Evaluation Report Summary #02-05a

OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA

Economic Status of Welfare Recipients

January 28, 2002

Major Findings

- Under the Census Bureau's official measure of income, which only includes cash income, 45 percent of families that were on MFIP in 1998 had incomes above the federal poverty threshold in 2000. When both cash and non-cash resources were included, the rate increased to 80 percent. Families that left MFIP by 2000 had a higher economic status than the families that remained on the program.

- In general, current and former MFIP families that had one parent, three or more children, or a family head without a high school degree tended to have fewer economic resources as a percentage of the poverty level in 2000.

- Families that moved off MFIP were not very dependent on government assistance. Families still on MFIP received 82 percent of their resources from the government, while former recipients only received 13 percent.

- Compared with a decade ago, Minnesota's package of government assistance is more focused on assisting low-income working families than providing financial assistance to those without jobs. Since 1988, the state and federal governments have increased the incentive for welfare recipients to work, imposed work requirements and time limits, and expanded programs that assist low-income working families.

- In 2000, the financial status of MFIP recipients increased significantly when they started working at minimum wage. After that, however, the financial incentive to work additional hours or find a better paying job diminished. As earnings increased, government assistance declined by a nearly equivalent amount.

Minnesota's system of government assistance for low-income families provides substantial support but also encourages recipients to become more self-sufficient.

While non-cash benefits are not part of the official poverty calculation, they contribute significantly to improving the economic status of MFIP recipients.

Report Summary

Minnesota has fundamentally changed its welfare system in the last decade. Most importantly, the Legislature replaced the Aid to Families with Dependent Children (AFDC) program with the Minnesota Family Investment Program (MFIP) in 1997. Four goals of MFIP are to (1) encourage participants to work, (2) prevent long-term dependency, (3) help families increase their income, and (4) bring families out of poverty.[1]

While MFIP expects families to become less dependent on welfare, some legislators question the ability of some families to meet their financial needs. This question will not be completely answered until families lose cash assistance under the program's five-year time limit and the state goes through a full recession. Nevertheless, so far, MFIP and other government assistance programs have brought many families above the federal poverty threshold and have given recipients an incentive to work and leave MFIP. Yet, some families remain in poverty and on MFIP.

We based this analysis on a sample of 1,159 families that were on MFIP in 1998 and their economic status in calendar year 2000. 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. To determine net income, we examined 28 income sources and 3 tax liabilities. However, we excluded medical and child care subsidies from some analyses for methodological reasons. In addition, we were unable to obtain data on financial support from family and friends and "cash" jobs from the underground economy.

MFIP and Other Government Assistance Programs Have Brought Many Families Above the Federal Poverty Threshold

The federal government determines poverty thresholds to measure the income needed to meet a family's basic needs. However, the current thresholds have been criticized for being too low. Despite these criticisms, the thresholds are still the most widely cited measure of poverty. Forty-five percent of 1998 MFIP families had incomes above the poverty threshold in 2000, using the federal government's official measure of income (which only includes cash income).[2] When non-cash supports are added to cash income, 80 percent of these families had incomes above the poverty threshold. Non-cash resources contributed significantly to the economic status of these families.

Minnesota's government assistance programs lift many, but not all, families above the federal poverty threshold. The families who fare more poorly tend to have one parent, three or more children, or a family head who lacks a high school degree. Interestingly, families with one parent in 1998 that became two-parent families by the end of 2000 fared the best. Families that remained one-parent families had similar economic situations with those that were two-parent families in 1998 and remained that way. These two-parent families had larger families, less education, and a larger percentage of disabled adults than other MFIP families, which probably offset the economic advantage of having a second potential wage earner.

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1 While state law does not provide explicit goals for the program, these goals are stated in the MFIP employment services manual or implied in the program's design.

2 The official measure of income includes cash resources before taxes but excludes capital gains.

Families that left MFIP received 13 percent of their resources from government assistance in 2000, while families still on MFIP received 82 percent.

MFIP Gives Families Incentives to Work and Leave the Program

For MFIP recipients to have an incentive to work and leave the program, they need to understand that they will have a better financial situation when they are off the program. MFIP recipients from 1998 who left the program by 2000 had greater average resources (cash and non-cash) than those recipients still on welfare in 2000 ($23,511 annually compared with $21,811). Former MFIP recipients also had fewer economic needs than current recipients because the former recipients had smaller families (3.0 people on average versus 3.9). Consequently, their average resources (cash and non-cash) were 166 percent of the poverty threshold, compared with 130 percent for current recipients. Nevertheless, former recipients were not conclusively better off than current recipients because we excluded two non-cash resources from our analysis—child care subsidies and private and public medical resources. Generally, families on MFIP receive greater support from these benefits than former recipients because MFIP recipients tend to have fewer cash resources.

In 2000, an MFIP family's financial incentive to work was initially strong but tapered off as earnings increased. If an MFIP family with an unemployed single parent and two children took full advantage of Minnesota's government assistance programs, it would have had $22,055 annually in cash and non-cash resources.[3] If this parent worked full-time at minimum wage, the family's resources would have increased to $29,783. However, at this point, the financial incentives to work more hours and find a better job became less clear. If the parent increased his or her hourly wage all the way up to $20 an hour, the family's resources would have hardly changed, remaining at about $30,000. As the hourly wage increased, the family's cash resources increased, but non-cash resources decreased by a nearly equivalent amount.

While the financial incentive to leave MFIP is not completely clear with respect to increasing a recipient's economic resources, MFIP's work requirements and time limits make the decision much clearer. MFIP requires most adult recipients to participate in at least 30 hours of work-related activities each week. In addition, families face a five-year lifetime limit on MFIP cash assistance. If the parents in these families are deemed employable and do not work at least 25 hours per week, their families will lose cash assistance once they reach the five-year limit.

In addition, as families work and leave MFIP, they become far less dependent on government assistance. In 2000, former recipients received only 13 percent of their total cash and non-cash resources through government assistance, compared with 82 percent for full-year recipients.

Welfare Recipients Have a Greater Incentive to Work Today Than in 1988

In 1988, a family that had a single parent and two children and took full advantage of government assistance programs would have had essentially the same economic resources if the parent was unemployed or working full-time at $16 per hour. The family's financial situation would not have consistently improved until the parent earned at least

3 This portion of the analysis includes medical subsidies. It also incorporates child care by subtracting the family's out-of-pocket expenses for child care (total cost less the government subsidy) from total resources.

In the last decade, Minnesota has placed a greater emphasis on assisting low-income working families than on helping non-working families.

$18 per hour. (The 1988 wage figures are adjusted for inflation and expressed in year 2000 dollars.)

Since 1988, the state and federal governments have made several policy changes that give welfare recipients more incentive to increase their earnings. First, the state disregards a higher percentage of a family's earnings when calculating its MFIP grant than under AFDC. Second, MFIP has work requirements and a time limit on cash assistance that did not exist under AFDC. Third, the state and federal governments created and expanded programs that support low-income working families rather than the unemployed. MinnesotaCare, the federal Earned Income Tax Credit, the Minnesota Working Family Tax Credit, and child care assistance grew from only 7 percent of government assistance expenditures in 1989 to 27 percent in 1999.[4]

The full evaluation report, *Economic Status of Welfare Recipients* (#pe02-05), includes the agency's response and is available at 651/296-4708 or:

www.auditor.leg.state.mn.us/ped/2002/pe0205.htm

Summary of Agency Response:

In a letter dated January 15, 2002, Michael O'Keefe, Commissioner of the Department of Human Services, described the report as making "a strong contribution to the public understanding of how Minnesota is doing to support low-income families as they transition off of welfare." The Commissioner concurred "with all the report's major findings; they are consistent with conclusions [the department has] drawn from [its] own studies and analyses."

The department, however, had two concerns with how health care benefits and costs are presented in the report. Commissioner O'Keefe wrote, "while we agree that it is difficult to quantify the value of health care benefits to the individual, we think you could have done more to demonstrate how health care benefits impact the well-being of families." In addition, he commented that "including increases in medical program expenditures in your analysis of changes in aggregate spending levels may overstate the level of change in spending on low-income families over the last decade." Specifically, the Commissioner indicated that the report used "a general inflation adjustment rather than the health care inflation adjustor, which is much higher."

4 These percentages exclude housing programs because we were unable to get historical numbers for Minnesota from the U.S. Department of Housing and Urban Development.