INFORMATION BRIEF
Minnesota House of Representatives
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Former Welfare Parents and the Poverty Guidelines

An Examination of Incomes by Regions

Working Paper, Number Seven

This information brief compares the incomes of parents who formerly received welfare with poverty guidelines. Poverty guidelines are a rough approximation, used to determine if a family has enough income to meet its basic needs. When measuring incomes against poverty guidelines, the research in this brief indicates that median incomes increase with the number of years after parents leave welfare, vary across regions in the state, are often higher for married parents, and are not necessarily higher for people leaving the Minnesota Family Investment Program, as opposed to the earlier welfare program Aid to Families with Dependent Children.

In 1996, the federal government replaced the income assistance program Aid To Families with Dependent Children (AFDC) with Temporary Assistance for Needy Families (TANF). In accordance with TANF law, Minnesota enacted the Minnesota Family Investment Program (MFIP), which was incrementally implemented beginning July 1997. The newly enacted program changed the way welfare was delivered to low-income families. Under the new law, parents are limited to 60 months of TANF benefits. Parents separately qualify for the subsidized health care program, Medicaid. Also, some parents must fulfill additional work or job search requirements.

Welfare reform raises many issues regarding the future of low-income families. More information is needed to determine how these reforms have affected low-income families. One area to focus on is the incomes of parents after they leave welfare. This brief is part of a series that examines income characteristics of parents after they leave welfare. It examines parents' incomes relative to the poverty guidelines. Comparisons are made across regions, recognizing the possibility of regional differences.

The brief finds that real median incomes when examined as a percentage of the poverty guidelines:

- Increase with the number of years after parents leave welfare
- Are oftentimes higher in the Twin Cities metropolitan area and the southern half of the state
- Are oftentimes higher for married parents
- Are not necessarily higher for recipients leaving MFIP, compared to AFDC; at least not for the first year after leaving the respective programs

The results help construct a story where some families leave welfare and steadily gain incomes relative to the poverty guidelines. At least this is true for most people who file taxes. (The information for this study comes from data on welfare recipients, income tax data, and poverty guideline information. See page 4 for a description of the data.) Not all families who leave welfare file state income taxes and not all will file every year. Between 1992 to 1999, about 55 percent to 65 percent of families who left welfare filed for state taxes one year after leaving welfare. Those less likely to file include parents that received welfare in Hennepin and Ramsey counties, Moorhead, East Grand Forks, and in the northwestern nonmetropolitan area.[1] There may be many reasons why the remainder of the population did not file. Some may have moved out of the state. Some may have too little income to be required to file for taxes. Still others may have income from nontaxable sources.

The results might provide some indication on where proportionally more parents might fulfill the income eligibility requirements for government assistance programs that base eligibility upon their income relative to the poverty guidelines. Also, the results might provide a rough indication of whether parents are meeting their basic needs. However, because cost-of-living varies from region to region, and because of the potentially outdated nature of the poverty guidelines, it may only serve as a rough indication of a family living in financial poverty.

Why the Poverty Guidelines Matter

Past briefs in this series have examined the income of former welfare recipients, but incomes may sometimes be a poor indicator of whether families are meeting their basic needs. Some families may have many children. Even if they have the same incomes as smaller families, they likely have more expenses.

The poverty guidelines are a rough approximation of whether families can adequately pay for their basic needs. The poverty guidelines come from the poverty thresholds. Historically,

[1] African Americans, Hispanics, and Native Americans are also less likely to file. Also, parents who did not graduate from high school are more likely not to file.

the federal government developed a set of thresholds to roughly indicate when a family may be living in poverty. Molly Orshansky, an economist at the then U.S. Department of Health, Education and Welfare, developed these thresholds by taking three times what is needed for a nutritionally balanced diet. The times-three idea was to try to account for other basic expenses. Poverty guidelines were later established and used as a simplified version of the more detailed thresholds.

The poverty guidelines adjust for family size. They set aside larger incomes for larger family sizes. The rationale is to account for added expenses for food, clothing, housing and other basic necessities.

The poverty guidelines are used as an eligibility criterion for several government programs, like Medicaid and MinnesotaCare. These programs base eligibility on several factors, but one is income as a percentage of the poverty guidelines.

However, the poverty guidelines have some shortcomings and have been subject to some criticisms. Many changes have occurred since the establishment of the guidelines in the 1960s. Consumption patterns have changed. New notions of a nutritionally balanced diet have developed. Everyday costs for child care, health care, transportation, and shelter have all shifted.

In 1996, the National Academy of Sciences (NAS) proposed a revision of the poverty thresholds. They recommended a budget-based approach in which expenditures and resources are taken into account. The NAS accounts for the new consumption patterns in child care and health care by deducting it from resources. They acknowledge that the cost of living and measures of poverty may differ from region to region and include rural-urban differences in shelter costs. The work of the NAS has continued, partly by the U.S. Bureau of the Census, which has developed experimental measures of poverty rates using new measures of poverty thresholds.[2]

Past House Research reports by Hirasuna and Manzi (1996, 1998) identified three factors, separate from government assistance programs like basic sliding fee child care, which can substantially contribute to differences in the wage needed to pay for basic expenses.[3] Those factors were whether the parent received child support, whether the parent had access to nonformal child care, and whether the parent lived outside the Twin Cities metropolitan area. Without these factors, a single parent with two children, living in the Twin Cities metropolitan area in 1998, may have needed to earn as much as $16.75 an hour. However, to the extent that these factors do not impose additional expenses or add additional income, the parent might have been able to pay for basic needs with a minimum wage job.

Even with these shortcomings, the poverty guidelines may still be important. Besides being a rough measure of financial poverty, they are used as eligibility criteria for government programs. Also, the federal government and many researchers still use their more detailed counterpart, the poverty threshold, to measure poverty rates in the United States.

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[2] *Experimental Poverty Measures: 1999*. Current Population Reports. Consumer Income. U.S. Department of Commerce. Issued October 2001. P60-216.

[3] Includes MFIP and MFIP childcare.

Parents' Incomes Before and After Leaving Welfare

Tables 1 through 4 and figures 1 through 4 show that the median income relative to the poverty guidelines of parents who have left welfare and have filed a Minnesota state tax form. The tables and figures follow parents through time and report their incomes relative to the number of years before and after their last year on welfare. The tables show an increase in incomes of tax filers over time. Moreover, the table shows that incomes are typically higher in southern regions of the state.

Description of the Data

The statistics on median incomes as a percentage of the poverty guidelines combined data on welfare recipients, income tax data, and yearly information on poverty guidelines. The data on welfare recipients comes from the Department of Human Services. The income tax data are from M-1 tax forms, filed with the Minnesota Department of Revenue, for tax years 1992 to 1999. Data on the poverty guidelines are published by the U.S. Department of Health and Human Services. The welfare data and the income tax data are not samples; the data include every family and individual that received AFDC or MFIP from 1992 to 2001 and filed an M-1 income tax form from 1992 to 1999.

Not every former welfare recipient filed an M-1 tax form. Approximately 65 percent of parents leaving MFIP in 1998 filed an M-1 tax form in 1999. There is no way of knowing how the missing values on income might bias the results because some may choose not to file. Some may live outside the state. Or some may receive income in child support, which is nontaxable income for the custodial parent. However, we are making continued efforts to find out what happens to those who do not file.

Incomes are estimates of adjusted gross income. They are equivalent to federal taxable income plus the personal and dependent exemption amounts and standard deductions. There is no way of knowing whether the family has additional children after they leave welfare, when a child is no longer part of the household, or cannot be claimed as dependents. As a result, it is assumed that no more children are born and that any child over 18 is no longer part of the household for purposes of calculating the poverty guidelines.

The data were limited to parents that left welfare. Parents are determined to have left welfare when they have no further record of eligibility. Because the data set only goes to 2001, parents who left before 1998 and never returned were considered to have permanently left welfare. This may bias the results somewhat, since some parents may return after staying away for two or more years.

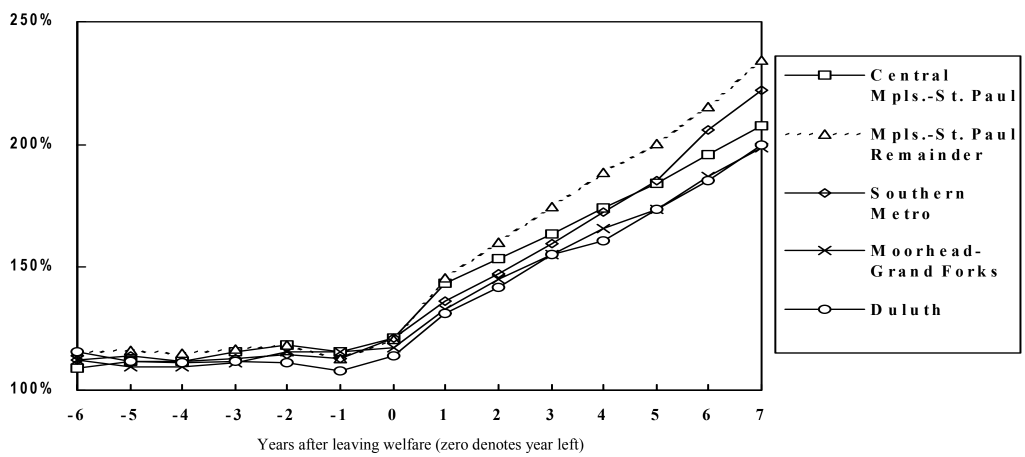
Table 1

Real Median Incomes as a Percentage of the Poverty Guidelines
Single Parents in Metropolitan Regions

Period	Year	Region				
		Central Minneapolis-St. Paul	**Minneapolis-St. Paul Remainder**	**Southern Metropolitan Areas**	**Moorhead and Grand Forks**	**Duluth**
Years Before Leaving Welfare	-6	109.1%	115.5%	112.1%	112.3%	115.5%
	-5	111.4	116.0	113.9	109.3	111.5
	-4	111.6	115.1	111.5	109.7	111.2
	-3	115.5	116.9	113.0	111.2	111.4
	-2	118.2	118.3	114.3	115.3	111.2
	-1	115.6	113.1	112.8	115.4	107.6
Year Left Welfare	0	121.3	120.5	120.9	117.4	114.1
Years After Leaving Welfare	1	143.4	145.9	136.1	133.1	131.2
	2	153.8	160.0	147.1	145.3	141.6
	3	163.8	174.5	159.7	155.0	154.9
	4	174.2	188.5	172.7	165.6	160.8
	5	184.0	200.3	185.2	173.6	173.5
	6	195.8	215.4	206.1	187.2	185.2
	7	207.8	234.6	222.3	198.9	199.9

Figure 1

Real Median Incomes as a Percentage of the Poverty Guidelines
Single Parents in Metropolitan Regions
Before and After Leaving Welfare



How Tables and Graphs 1 through 4 were Constructed: The tables and graphs were constructed by dividing parents' income by the poverty guidelines. Incomes as a percentage of the poverty guidelines are estimated for all parents for the year they left welfare and for each year before and after leaving welfare. Incomes are not separated by whether the parent was on AFDC or MFIP. The year that the parent leaves welfare is denoted by the year zero on the tables and figures. A positive number denotes the number of years after leaving welfare.

Table 2

Real Median Incomes as a Percentage of the Poverty Guidelines
Single Parents in Nonmetropolitan Regions

	Region					
Period	**Year**	**Southeast**	**Southwest**	**Central**	**Northeast**	**Northwest**
Years Before Leaving Welfare	-6	112.7%	118.6%	131.8%	111.9%	112.0%
	-5	120.3	115.5	118.0	122.9	111.5
	-4	121.1	117.2	122.2	116.5	113.8
	-3	118.5	120.7	121.7	113.4	111.6
	-2	121.3	120.9	124.0	116.1	114.2
	-1	119.4	122.2	119.9	109.1	113.3
Year Left Welfare	0	121.8	123.2	122.2	116.4	117.8
Years After Leaving Welfare	1	136.7	132.7	136.7	131.4	130.2
	2	149.5	146.0	146.9	137.6	140.3
	3	159.1	155.0	159.2	147.9	150.7
	4	172.8	166.6	172.5	157.8	156.3
	5	183.8	179.8	184.5	169.0	162.2
	6	195.3	190.3	198.8	182.7	172.8
	7	215.5	200.4	212.2	182.1	184.3

Figure 2

Real Median Incomes of a Percentage of the Poverty Guidelines
Single Parents in Nonmetropolitan Regions
Before and After Leaving Welfare

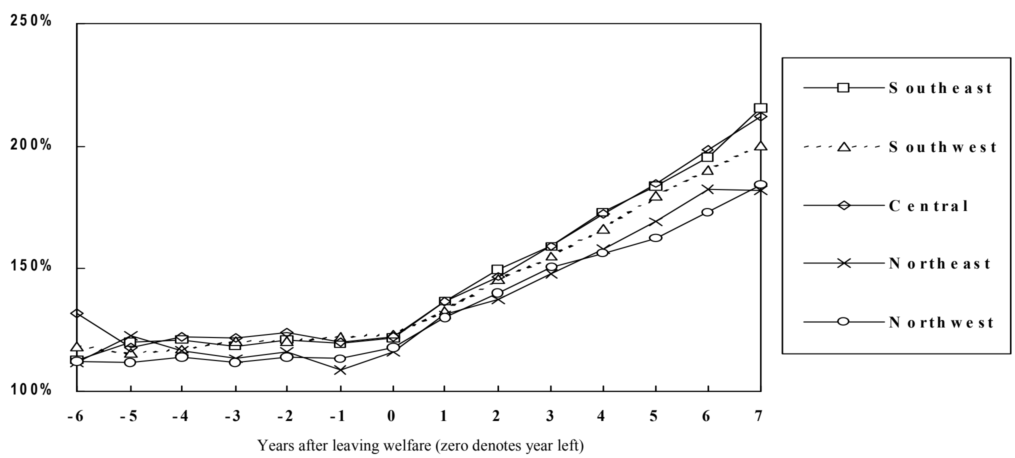


Table 3

Real Median Incomes as a Percentage of the Poverty Guidelines
Married Parents in Metropolitan Regions

Period	Year	Region: Central Minneapolis-St. Paul	Minneapolis-St. Paul Remainder	Southern Metropolitan Areas	Moorhead and Grand Forks	Duluth
Years Before Leaving Welfare	-6	117.6%	111.5%	109.0%	125.5%	109.0%
	-5	111.8	119.2	111.5	119.0	111.4
	-4	118.5	122.9	111.5	114.4	113.8
	-3	120.2	126.3	118.0	120.4	113.8
	-2	122.1	129.3	120.9	122.1	115.2
	-1	123.3	128.8	124.7	126.8	115.3
Year Left Welfare	0	127.6	131.2	125.7	126.9	122.9
Years After Leaving Welfare	1	148.3	147.9	149.0	139.4	135.7
	2	160.4	160.8	158.3	143.0	146.2
	3	173.9	175.9	165.9	151.1	160.3
	4	185.4	184.8	177.7	159.4	168.8
	5	198.9	208.1	184.2	172.4	189.9
	6	210.1	217.0	197.9	175.7	203.9
	7	230.7	230.2	203.4	169.1	209.8

Figure 3

Real Median Incomes as a Percentage of the Poverty Guidelines
Married Parents in Metropolitan Regions
Before and After Leaving Welfare

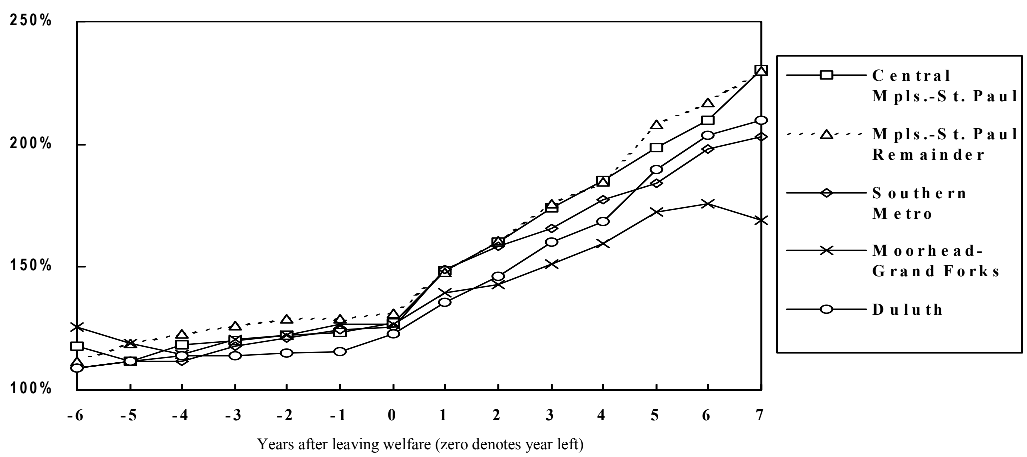
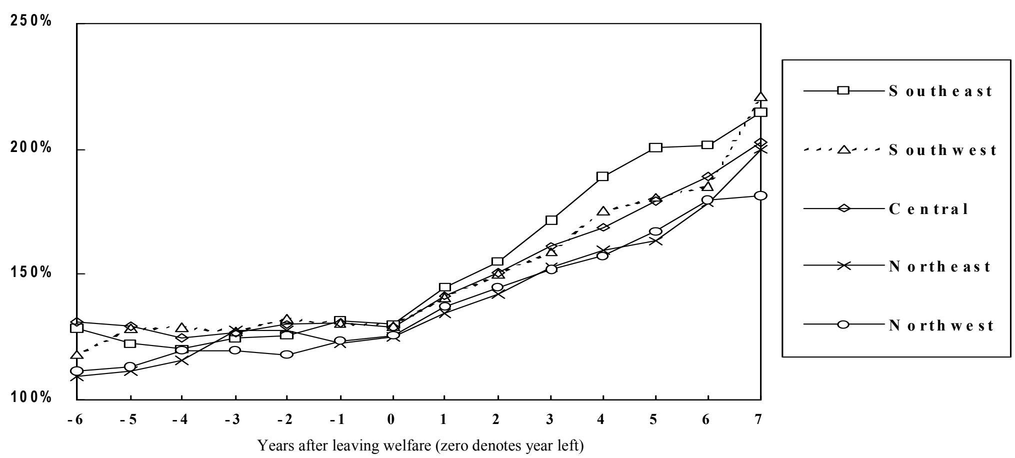


Table 4
Real Median Incomes as a Percentage of the Poverty Guidelines
Married Parents in Nonmetropolitan Regions

		Region				
Period	**Year**	**Southeast**	**Southwest**	**Central**	**Northeast**	**Northwest**
Years Before Leaving Welfare	-6	128.6%	117.9%	131.3%	109.0%	111.5%
	-5	122.5	128.1	129.3	111.3	113.3
	-4	120.2	129.1	124.4	116.0	119.4
	-3	124.3	127.4	126.9	127.6	119.7
	-2	125.6	132.0	129.8	128.0	117.8
	-1	131.5	130.4	130.6	122.2	123.3
Year Left Welfare	0	130.0	129.6	128.7	124.9	125.5
Years After Leaving Welfare	1	144.5	141.0	141.6	134.4	137.0
	2	155.1	150.1	150.7	142.2	144.8
	3	171.3	158.8	161.3	152.8	152.0
	4	188.8	175.3	168.6	159.7	157.4
	5	200.4	181.0	179.3	163.1	167.0
	6	201.3	184.9	189.1	178.5	179.6
	7	214.4	221.1	202.8	199.7	181.5

Figure 4
Real Median Incomes as a Percentage of the Poverty Guidelines
Married Parents in Nonmetropolitan Regions
Before and After Leaving Welfare



For parents that remained single while on welfare, their tax records indicate that those living in the Twin Cities metropolitan area outside of Hennepin and Ramsey counties tend to post higher incomes relative to the poverty guidelines. Regions with the lowest incomes, relative to the poverty guidelines, include the northwest and northeast nonmetropolitan areas (See Appendix for listing of counties).

Incomes are oftentimes higher in the Twin Cities, La Crosse, Rochester, and St. Cloud metropolitan areas as well as southeast and southwest nonmetropolitan areas. Regions posting lower incomes include Moorhead, East Grand Forks, the northeast, and the northwest. This tends to be true for parents who remain single throughout their stay on welfare and for parents who are married for at least part of their stay.

The results help construct a story where some parents garner gains in income after they leave welfare. Immediately after leaving welfare, these parents' median incomes ranged between 120 percent and 150 percent of the poverty guidelines. After seven years, incomes ranged between 160 percent and 230 percent of the poverty guidelines.

However, this may not be true for every family. These statistics only state the median of parents that file a Minnesota M-1 income tax form. Some families may move out of the state and not file taxes. Others may have too little income to be required to file for taxes, and they may expect little benefit in filing for refundable tax benefits like the working family credit and the education tax credit. Still others may have nontaxable income. For example, some may receive all of their income from child support. Or some may be living with someone who helps pay for their basic needs.

Also, some families may file for taxes but may not follow the median of the distribution. For example, some may never see much gain in income relative to the poverty guidelines. They may struggle to meet their basic needs. They may work two jobs. They may have multiple barriers, from which they may manage to overcome some, but not all. Ultimately these barriers may prevent them from meeting their basic needs.

The opposite is true as well. Medians cannot tell the story of more financially successful families, those who become wealthy over time. These families may leave welfare and face relatively few barriers. Or, they have the luck and skills to garner large gains in income.

One Year After Leaving Welfare

The incomes of parents after leaving welfare may partly depend upon the year they exit. Some parents may exit in a period when the job market is good and wages for lesser skilled workers are high. Without adjusting for inflation, income eligibility limits are higher under MFIP than AFDC. It might be that incomes remained higher after the enactment of MFIP. Otherwise parents might enter back into welfare.

The tables and figures below show that one year after leaving welfare, the median income of tax filers, as a percentage of the poverty guidelines, is higher than 125 percent. This is true for all regions and for all years. Tables 5 through 8 and figures 5 through 8 list incomes as a percentage of the poverty guidelines. These incomes are for tax filers one year after leaving AFDC or MFIP.

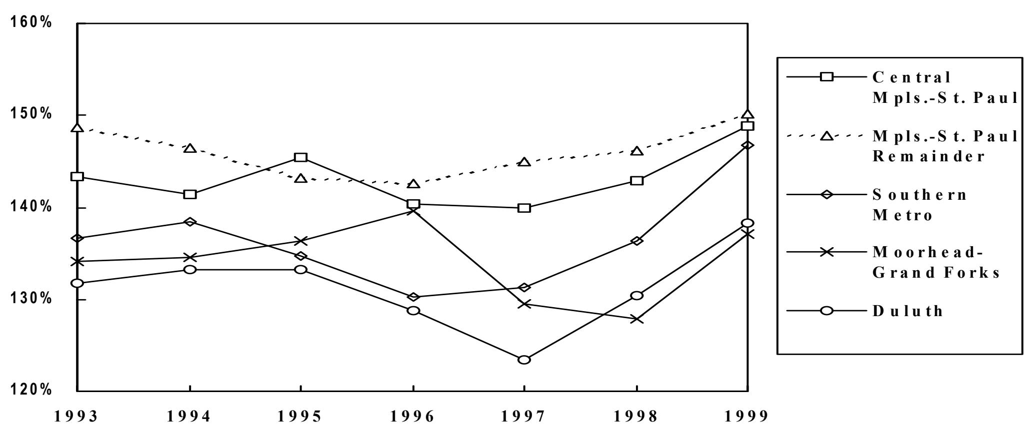
Table 5

Real Median Incomes as a Percentage of Poverty Guidelines
Single Parents One Year After Leaving Welfare in Metropolitan Regions

Period	Year Left Welfare	Year Income is Listed	Region: Central Minneapolis-St. Paul	Minneapolis-St. Paul Remainder	Southern Metropolitan Areas	Moorhead and Grand Forks	Duluth
AFDC	1992	1993	143.4%	148.8%	136.7%	134.2%	131.8%
	1993	1994	141.4	146.5	138.4	134.5	133.3
	1994	1995	145.5	143.2	134.7	136.4	133.2
	1995	1996	140.4	142.6	130.3	139.6	128.8
	1996	1997	140.0	145.0	131.4	129.5	123.4
MFIP	1997	1998	143.0	146.2	136.4	128.0	130.4
	1998	1999	148.9	150.2	146.7	137.1	138.2

Figure 5

Real Median Incomes as a Percentage of the Poverty Guidelines
Single Parents in Metropolitan Regions
One Year After Leaving Welfare



How the Tables 5 through 8 were Constructed: The tables and graphs were constructed by finding the last year that each parent was on welfare. The income of each parent, one year after leaving welfare is placed into a file and divided by the poverty guidelines. The median for each year is calculated and reported in the tables and figures. The tables and charts list the year the parents leave welfare and the year of income (one year after leaving welfare). The tables list the year of income only.

Table 6

Real Median Incomes as a Percentage of the Poverty Guidelines
Single Parents One Year After Leaving Welfare in Nonmetropolitan Regions

Period	Year Left Welfare	Year Income is Listed	Region				
			Southeast	Southwest	Central	Northeast	Northwest
AFDC	1992	1993	136.5%	132.0%	133.3%	142.8%	132.0%
	1993	1994	134.5	130.0	137.9	137.9	130.0
	1994	1995	135.3	129.0	137.6	123.2	129.0
	1995	1996	129.8	127.1	134.2	129.0	127.1
	1996	1997	128.3	129.5	133.8	126.3	129.5
MFIP	1997	1998	130.1	129.4	140.2	132.8	129.4
	1998	1999	136.0	133.5	139.2	134.3	133.5

Figure 6

Real Median Incomes as a Percentage of the Poverty Guidelines
Single Parents in Nonmetropolitan Regions
One Year After Leaving Welfare

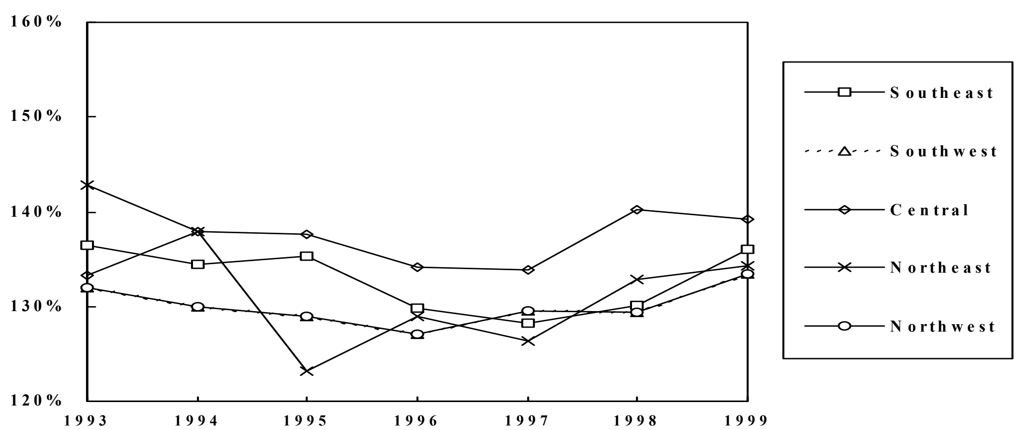


Table 7
Real Median Incomes as a Percentage of Poverty Guidelines
Married Parents One Year After Leaving Welfare in Metropolitan Regions

Period	Year Left Welfare	Year Income is Listed	Region: Central Minneapolis-St. Paul	Minneapolis-St. Paul Remainder	Southern Metropolitan Areas	Moorhead and Grand Forks	Duluth
AFDC	1992	1993	145.6%	140.6%	153.0%	143.4%	140.3%
	1993	1994	151.2	147.0	135.5	140.0	134.5
	1994	1995	150.4	146.2	150.4	135.8	135.2
	1995	1996	144.1	137.9	140.6	140.3	133.2
	1996	1997	145.0	144.0	143.0	140.7	140.2
MFIP	1997	1998	149.7	157.8	150.7	139.9	137.3
	1998	1999	151.6	163.6	164.7	139.2	135.0

Figure 7
Real Median Incomes as a Percentage of the Poverty Guidelines
Married Parents in Metropolitan Regions
One Year After Leaving Welfare

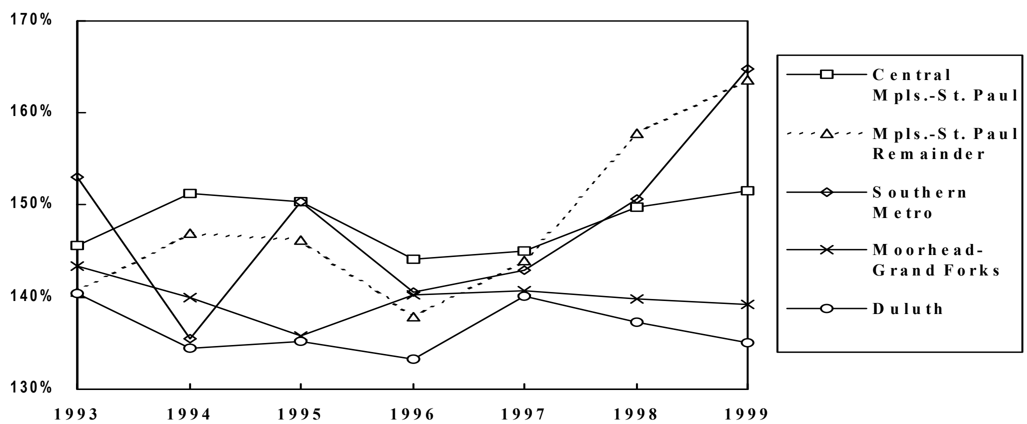
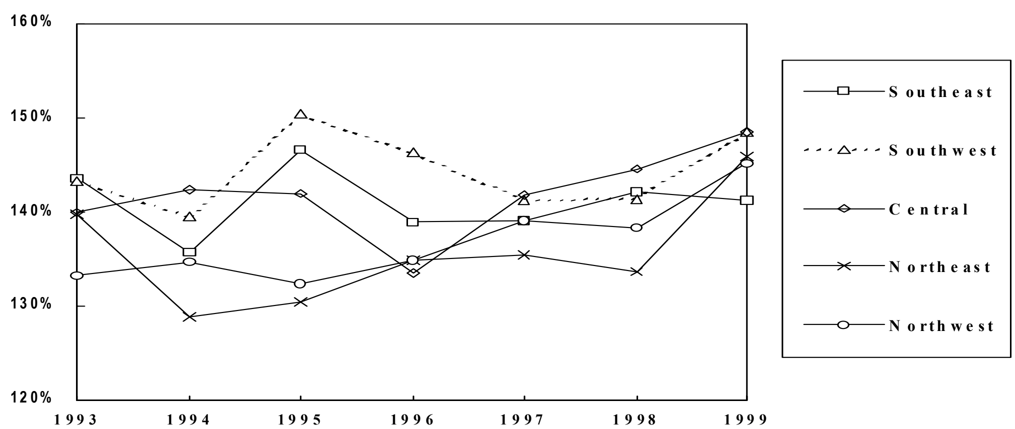


Table 8
Real Median Incomes as a Percentage of the Poverty Guidelines
Married Parents One Year After Leaving Welfare in Nonmetropolitan Regions

Period	Year Left Welfare	Year Income is Listed	Region				
			Southeast	Southwest	Central	Northeast	Northwest
AFDC	1992	1993	143.6%	143.2%	139.9%	139.8%	133.2%
	1993	1994	135.6	139.5	142.3	128.9	134.8
	1994	1995	146.6	150.4	142.0	130.5	132.3
	1995	1996	138.8	146.4	133.5	134.9	134.9
	1996	1997	139.1	141.2	141.9	135.4	139.0
MFIP	1997	1998	142.2	141.4	144.6	133.6	138.4
	1998	1999	141.3	148.5	148.5	145.9	145.1

Figure 8
Real Median Incomes as a Percentage of the Poverty Guidelines
Married Parents in Nonmetropolitan Regions
One Year After Leaving Welfare



In examining the data, there seems to be a slight U-shape in incomes. As a percentage of poverty guidelines, median incomes from tax filings, one year after leaving welfare, appear higher in the years 1994-1995 and 1998-1999. Incomes seem to be at a low between 1996-1997.

For parents who remained single while on welfare, incomes one year after leaving welfare were highest in the Twin Cities metropolitan region. Regions with consistently lower rankings in income include Duluth, the northeast, and northwest nonmetropolitan areas.

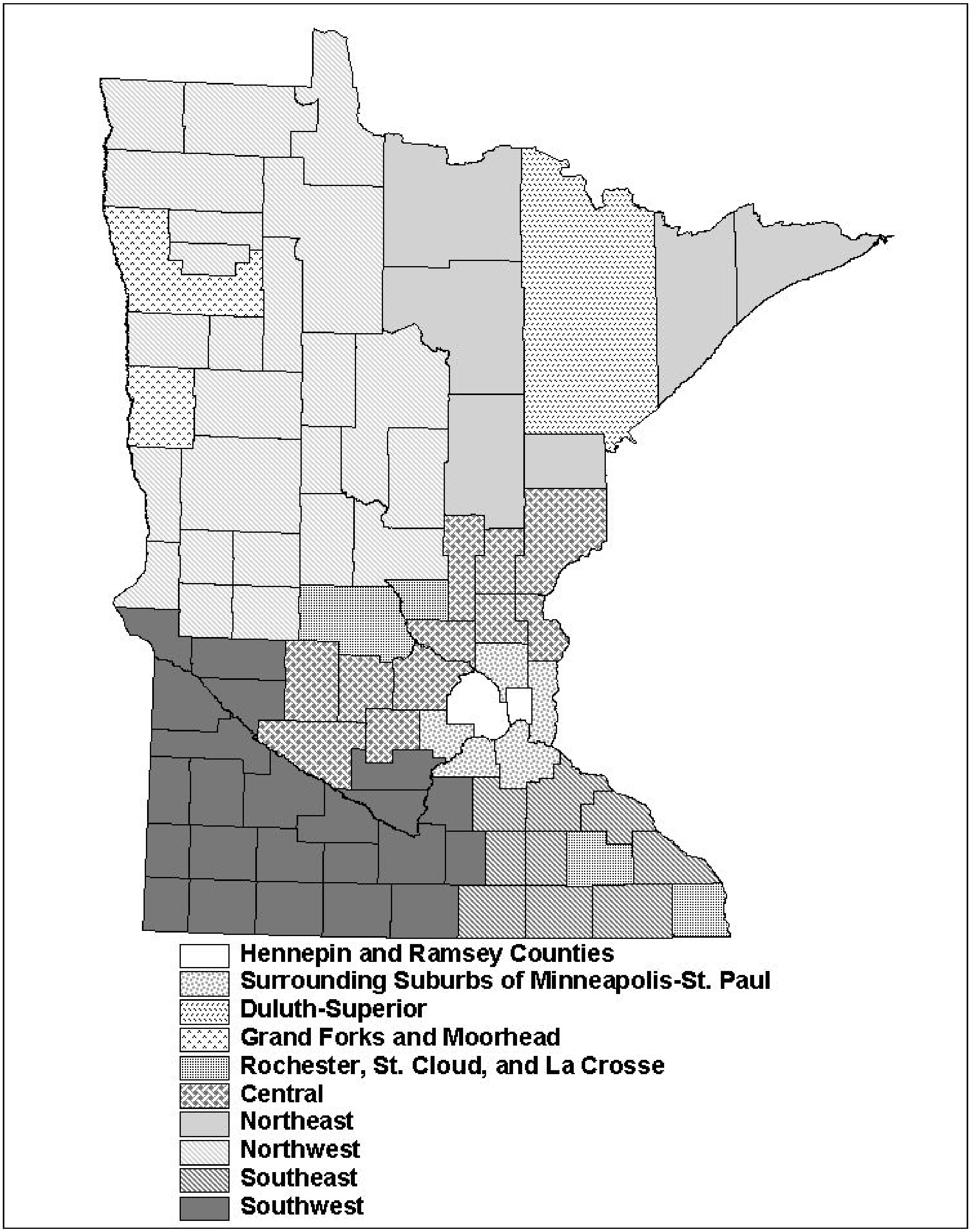
For parents who were married for at least part of their stay on welfare, incomes were highest in the Twin Cities, La Crosse, Rochester, and St. Cloud metropolitan areas, and the southwest nonmetropolitan area. Parents with lower incomes lived in Duluth, Moorhead, East Grand Forks, and the northeast and northwest nonmetropolitan areas.

The tables and figures show that some regions do not increase in income relative to the poverty guidelines after the implementation of MFIP in 1998. Instead, median incomes for some regions were higher in years previous to welfare reform.

Conclusion

This brief finds that after parents permanently leave welfare, their incomes rise relative to the poverty guidelines. Incomes increase in all regions of the state. When parents leave welfare, median incomes range between 120 percent and 150 percent of the poverty guidelines. After seven years, incomes ranged between 160 percent and 230 percent of the poverty guidelines. Higher incomes relative to the poverty guidelines were typically in the southern half of the state. These higher incomes may reflect many factors including the viability of job markets for lesser skilled labor; the culture and demographic characteristics of the welfare population in each region; and the practices of different human services agencies in different regions. An upcoming brief will examine potential explanations with a more in-depth analysis using regression and other statistical techniques.

Map of Minnesota Regions



Appendix: County by County Listing of Regions

Metropolitan Minnesota

Central Minneapolis-St. Paul Hennepin Ramsey	**Moorhead and Grand Forks** Clay (Fargo-Moorhead) Polk (Grand Forks)	**Duluth** St. Louis
Surrounding Suburbs of Minneapolis-St. Paul Anoka Carver Dakota Scott Washington	**Southern Metropolitan Areas (Rochester, La Crosse, and St. Cloud)** Benton (St. Cloud) Houston (La Crosse) Olmsted (Rochester) Stearns (St. Cloud)	

Nonmetropolitan Minnesota

<table>
<tr><td>Central
Chisago
Isanti
Kanabec
Kandiyohi
McLeod
Meeker
Mille Lacs
Pine
Sherburne
Wright</td><td rowspan="3">Northwest
Becker
Beltrami
Cass
Clearwater
Crow Wing
Douglas
Grant
Hubbard
Kittson
Lake of the Woods
Mahnomen
Morrison
Norman
Ottertail
Pennington
Pope
Red Lake
Roseau
Stevens
Todd
Traverse
Wadena
Wilkin</td><td rowspan="3">Southwest
Big Stone
Blue Earth
Brown
Chippewa
Cottonwood
Faribault
Jackson
Lac qui Parle
Le Sueur
Lincoln
Lyon
Martin
Murray
Nicollet
Nobles
Pipestone
Redwood
Renville
Rock
Sibley
Swift
Waseca
Watonwan
Yellow Medicine</td></tr>
<tr><td>Northeast
Aitkin
Carlton
Cook
Itasca
Koochiching
Lake</td></tr>
<tr><td>Southeast
Dodge
Fillmore
Freeborn
Goodhue
Mower
Rice
Steele
Wabasha
Winona</td></tr>
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For more information about welfare recipients, visit the health and human services area of our web site, www.house.mn/hrd/issinfo/hlt_hum.htm.