Minnesota Budget Bites

Fiscal and tax information in bite-sized pieces

September 2000

State's Economic Growth Disguises Disparities

Minnesota's workers have realized many improvements in their standard of living during the 1990s, including wage and family income increases and a strong decline in unemployment. However, these general measures hide the fact that inequality is increasing, that increased incomes are largely due to more hours worked, and that basic costs - particularly housing - are out of reach for ordinary workers.

Making a Living? The State of Working Minnesota, the latest report from the Minnesota Budget Project, goes beyond the statewide averages and trends to shed light on the economic realities experienced by Minnesota's workforce. The report separates Minnesota's population into groups based on family income or wage levels in order to identify which struggles are common to all workers and which fall more heavily on certain segments of the population.

The report finds that the growth rate of wages, availability of employer-based benefits, affordability of housing and child care, and the ability to balance work and family responsibilities all depend on where a worker is on the income scale. These factors are also affected to some extent by where a worker lives, a worker's race and gender, and whether a worker is represented by a union. Some of the key findings are summarized below.

Low Unemployment Rate Disguises Disparities

Although Minnesota's unemployment rate has dropped to 2.8%, unemployment is considerably higher in the northern regions of the state. The low unemployment rate also disguises the fact that many workers have a relatively tenuous connection to the workforce. Nearly 19% of Minnesota workers work only part-time hours. The number of workers laid off also has not declined over time.

Wages Grow Unequally

Minnesota's low, median, and high wage workers all saw their wages increase during the 1990s. However, these wages did not grow at the same rate, and for many workers, increases in the 1990s made up for declines in the 1980s. Since 1979, the wages of low wage workers have grown 7.5% after adjusting for inflation, median wages 8.6%, and high wages 13.3%. These uneven growth rates have led to greater wage inequality between workers.

Family Incomes Up, Because Families Work More

Minnesotans participate in the workforce to a remarkable degree - 87% of Minnesotans age 16 to 64 are employed, and nearly 10% of Minnesota workers have more than one job. Minnesota also has the highest percentage of women participating in the workforce.

One result of all this hard work is that Minnesota's median family income grew faster in the 1990s than in any other state, reaching $67,140 for a family of four, an annual growth rate of 2.1% since 1989.

However, national data show that increased family incomes have come at the expense of more hours worked. The average U.S. worker spent 1,898 hours on the job in 1998, nearly two weeks per year more than in 1989. The average two-parent family with children worked a total of 3,452 hours per year, nearly four weeks more than in 1989. This makes it increasingly difficult for workers to balance work and family responsibilities.

Income Inequality on the Rise

Income inequality has been increasing in Minnesota. The incomes of the poorest 20% of Minnesota families did not grow since the late 1970s relative to inflation, while the incomes of the middle 20% of families grew 16.6%, and the incomes of the top 20% of families grew 42.6%. The prosperity of Minnesota's economy has not been equally shared.

Basic Costs Outpace Income Gains

Minnesota workers are finding that basic costs are rising faster than their incomes. Housing in particular has become out of reach for ordinary workers. Median home prices in the Twin Cities have increased 61% since 1995, and have grown even faster in other parts of the state. It is now nearly impossible for a typical family to buy a home in the metro area.

Use the order form on page 4 of this newsletter to order a free copy of "Making a Living? The State of Working Minnesota."

Consolidation of Child Care Programs

Minnesota currently has three programs that help parents pay for child care. Minnesota Family Investment Program (MFIP) Child Care covers families participating in Minnesota's welfare program. Transition Year Child Care covers families who have left the MFIP program for work or job search for up to one year. Basic Sliding Fee (BSF) Child Care covers low- and moderate-income families with incomes below 75% of the state median income who do not receive MFIP. Currently families of three with incomes below $42,304 are eligible for BSF, and families of four with incomes below $50,362. All families receiving child care assistance are required to pay a copayment that increases with family income.

These three programs are funded in two different ways. The MFIP and Transition Year Child Care programs are **forecasted**, meaning that all eligible families who apply will receive assistance. In contrast, Basic Sliding Fee has a **capped allocation**. If the amount allocated in the state budget to the program is insufficient, some eligible families will not receive assistance. As of June 30, 2000, there were 1,373 families on the waiting list for BSF.

One concern regarding child care funding is that over time a larger portion of families needing assistance are in the capped BSF program. When families make the transition from welfare, they leave the forecasted MFIP and Transition Year programs and enter the BSF program. In 1996, only 21% of families receiving BSF had previously received welfare, by 1999, 32% had.

In response to direction from the legislature, the Department of Children, Families and Learning analyzed the possibility of consolidating the three child care programs into one, and reported their findings in their February 2000 report *Consolidating Child Care Assistance Programs*. Consolidation of the three existing programs would mean that one set of rules would apply for all families receiving child care assistance (whether or not they receive MFIP) and that one forecasted funding stream would support the program.

In their study, the Department of Children, Families and Learning outlined the following options for program consolidation. These options are based on the November 1999 forecast and assumed the consolidated program would be implemented in the 2002 fiscal year. Any consolidation proposal for the 2001 legislative session would need to calculate new numbers of families affected and costs, as caseloads and funding levels have changed. However, the options remain the same, although the specific numbers will change.

Option A) Consolidate Using Current Program Parameters

This option would require increased funding in order to support all families currently eligible for child care assistance.

Based on the November 1999 forecast, this option would allow an estimated 5,870 more families to be served at an estimated additional cost of $29.8 million in 2002.

Option B) Consolidate at Existing Funding Levels

If current funding were maintained, then changes would need to be made to program components. Based on the November 1999 forecast, the following changes could be made within available funding:

- **Restrict eligibility:** Keeping copayments and time limits the same, eligibility would be limited to families at or below 50% of the state median income, down from the current level of 75%. An estimated 6,742 families - approximately 19% of the BSF caseload - would become ineligible.
- **Increase copayments:** If income eligibility and other program guidelines were unchanged, copayments would need to be increased by more than 50%. A 50% increase in copayments would generate $21 million in additional funds.
- **Time limits:** Keeping copayment and eligibility limits the same, families could be limited to 36 months of participation in the child care assistance program. Approximately 15% of families would become ineligible. Minnesota currently does not place time limits on child care assistance, except to the extent that families are limited to five years on the MFIP program and one year of Transition Year child care.
- **Combination of program guideline changes:** Combinations of changes in more than one program component could be done to maintain existing funding levels. For example, a 25% increase in copayments can be coupled with an income eligibility level of 52% of the state median income.

Option C) Combined model: Increase funding and restricted program guidelines

A third option would be a combination of the above - modifying the parameters somewhat and increasing the funding somewhere above the current level but below full funding at current guidelines.

One option presented in the DCFL report would restrict initial eligibility to 50% of state median income but allow families to continue to receive assistance until their incomes went above 75% of state median income. Fewer families would initially qualify for the program but families could continue to receive help as their incomes increased, until they went above 75% of state median income.

Food for Thought and Action: Research Reviews

In order to measure the state's progress in welfare reform, the Minnesota Department of Human Services is conducting a five-year study of participants in the Minnesota Family Investment Program (MFIP). The study findings to date are published in three reports in the Minnesota Family Investment Program Longitudinal Study series, the *Baseline Report*, *Report on Recipient Sample Six Months After Baseline*, and *Report on Applicant Sample Six Months After Baseline*.

The study follows two samples of MFIP participants. At the time of the initial survey, members of the Recipient group had been receiving MFIP (and most had also received AFDC), while members of the Applicant group were in their first month on MFIP and had not received AFDC or MFIP in the preceding five years.

Study participants are heads of single-caregiver families, and the same participants are followed over time. The initial survey was done between May and October 1998 and the six-month follow-up between November 1998 and April 1999. The reports are available at www.dhs.state.mn.us/ecs/welfare/default.htm. Some major findings are summarized below:

Time Limits

Applicants

· 89% of Applicants knew about the TANF time limit. When asked how many months they had used toward their time limit, only 21% knew exactly, and an additional 21% were incorrect by over six months.

Recipients

· 94% of Recipients knew about the TANF time limit. When asked how many months they had used toward their limit, only 7% knew exactly and 45% were incorrect by over six months.

Employment

Applicants

· 25% of Applicants were working at the time of the initial survey, and 47% were employed six months later.

At the six month follow-up:

· Employed Applicants worked an average of 33 hours per week. The median hourly wage was $7.64.

· 52% of employed Applicants had service jobs and 30% were employed in clerical or sales positions.

· 61% of employed Applicants had no paid vacation, paid sick leave, health insurance, or any other benefits provided by their employer.

Recipients

· 44% of Recipients were working at the time of the initial survey, 53% were employed six months later.

At the six month follow-up:

· Employed Recipients worked an average of 33 hours per week. The median hourly wage was $7.50.

· 51% of employed Recipients had service jobs and 30% were employed in clerical or sales positions.

· 61% of employed Recipients had no paid vacation, paid sick leave, health insurance, or any other benefits provided by their employer.

Economic Well-Being

Applicants

· Applicants' average total income was $1,146 at the six month follow-up, a 90% increase.

· The proportion of Applicants' total income coming from earnings increased from 36% to 59% by the sixth month.

· 66% of Applicants paid one-third or more of their total incomes for housing at the time of the initial survey, compared to 37% who did six months later.

· 20% of Applicants who needed child care received subsidized child care during the initial month of the survey, compared to 33% six months later.

Recipients

· Recipients' average total income was $1,260 at the six month follow-up, a 13% increase.

· The proportion of Recipients' total income coming from earnings increased from 41% to 54% by the sixth month.

· 35% of Recipients paid one-third or more of their total incomes for housing costs at the time of the initial survey, compared to 34% who did six months later.

· 43% of Recipients who needed child care received subsidized child care during the time of the initial survey, in comparison to 38% six months later.

Life After Welfare

Applicants

· 27% of Applicants had left MFIP by the sixth month.

· 62% of Applicants said that increased household income was their main reason for leaving MFIP.

· 57% of Applicants who left MFIP said that their lives were better since leaving MFIP, while 9% responded that their lives were worse.

· 12% of Applicants who left MFIP had no health care coverage.

Recipients

· 24% of Recipients had left MFIP by the sixth month.

· 58% of Recipients said increased household income was the main reason for leaving MFIP.

· 64% of Recipients left MFIP said that their lives were better since leaving MFIP, while 20% responded that their lives were worse.

· 18% of Recipients who left MFIP had no had health care coverage.

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The Minnesota Budget Project provides independent research, analysis, and outreach on budget and tax policy issues, emphasizing issues affecting low- and moderate-income persons and the organizations that serve them.

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