consequently, if families took full advantage of MFIP and only left once they were above the poverty level, one would not expect former MFIP families to be in poverty under the Census Bureau’s official definition. Yet, 26 percent of former families were below the federal poverty threshold in 2000. There are several possible explanations. These families may have:

- chosen to leave MFIP because they received financial support from sources outside the scope of this study, including relatives, friends, and “cash” jobs in the underground economy;

20 This assumes that the family has no unearned income, such as dividends and interest.

Table 2.9: Percentage of Cases Receiving Various Non-Cash Resources, 2000

	Status of 1998 MFIP Cases in 2000 - Limited Sample[a]			
	All Cases	Former MFIP Cases	Partial-Year MFIP Cases	Full-Year MFIP Cases
Nutrition				
MFIP Food Assistance	69%	0%	99%[b]	100%
Food Stamps	23	15	32	21
National School Lunch	57	42	66	62
Women, Infants, and Children	22	8	22	35
Housing				
Section 8	34%	23%	30%	49%
Public Housing	6	1	7	10
Energy Assistance	31	19	31	42
Medical				
Medical Assistance	86%	55%	100%	100%
MinnesotaCare	6	15	4	1
General Assistance Medical Care	2	1	4	0
Number of Cases	596	184	213	199

[a]The “limited sample” refers to the 596 families that responded to the Department of Human Services’ longitudinal survey for the year 2000.

[b]Technically, this should be 100 percent, but the Department of Humans Services’ data system records a few cases in which the family received cash assistance but not food assistance.

SOURCE: Office of the Legislative Auditor.

- left Minnesota and the MFIP program and received financial support and earnings in another state, which is not captured in our data, or

- left MFIP and lived in poverty.

In addition, not all eligible families filed for earned income tax credits.

In addition, families did not take full advantage of the earned income tax credits. As Table 2.7 had shown earlier, 88 percent of our overall sample received earnings, but only 59 percent received the earned income tax credit. Some of the highest income families in our sample may have been ineligible for the credit, but nearly all of the full-year MFIP families with earnings should have been eligible. While 76 percent of these families had earnings in 2000, only 45 percent received the earned income tax credit. It is unclear why more families did not participate. Many of these families were not required to file income tax returns and may have been unaware that they could receive the tax credit even if they did not owe taxes. It is also possible that some families did not believe the hassle of filling out the tax forms was worth the benefit of the credit, especially if it was small.

As discussed in Chapter 1, legislators are interested in how government assistance programs in 2000 compare with the past, including participation. In 1988, our office analyzed the use of public assistance benefits by recipients of Aid to Families with Dependent Children (AFDC).[21] Because the methodology for the

21 Office of the Legislative Auditor, *Use of Public Assistance Programs by AFDC Recipients* (St. Paul, February 1989).

1988 study was different from this current study, comparisons should be made with caution. In the previous study, we examined the use of public assistance programs in 1988 by a random sample of AFDC recipients from 1988. In contrast, in our current study, we examined the use of public assistance programs in 2000 by a random sample of MFIP recipients from 1998. Because of this two-year lag, the sample of families that were still on MFIP for all of 2000 represented longer-term recipients and excluded families that moved off MFIP quickly (the former and part-year recipients). In addition, for 1988, we looked at the use of programs in one month; for 2000, we examined participation at anytime during the year. Finally, for 1988, we examined recipients of AFDC cash assistance, while for 2000, we analyzed recipients of MFIP cash and food assistance.

Nevertheless, when comparing families that remained on MFIP for all of 2000 from our current study with the 1988 AFDC sample, we found that:

- **Even with differences in study methodology, participation rates in public assistance programs appear to be similar for welfare recipients in 2000 and 1988.**

The 2000 and 1988 participation rates were respectively,

- 100 versus 100 percent for Medical Assistance,
- 100 versus 81 percent for food assistance,
- 62 versus 57 percent for National School Lunch,
- 35 versus 34 percent for the Women, Infants, and Children program,
- 42 versus 45 percent for the Energy Assistance Program,
- 59 versus 33 percent for Section 8 and public housing, and
- 30 versus 5 percent for child care.[22]

Participation rates for child care subsidy programs have increased substantially since 1988.

While participation rates for most programs were similar, food, housing, and child care assistance programs appear to have substantial differences between 2000 and 1988. The difference in participation rates for food assistance may be explained by MFIP's merger of AFDC and Food Stamps into a single program. Consequently, MFIP recipients automatically get food assistance. In contrast, in 1988, cash and food assistance were two separate programs, each with its own application. It is possible that not everyone applied for both programs.

Differences in the 2000 and 1988 samples may explain some of the difference in housing participation rates. Our 1988 study found that longer-term AFDC families were more likely to receive a housing subsidy than new AFDC families because of long waiting lists for the subsidy. With long waiting lists, families

22 The participation rates for (1) National School Lunch, (2) Women, Infants, and Children program, and (3) housing subsidies actually apply to one month in 2000 rather than the entire year. See Appendix A for more details about our methodology.

recently on public assistance are likely to be still waiting for the subsidy.[23] As discussed above, our sample of MFIP recipients had been on MFIP for at least two years, while the 1988 sample included families that had been on AFDC for a short time. Thus, it is not surprising to find a higher participation rate in housing programs for the MFIP sample. Program and funding changes in housing programs between 1988 and 2000 could also explain some of the difference, but we did not have the data to assess this possibility.

Evidence suggests that programmatic and funding changes explain a lot of the difference in child care participation rates between 2000 and 1988. Between 1988 and 1999, the per capita caseload for child care subsidies increased by 188 percent,[24] and funding increased by 603 percent after adjusting for inflation. One of the major policy shifts in the last decade was the expansion of child care subsidies.

COMPARING MINNESOTA WITH OTHER STATES

Researchers from across the country have assessed the economic status of former welfare recipients.

Following welfare reform, policymakers and researchers from across the country have had a great deal of interest in the economic status of welfare recipients after they exit the programs. Consequently, many states have tracked and monitored the economic status of former welfare recipients. We reviewed studies from a selected group of states to provide a point of comparison for Minnesota. We also compared our findings with a national survey of low-income families conducted by the Urban Institute. We found that:

- **Former MFIP recipients appear to have fared better economically than former welfare recipients in other states. In part, this likely reflected Minnesota’s strong economy and MFIP policies regarding eligibility and benefit levels.**

To provide a more accurate comparison with other studies, we used a different sample than we used in the rest of this report. In this comparison sample, we selected families that (1) received MFIP *cash* assistance (thus, excluding families that received MFIP food assistance only) at some point between May and October of 1998, (2) left MFIP cash assistance before the end of 1998, and (3) remained off cash assistance for a period of at least two months.[25] We measured the economic status of these individuals for calendar year 2000. Thus, the economic status of these recipients was examined 12 to 18 months after their exit from the program. Some of these families had returned to MFIP cash assistance by 2000, and we kept them in our sample.

We compared the economic status of these “former” MFIP recipients with former recipients of cash assistance in a selected group of states, including Colorado,

23 Office of the Legislative Auditor, *Use of Public Assistance Programs by AFDC Recipients*, 21.

24 The per capita refers to Minnesota households rather than individuals.

25 There were 263 families in this sample.

Iowa, Missouri, New Jersey, Washington, and Wisconsin.[26] It appears that former MFIP recipients are less likely to have an income below the poverty threshold than former recipients in these other states. Examining the pre-tax measure of household cash income used in the official poverty measure, 38 percent of former MFIP families had an income below the poverty threshold in 2000. As shown in Table 2.10, the percentage of former recipients below the poverty level in the comparison states was higher, ranging between 46 and 66 percent.[27]

The 1999 National Survey of America's Families conducted by the Urban Institute also provides a useful standard of comparison. This survey is a nationally representative survey of the economic status of low-income families,

Table 2.10: Poverty Rates for Former Welfare Recipients From Selected State Studies

Study	Data Source for Household Income	Sample	Period Between Leaving Welfare and Assessing Economic Status	Period of Analysis	Percent below Poverty Level
Minnesota	2000 tax, unemployment, and MFIP records	Recipients between May and October of 1998 who left prior to 1999	12-18 months	Year	38%
New Jersey[a]	survey	Clients from July 1997 to December 1998	26-33 months from entry	Month	46
Iowa[b]	survey	Recipients leaving in spring of 1999	8-12 months	Month	47
Washington[b]	survey	Recipients who left in October of 1998	8-12 months	Month	58
Missouri	survey	Recipients leaving during fourth quarter of 1996	24-36 months	Month	58
Colorado[c]	1999 tax records	Recipients between July 1997 and December 1998 who left prior to 1999	1-18 months	Year	65
Wisconsin[c]	1999 tax records	Recipients leaving in first 3 months of 1998	9-12 months	Year	66

[a]Measure of income includes two sources of non-cash income: Food Stamps and child care subsidies.

[b]Analysis of single-parent cases only.

[c]Measure of income excluded TANF benefits.

SOURCE: Berkeley Policy Associates, *Evaluation of the Colorado Works Program: Second Annual Report* (Denver, CO: Office of the Colorado State Auditor, November 2000), 83-89; Mathematica Policy Research, Inc., *Iowa Families That Left TANF: Why Did They Leave and How Are They Faring?* (Des Moines, IA: Iowa Department of Human Services, February 2001), 36; Midwest Research Institute, *Chapter 2 - Household Income and Poverty* (Jefferson City, MO: Missouri Department of Social Services, April 2000), 17-18; Mathematica Policy Research, Inc., *Current and Former WFNJ Clients: How Are They Faring 30 Months Later* (Trenton, NJ: New Jersey Department of Human Services, November 2000), 44; Wisconsin Legislative Audit Bureau, *Wisconsin Works (W-2) Program* (Madison, WI: Wisconsin Legislative Audit Bureau, April 2001), 43-45; Jean Du, Debra Fogarty, Devin Hopps, and James Hu, *A Study of Washington State TANF Leavers and TANF Recipients: Findings from the April-June 1999 Telephone Survey* (Washington Department of Social and Health Services, March 2000), *23.*

26 While we examined additional state studies, we discuss here only those that presented findings in terms of the percentage of former recipients with incomes above or below the federal poverty level.

27 Because Colorado and Wisconsin excluded government cash assistance from their definitions of income, we also developed a narrow definition of pre-tax cash income that excluded government cash assistance, child support, workers' compensation, and unemployment insurance. Under this narrow definition, 46 percent of "former" MFIP recipients were in poverty in 2000, well below the 65 and 66 percent found in those two states.

Welfare recipients in Minnesota become ineligible for cash assistance at a higher income than in many other states.

including current and former welfare recipients. Former recipients were defined as individuals receiving welfare benefits at some point between 1997 and 1999 who were no longer receiving benefits at the time of the survey in 1999. Examining cash income before taxes, 52 percent of these former recipients had incomes below the poverty level, compared with the 38 percent in Minnesota.[28]

In comparing these studies, one needs to consider several caveats. The studies used different (1) research designs, (2) time periods, (3) data sources for income (administrative data or surveys), (4) definitions of income, and (5) samples of former recipients. For these reasons, comparisons should be viewed with caution. In addition to the general limitations on cross-state comparisons, Minnesota's welfare policies may explain why former recipients of MFIP cash assistance appear to fare better than former recipients in other states. Because the income level at which MFIP recipients leave *cash assistance* (about 85 percent of the poverty level) is higher than most other states, it is not surprising that former MFIP recipients are doing better financially.[29] Finally, in 2000, Minnesota had a very strong economy relative to the rest of the country. Minnesota's unemployment rate was 3.3 percent, compared with 4.0 percent for the entire country, and the state's median household income was $50,865, compared with $42,148.[30]

OTHER CONSIDERATIONS

This report focuses on the economic status of current and former MFIP families in 2000. There is much more to a family's quality of life than just financial status. Although a single parent may be working, off MFIP, and above the federal poverty threshold, his or her family may not necessarily be better off. The parent may have to work long hours, have long commutes on a bus, and spend almost the entire day away from his or her children. Many of these considerations are qualitative issues and outside the scope of the data we collected. Nevertheless, in its 2000 survey of its longitudinal sample, the Department of Human Services asked former recipients to assess both their economic situation and quality of life.

- **According to DHS' survey, most former MFIP recipients said that their economic status and quality of life improved after leaving MFIP.**

As Figure 2.6 shows, 59 percent of former recipients reported that they had more money left over after paying their bills when they were off MFIP than on, while only 22 percent reported the opposite. This economic improvement appears to

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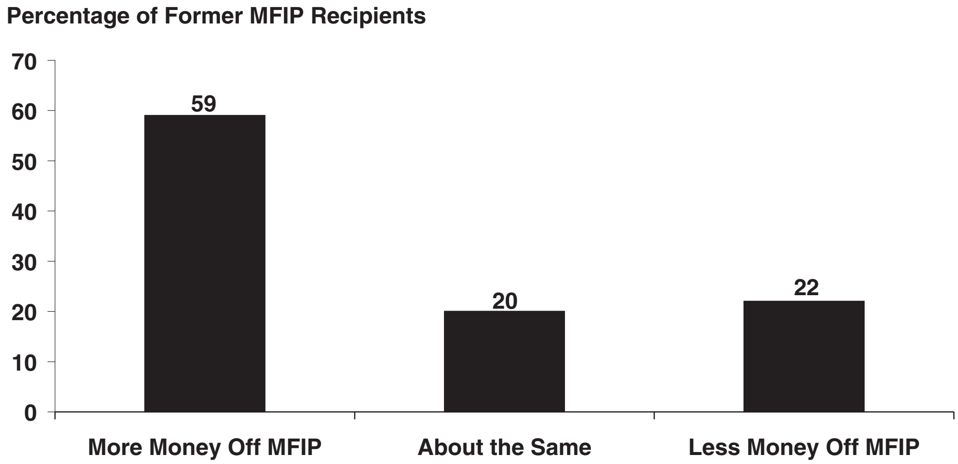
28 Pamela Loprest, *How Are Families That Left Welfare Doing? A Comparison of Early and Recent Welfare Leavers* from the series "New Federalism: National Survey of America's Families" No. B-36 (Washington, DC: Urban Institute, 2001); http://newfederalism.urban.org/html/series_b/b36/b36.html; accessed November 26, 2001.

29 Office of the Legislative Auditor, *Welfare Reform*, 11. The exit point for MFIP food assistance is about 120 percent of the poverty level.

30 Minnesota Department of Economic Security, unpublished table titled "Minnesota Unemployment Statistics, Seasonally Adjusted," http://www.mnworkforcecenter.org/lmi/laus/mn_s_adj.htm, accessed November 13, 2001; and United States Bureau of the Census, unpublished tabled titled "Historical Income Tables – Households," http://www.census.gov/hhes/income/histinc/h08.html, accessed December 10, 2001.

Figure 2.6: Self-Reported Financial Situation of Former MFIP Recipients



NOTE: The Minnesota Department of Human Services (DHS) asked former MFIP recipients if they had (1) more money, (2) about the same amount of money, or (3) less money left over after they paid their bills than when they were on MFIP. *N* = 272.

SOURCE: Office of the Legislative Auditor analysis of DHS' "MFIP Longitudinal Study: Two Year Follow-Up Survey," question D12.

translate into an improved quality of life. Figure 2.7 shows that 66 percent of former MFIP recipients said their life off MFIP was better than when on it. MFIP and other government assistance appear to (1) encourage families to work their way off welfare, (2) bring most families above the poverty threshold and, (3) provide a higher quality of life for former MFIP recipients. This assessment applies to current and former MFIP families as a group and does not reflect the conditions of all families.

If the current recession continues, the economic status of current and former MFIP families will likely decline.

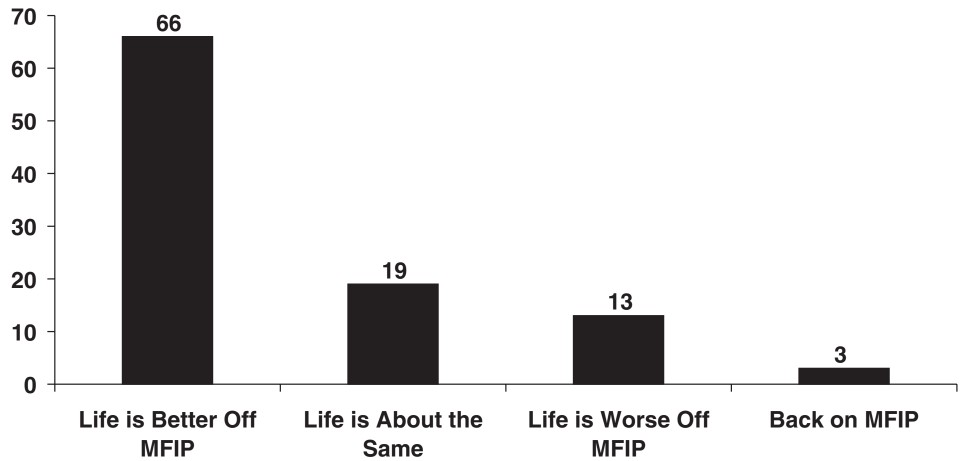
Our assessment of the economic status of current and former MFIP recipients applied to calendar year 2000. The economy has slowed down since then, but so far, it has not had a large impact on the MFIP caseload. Figure 2.8 shows that the unemployment rate in Minnesota increased from 3.3 percent to 3.6 percent between July 2000 and August 2001, while the MFIP caseload increased from about 42,000 families to 43,000.[31] If the unemployment rate continues to increase, low-income families will probably become more dependent on MFIP. While these families could face a substantial reduction in cash resources, the reduction in total resources should not be as great. This assessment, however, assumes that the families will continue to receive MFIP. After June 2002, the first Minnesota families will face the five-year time limit on MFIP cash assistance. If a parent is on MFIP for five years, is deemed employable, and works less than 25 hours per week, the family will lose its MFIP cash assistance.[32] Working 25 hours per week could be a substantial challenge for these parents during a recession.

31 The MFIP caseloads listed here include child-only cases, which are no longer considered MFIP cases.

32 Parents from two-parent families would need to work 45 hours in combination.

Most former MFIP recipients reported that they were better off after leaving the program.

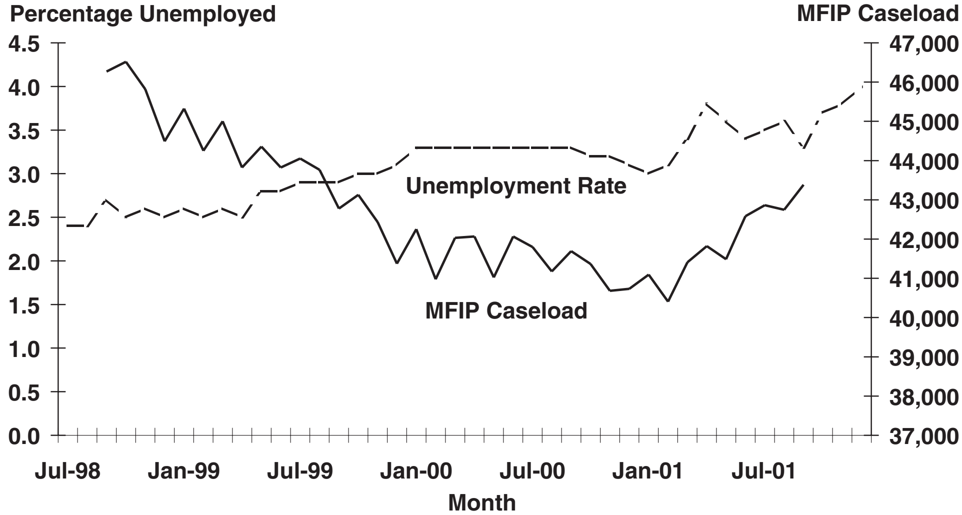
Figure 2.7: Self-Reported Quality of Life for Former MFIP Recipients



NOTE: The Minnesota Department of Human Services (DHS) asked former MFIP recipients if their life is (1) better, (2) about the same, or (3) worse now that they are off MFIP. N = 273.

SOURCE: Office of the Legislative Auditor analysis of DHS' "MFIP Longitudinal Study: Two Year Follow-Up Survey," question D13.

Figure 2.8: Minnesota Unemployment Rates and MFIP Caseloads



NOTE: MFIP caseload numbers include child-only cases, which are no longer considered MFIP cases.

SOURCE: Minnesota Department of Economic Security, "Minnesota Unemployment Statistics: Seasonally Adjusted," (2001); http://www.mnworkforcecenter.org/lmi/laus/ mn_s_adj.htm; accessed November 13, 2001; and Minnesota Department of Human Services.