



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Welfare Reform

January 27, 2000

Welfare reform in Minnesota has made progress, but serious challenges remain.

Major Findings:

- Welfare recipients' employment rates and average hours worked increased significantly since the Minnesota Family Investment Program (MFIP) started in early 1998. Still, in a given month, half of Minnesota's welfare cases do not have an employed adult, and many of the remaining cases have adults who work less than half-time. (p. 52 of the full report)*
- Compared with most other states, Minnesota has more generous assistance levels and eligibility criteria, less severe sanctions, and less participation by welfare recipients in work-related activities. (pp. 8, 19, 98)
- An increasing percentage of Minnesota's welfare caseload have characteristics that are associated with long-term welfare use, which may present future challenges. (p. 38) However, Minnesota also has a large reserve of federal funds that could help finance short-term initiatives for the "hard-to-employ." (p. 22)
- Job counselors perceive that the vast majority of welfare recipients are employable, assuming they have appropriate support services (such as child care). (p. 59)
- Out-of-wedlock births are a leading cause of welfare dependency and their rates have grown significantly in Minnesota. (p. 27) Minnesota may need to supplement its employment programs for welfare recipients with

greater efforts to prevent welfare dependency.

Key Recommendations:

- The Legislature should (1) consider options for spending down Minnesota's growing reserve of federal funds by 2002 (p. 128), (2) consider increasing maximum client sanctions (p. 114), (3) require the Department of Human Services to annually report to the Legislature on key measures of program performance and caseload-related trends (p. 126), and (4) require the department to establish clearer policies about the length of time that clients with limited English skills can spend in language instruction (p. 130).
- The departments of Human Services and Economic Security should identify ways to (1) remind clients about the amount of time they have left on their 60 months of welfare eligibility (p. 124), (2) intensify interventions as clients move toward the 60-month limit (p. 124), (3) make client information more accessible to counties and service providers (p. 129), and (4) review selected county or provider practices—for example, regarding sanctions and assessments (pp. 119, 127).

*For the full evaluation report, *Welfare Reform* (#PE00-03) which includes the agency response, call 651/296-4708 or download from:

www.auditor.leg.state.mn.us/ped/2000/PE0003.htm

Report Summary:

In early 1998, Minnesota implemented a welfare program that increased recipients' financial incentives to work, conveyed a stronger emphasis on employment, and required higher levels of participation in work-related activities than previous programs. Minnesota also limited recipients to 60 months of eligibility for cash assistance over the course of a lifetime, starting in July 1997.

These changes transformed Minnesota's system in fundamental ways, and the full impacts on recipients will be understood only over a longer period of time. Still, there is much at stake with these changes, and it is important to consider early evidence about program-related trends. Overall, we think that Minnesota has made progress toward its goals of increasing work and reducing dependency among welfare recipients, but additional steps by the Legislature, state agencies, counties, and service providers will be needed to meet the difficult challenges that lie ahead.

Recipients' Employment Levels Have Risen, But the State Should Aim for Further Improvement

Under recent federal and state reforms, most Minnesota welfare recipients are expected to find work as soon as possible, and unemployed recipients are usually required to participate in work-related activities. Employment among Minnesota welfare recipients has increased since early 1998, when the state implemented its most recent welfare reform program (the "Minnesota Family Investment Program," or MFIP). Among MFIP cases with an eligible adult, the percentage of cases with a working adult grew from 28 percent to 45 percent between December 1997 and December 1998. In fact, all major demographic groups have made substantial employment gains since the beginning of MFIP.

Employed MFIP recipients have usually received hourly wages high enough for them to become ineligible for cash assistance if they were to work full-time. However, most recipients are not working even half-time. For instance, only 28 percent of MFIP cases with an eligible adult had at least 20 work hours per week during May 1999. Fifty-six percent of cases had no working recipients in May 1999.

Many Minnesota welfare recipients have moved off MFIP relatively quickly, while others have made little progress. Of families on MFIP in July 1998, 40 percent were off welfare one year later. Another 23 percent were still on welfare but had an employed adult, and the remaining 36 percent had no employed adults one year later.

Surveys of Minnesota employment services staff indicate that most welfare recipients have at least one employment obstacle, such as low skills, physical or mental health problems, or negative attitudes toward work. But, according to these surveys, staff think that a large majority of recipients could work, if given proper support services (such as child care, transportation assistance, and housing assistance). The category of services needing the most improvement is child care for parents working nights and weekends, according to county and employment services staff.

The federal government recently awarded bonus funding to Minnesota's welfare system for its performance on selected work-related measures during 1998. Minnesota's performance signified progress by many recipients, but it also likely reflected (1) a Minnesota economy that was far more robust than even the strong national economy, and (2) the improvements in employment and earnings that followed initial implementation of the state's welfare reforms but have since leveled off.

Minnesota's welfare system has changed in fundamental ways.

The state faces financial penalties if levels of client participation in work-related activities do not improve.

Stronger Steps Needed to Meet New Requirements

Provisions of the 1996 federal welfare reform will raise the stakes for Minnesota and its welfare recipients in the next three years. Federal law sets annual targets for the minimum percentage of recipients who should participate in work-related activities. Minnesota did not meet one of the two targets in the first year for which performance was measured. The target percentages will increase in coming years, and Minnesota faces possible penalties if its levels of client work activities do not improve.

More important, many Minnesota recipients have used up more than 24 of their 60 months of eligibility for federal welfare benefits. The looming time limits and Minnesota's below-average client participation rates suggest a need for stronger steps to engage clients in work-related activities.

State and local agencies should consider ways to intensify client interventions, especially for recipients who have used up significant portions of their welfare eligibility. Options might include home visits, improved client assessments, staff specializing in difficult cases, or improved support services. Minnesota has accumulated a large reserve of unused federal welfare funds, and legislators should consider spending down the reserve in the next two years to help pay for prudent, short-term initiatives to reduce welfare dependency.

In addition, the Legislature should consider adopting stronger maximum sanctions as a way to (1) better convey the urgency of client participation, and (2) give local agencies a stronger option for the limited number of clients who are persistently noncompliant. In a statewide survey, most county human services directors and employment services directors favored increasing the maximum sanctions for noncompliant two-parent MFIP families. They expressed divided

opinions about whether or not to increase maximum sanctions for single-parent families.

Policy makers have considered proposals to stop the 60-month eligibility "clock" for some clients—such as those working full-time—by using state funds alone to pay for their welfare benefits. A majority of county human services directors do not favor this option, but those from several of the state's largest counties do.

Minorities Are a Disproportionate Share of the Caseload

Another challenge facing Minnesota's welfare system is the disproportionate (and growing) part of the welfare caseload represented by recipients from racial and ethnic minority groups. In 1999, 3 percent of Minnesota's white, non-Hispanic children were on welfare, compared with 40 percent of African Americans, 36 percent of American Indians, 26 percent of Asian Americans, and 23 percent of Hispanics. The percentage of Minnesota's children who are on welfare dropped recently, but the decline was greater for whites than for minorities.

Two-thirds of Minnesota children on welfare in 1999 were racial or ethnic minorities—compared with one-third in 1987. One reason for the increase is a substantial increase in the state's overall minority population—partly due to in-migration from other states and countries.

Policy makers and welfare officials should monitor the differential rates of welfare use. They should also consider specific strategies to prevent or reduce welfare dependence within groups that have high levels of welfare use.

"Hard-to-Serve" Cases Account for a Larger Share of the Caseload

Minnesota's welfare caseload has declined by 39 percent since 1994. During this time, an increasing share of Minnesota's

welfare cases have had characteristics that suggest they are high risks for long-term dependency. For example, the percentage of recipients who lack high school diplomas, are not U.S. citizens, or have never married has grown. “Child-only” cases—in which no adult is eligible to receive MFIP benefits and there are no time limits or caregiver work requirements—have grown from 5 percent of the caseload in 1987 to 17 percent in 1999.

With a larger share of the caseload at risk for long-term welfare use, local agencies may need to explore new service strategies. For example, many client assessments have been cursory or not timely, and local agencies should consider establishing multi-disciplinary teams to periodically review difficult cases. Also, some “hard-to-employ” clients may need to participate in work experience programs or social services before they can be expected to find unsubsidized work, but these options were rarely used in MFIP’s first two years.

Also, county human services directors and provider officials said that improved

services for clients who have already found jobs might help these clients become more self-sufficient. For example, most of these officials said there should be greater efforts to upgrade the skills of already employed MFIP clients.

Reducing Out-of-Wedlock Births Could Reduce Dependency

Many welfare cases begin with an out-of-wedlock birth, so trends in these births can significantly affect welfare caseloads. Reducing out-of-wedlock pregnancies is one of the stated goals of federal welfare reform, but it has not been a focal point of Minnesota’s reforms.

Statewide, one-fourth of Minnesota’s births are out of wedlock—up from 12 percent in 1982 and 3 percent in 1960. Minnesota’s overall out-of-wedlock birth rate is below the national rate, but its rates for individual racial/ethnic categories are similar to or well above the corresponding national rates. A high percentage of births to American-Indian and African-American women in Minnesota are out of wedlock (81 and 67 percent, respectively).

Summary of Agency Response:

In a joint response to the report dated January 14, 2000, the departments of Human Services and Economic Security described the report as “informative and ambitious” and “a fair picture of where Minnesota stands” two years into welfare reform. The agencies “agree that more work must be done, and are fully committed to making welfare reform succeed.”

The agencies generally agreed with the report’s recommendations, although they raised several specific cautions or concerns about them. Regarding the recommendation for intensified interventions for the hard-to-employ (such as home visits), the agencies noted that the “costs could be great and payoffs uncertain” because there is limited knowledge about what strategies are most effective. Regarding the recommendation that state agencies measure trends in hours worked per case, the agencies suggested the alternative of “looking at longitudinal information or measuring exits from MFIP due to work.” Finally, the agencies agreed with the recommendation for an annual progress report to the Legislature, but they expressed a preference for having discretion about its content.

The departments said, in conclusion, that “MFIP, unlike welfare reform programs in many other states, was designed as an anti-poverty approach to welfare reform, with goals of economic independence and self-sufficiency in addition to job placement.”