



MEMORANDUM

March 22, 2000

TO: Representative Lee Greenfield

FROM: Joel Alter and Dan Jacobson
Program Evaluation Division

SUBJECT: Poverty status of MFIP recipients

COPIES TO: Representative Fran Bradley
Representative Kevin Goodno

On February 2, our office presented to the House Health and Human Services Finance Committee the findings of our recent evaluation of Minnesota's welfare reform efforts. During the hearing, you asked several questions about how MFIP recipients' incomes compare to the poverty level. We commented that the best available information on this topic would be coming from the Department of Human Services' longitudinal study of MFIP recipients, and we promised to get back to you after we had reviewed data from this study's first six-month follow-up.

In general, we found that MFIP recipients who were working at the time of the six-month follow-up typically had incomes above the poverty level—whether they were still on MFIP or had left MFIP. In contrast, persons who were not working at the time of the follow-up typically had incomes below the poverty level.

Background

The DHS longitudinal study was designed to track the status of about 1,800 single-parent MFIP recipients over a five-year period. (The study did not track two-parent cases, which account for about 12 percent of MFIP cases, nor "child-only" cases, which account for about 17 percent.) About half of the study sample consisted of caregivers and pregnant women who were ongoing MFIP participants at the time the study began in 1998 (this is often referred to as the "recipient" sample). The other half of the sample consisted of caregivers and pregnant women who were in their first month of MFIP at the time the study began (this is often referred to as the "applicant" sample). This memo focuses on the "recipient" subgroup, which was a more representative cross-section of the MFIP population at the time the longitudinal study began.

Through surveys, DHS will be periodically updating the status of sample members. The findings in this memo are based on the financial status of the recipient subgroup six months after the longitudinal study began. At that time, 646 persons completed surveys for DHS and had sufficient information to enable us to make comparisons with the federal poverty guidelines. All persons in the sample were on MFIP at the time the study began. By the end of the first six-month follow-up period, about 20 percent of these persons had moved off MFIP, while the rest remained on MFIP. DHS found that 53 percent of the sampled recipients were employed at the time of the follow-up.

Two important categories of assistance are not reflected in DHS' data on longitudinal study participants: earned income tax credits and housing assistance. As a result, the income data presented in Tables 1 and 2 understate the actual income of many recipients (and, thus, understate the actual number with incomes above the poverty level). Table 3 incorporates an estimate of participants' earned income tax credits.

Findings from the DHS longitudinal study sample¹

- **The average income of persons in the study sample was 111 percent of the poverty level at the time of the six-month follow-up.**
- **On average, persons who were employed at the time of the six-month follow-up had family incomes considerably above the poverty level, while persons who were unemployed had incomes below the poverty line.**
- **The average income of recipients who had left MFIP and were working at the time of the six-month follow-up was 162 percent of the official poverty level.**

Table 1 shows the average incomes of various categories of sample participants. Persons who were working and still on MFIP had an average total income of 131 percent of the official poverty level, and persons who were not working and still on MFIP had an average income of 72 percent of poverty. (Note: Eligibility for MFIP in a given month is based on income from two months earlier. This may explain why some persons had incomes at the time of the follow-up that were above the MFIP eligibility limits, yet they were still on MFIP.)

Data on average incomes does not always accurately convey typical incomes, nor does it convey the range of experience among sample participants. Thus, Table 2 presents a second way of

¹ When analyzing the six-month findings from the longitudinal study, both we and DHS excluded from the analysis those cases where comparisons with the federal poverty guidelines could not be reasonably made, due to (1) the persons were not living independently, or (2) the income data appeared to be incomplete. Unlike our analysis, however, DHS' analysis of six-month findings also excluded 63 cases that had these characteristics at the time the study began but not at the time of the six-month follow-up.

viewing the findings from the longitudinal survey. Rather than looking at overall averages, it presents a more detailed breakdown of participants' total family incomes (as compared with the official poverty level). We found that:

- **Among persons still on MFIP after six months, 57 percent had incomes below the poverty level, 15 percent had incomes between 100 and 119 percent of the poverty level, and 28 percent had incomes at 120 percent of the poverty level or higher.**
- **Among persons still on MFIP after six months, 77 percent of those who were working had incomes above the poverty level, and 92 percent of those who were not working were in poverty.**
- **Among persons who had left MFIP, 21 percent had incomes below the poverty level after six months, and 79 percent had incomes above the poverty level.**

Earlier, we noted that the DHS data do not include federal or state earned income tax credits. We estimated the amount of these credits that sampled families would be eligible for if they had the same average monthly earnings during the tax year that they did during the follow-up month.² Table 3 presents a comparison of working families' total incomes with and without the earned income tax credits. After adding in earned income tax credits, (1) the average income after six months increases from 140 percent to 162 percent of the poverty level for persons in the sample who were employed at the end of the six-month period, and (2) the percent of persons working at the six-month follow-up whose family income exceeds the poverty level increases from 80 percent to 92 percent.

Please let us know if you have further questions about our analyses.

² DHS might be able to more accurately measure the effect of the earned income tax credits in its one-year follow-up study, which will ask families whether they received earned income tax credits for 1998. The most reliable source of earned income tax data would be state tax records, but DHS does not have access to these.

Table 1: Average Incomes of a Sample of MFIP Recipients After Six Months

Employment Status After Six Months	MFIP Status After Six Months	Average Income, as a Percent of Poverty Level	N
Not Working	Left MFIP	97.5%	25
	Still on MFIP	72.0	255
	All non-working persons	74.3	280
Working	Left MFIP	162.3	102
	Still on MFIP	131.0	264
	All working persons	139.7	366
Working <u>or</u> not working	Left MFIP	149.5	127
	Still on MFIP	102.0	519
	All persons in sample	111.4	646

NOTE: For this table, "income" includes earned and unearned income, plus the cash and food portions of MFIP grants. "Earned income" includes salaries and wages, plus net self-employment income. "Income" does not include tax credits (such as earned income tax credits) or other noncash benefits (such as housing assistance).

SOURCE: Office the Legislative Auditor's analysis of data from the six-month follow-up of the Department of Human Services longitudinal MFIP study.

Table 2: Percentage of Sampled MFIP Recipients in Various Income Categories After Six Months

MFIP Status After Six Months	Work Status After Six Months	N	Percentage of Recipients Whose Income After Six Months Was Within the Following Percentages of the Poverty Level						Total
			<60%	60-79%	80-99%	100-119%	120-159%	160+%	
Left MFIP	Working	102	5.9%	1.0%	2.9%	14.7%	32.4%	43.2%	100.0%
Left MFIP	Not working	25	40.0	12.0	16.0	8.0	16.0	8.0	100.0
On MFIP	Working	264	1.1	4.9	17.4	25.8	30.7	20.0	100.0
On MFIP	Not working	255	18.0	66.3	7.8	3.5	3.1	1.2	100.0
Left MFIP <u>or</u> still on MFIP	Working	366	2.5%	3.8%	13.4%	22.7%	31.1%	26.5%	100.0%
Left MFIP <u>or</u> still on MFIP	Not working	280	20.0	61.4	8.6	3.9	4.3	1.8	100.0
Left MFIP <u>or</u> still on MFIP	Working <u>or</u> not working	646	10.1%	28.8%	11.3%	14.6%	19.5%	15.8%	100.0%

NOTE: For this table, "income" includes earned and unearned income, plus the cash and food portions of MFIP grants. "Earned income" includes salaries and wages, plus net self-employment income. "Income" does not include tax credits (such as earned income tax credits) or other noncash benefits (such as housing assistance).

SOURCE: Office of the Legislative Auditor analysis of data from the six-month follow-up of the Department of Human Services longitudinal MFIP study.

Table 3: Income After Six Months—With and Without Federal and State Earned Income Tax Credits—for a Sample of Employed MFIP Recipients

MFIP Status After Six Months	With/Without Estimated Earned Income Tax Credits	N	Income After Six Months, As a Percentage of Official Poverty Line							Total
			<60%	60-79%	80-99%	100-119%	120-159%	160-199%	200+%	
Left MFIP	Without EITC	102	5.9%	1.0%	2.9%	14.7%	32.4%	21.6%	21.6%	100.0%
Left MFIP	With EITC	102	2.0	3.9	0.0	3.9	22.5	39.2	28.4	100.0
On MFIP	Without EITC	264	1.1	4.9	17.4	25.8	30.7	11.7	8.3	100.0
On MFIP	With EITC	264	0.4	2.7	6.4	10.6	39.8	25.0	15.2	100.0
TOTAL	Without EITC	366	2.5%	3.8%	13.4%	22.7%	31.1%	14.5%	12.0%	100.0%
	With EITC	366	0.8	3.0	4.6	8.7	35.0	29.0	18.9	100.0

NOTE: For this table, "income" includes earned and unearned income, plus the cash and food portions of MFIP grants. "Earned income" includes salaries and wages, plus net self-employment income. "Income" does not include other noncash benefits (such as housing assistance).

SOURCE: Office of the Legislative Auditor analysis of data from the six-month follow-up of the Department of Human Services longitudinal MFIP study.