

## **Reforming Welfare and Rewarding Work: Final Report on the Minnesota Family Investment Program**

### **Volume 1: Effects on Adults**

Cynthia Miller, Virginia Knox, Lisa A. Gennetian  
Martey Dodoo, Jo Anna Hunter, Cindy Redcross

In 1994, the state of Minnesota began a major welfare reform initiative aimed at encouraging work, reducing dependence on public assistance, and reducing poverty. The Minnesota Family Investment Program (MFIP) differed from the AFDC system in three key ways:

- **Financial incentives to work.** Parents could keep more of their benefits when they worked, and child care payments were paid directly to providers.
- **Participation requirements for long-term recipients.** If not working full time, long-term recipients had to participate in services designed to move them quickly into the workforce.
- **Simplification of rules and procedures.** Aid to Families with Dependent Children (AFDC), Food Stamps, and Family General Assistance (FGA) were combined into a single program with one set of rules and procedures and one monthly payment.

MFIP began operating in April 1994 in three urban and four rural Minnesota counties, and the Manpower Demonstration Research Corporation (MDRC), under contract with the Minnesota Department of Human Services (DHS), has been tracking the program's implementation and effects. Between April 1994 and March 1996, over 14,000 families were assigned at random, using a lottery-type process, to either the MFIP or the AFDC system. MFIP's effects are assessed by following the two groups for up to three years after they entered the evaluation and comparing their employment, earnings, welfare receipt, income, and other measures of well-being. A companion volume of this final report on MFIP presents the program's effects on additional aspects of families' well-being and its effects on children.<sup>1</sup>

### **I. Findings for Single-Parent Families**

*Long-term recipients* had received welfare for two years or more when they entered the evaluation. Members of this group were immediately subject both to MFIP's employment-related mandates and its financial incentives.

*Recent applicants* were applying for welfare or had been receiving benefits for less than two years when they entered the program (the majority were new applicants). Members of this group received MFIP's financial incentives but did not face a mandate to work or participate in employment-related

---

<sup>1</sup>Lisa Gennetian and Cynthia Miller, *Reforming Welfare and Rewarding Work : Final Report on the Minnesota Family Investment Program, Vol. 2, Effects on Children* (New York: Manpower Demonstration Research Corporation, 2000).

activities until they had received benefits for 24 months.

- **Long-term recipients in MFIP were more likely to work than their counterparts in AFDC, and they had higher earnings.**

Table ES1 presents MFIP's effects for single-parent families in urban and rural counties during the first two years and three months after they entered the program. Families in the urban counties were followed for a somewhat longer period, and their results are presented separately in this report. On average, in each quarter, 49.9 percent of MFIP families worked, compared with 36.9 percent of AFDC families, for a 35 percent increase in employment rates. Their earnings were also 23 percent higher on average. Most recipients who went to work because of MFIP stayed employed consistently and, at the three-year mark, were working in full-time, moderate-wage jobs that offered health benefits. MFIP had fairly consistent impacts across most types of families. One exception is that it increased employment and earnings relatively less among parents who had been previously married when they entered the study. Partly for this reason, MFIP had smaller effects on average in the rural counties, because the majority of rural long-term recipients had been previously married.

- **Recent applicants in MFIP were somewhat more likely to work than recent applicants in AFDC, but they did not have higher earnings.** The bottom panel of Table ES1 shows MFIP's effects for recent applicants. On average, in each quarter, 55.3 percent of parents in the MFIP group worked, compared with 52.1 percent of parents in the AFDC group. Despite having higher employment rates, parents in MFIP did not have higher earnings on average, because MFIP caused some parents to move from full-time to part-time jobs or to take lower-paying jobs than they would have otherwise. This finding is consistent with economists' predictions: When more benefits are provided to families who work, some may be encouraged to take new jobs or work more, while some who are already working may use the extra income to reduce their work intensity, by reducing their hours worked, reducing their weeks worked per month, or taking lower-paying jobs. For recent applicants, these effects offset each other to produce no change in average earnings. Recent applicants did not face a mandate to work full time or to participate in employment activities until they had received welfare for 24 months. Thus, for most of the follow-up period, the majority of recent applicant families received only MFIP's enhanced work incentives.
- **Families in MFIP were more likely than families in AFDC to receive welfare but were less likely to rely solely on welfare.** Because MFIP was designed to allow families with higher earnings to remain eligible for some benefits, MFIP families, both long-term recipients and recent applicants, were more likely than AFDC families to receive benefits. For example, among long-term recipients in the MFIP group, 85.3 percent received welfare in each quarter after program entry, compared with 80.6 percent of long-term recipients in the AFDC group. (Welfare, as defined for families in this study's AFDC group, included AFDC payments, Food Stamp benefits, and Family General Assistance payments.) However, because more recipients in the MFIP group worked after program entry, they were less likely than recipients in the AFDC group to rely solely on welfare; in each quarter after program entry, an average of 54.5 percent of recipients in the AFDC group relied only on welfare, compared with only 42.9 percent of recipients in the MFIP group.
- **Families in MFIP had higher incomes than families in AFDC.** On average, MFIP families had higher incomes (the sum of earnings plus welfare benefits) than AFDC families throughout the follow-up period — a 15 percent increase for long-term recipients and an 8.5

Table ES1

**MFIP's Impacts for Single-Parent Families, Quarterly Averages  
Through the First Quarter of Year Three, in All Counties**

Outcome	MFIP	AFDC	Impact (Difference)	Percentage Change
<b><u>Long-term recipients</u></b>				
Employed (%)	49.9	36.9	12.9 ***	35.0
Earnings (\$)	955	779	176 ***	22.6
Received welfare (cash assistance and Food Stamps) (%)	85.3	80.6	4.7 ***	5.8
Welfare benefits (cash assistance and Food Stamps) (\$)	1,745	1,569	176 ***	11.2
Welfare was only source of income (%)	42.9	54.5	-11.6 ***	-21.4
Income from earnings and welfare (\$)	2,700	2,348	352 ***	15.0
Measured poverty <sup>a</sup> (%)	75.4	85.3	-10.0 ***	-11.7
Currently married and living with spouse (%)	10.6	7.0	3.6 **	51.4
Sample size (total = 2,373)	1,141	1,232		
<b><u>Recent applicants</u></b>				
Employed (%)	55.3	52.1	3.3 ***	6.3
Earnings (\$)	1,470	1,509	-39	-2.6
Received welfare (cash assistance and Food Stamps) (%)	62.6	53.4	9.2 ***	17.3
Welfare benefits (cash assistance and Food Stamps) (\$)	1,060	823	237 ***	28.8
Welfare was only source of income (%)	30.1	32.1	-2.0 **	-6.3
Income from earnings and welfare (\$)	2,530	2,332	198 ***	8.5
Measured poverty <sup>a</sup> (%)	66.2	73.3	-7.1 ***	-9.6
Currently married and living with spouse (%)	17.0	17.2	-0.2	-1.3
Sample size (total = 5,029)	2,413	2,616		

SOURCES: MDRC calculations using data from Minnesota's Unemployment Insurance (UI) earnings records, public assistance benefit records, and the 36-month survey.

NOTES: A two-tailed t-test is applied to regression-adjusted impact estimates. Statistical significance levels are indicated as \*\*\* = 1 percent; \*\* = 5 percent; \* = 10 percent.

The results are weighted to reflect the composition of the caseload in the seven counties.

<sup>a</sup>The poverty rate is calculated as the percentage of sample members whose incomes from earnings and benefits are below the poverty line. This measure of poverty is not comparable to the official poverty rate, since income does not include income from other sources.

<sup>b</sup>Sample includes members from the 36-month survey.

percent increase for recent applicants. In addition, fewer of them had combined earnings plus benefits below the poverty line. Long-term recipients in MFIP had higher incomes because they earned more and because they received more benefits while working. Recent applicants in MFIP had higher incomes because they received more benefits while working. The measure of income used here does not include income from sources other than earnings and benefits — one of the most important being the Earned Income Credit (EIC) available to low-income families through the federal and state tax systems. Because long-term recipients in the MFIP group were more likely to work than those in the AFDC group, they probably also received more in EIC benefits, suggesting that their increased income shown in Table ES1 is underestimated.

- **Long-term recipients in MFIP were more likely to be married than their counterparts in AFDC.** As shown in Table ES1, 10.6 percent of the MFIP recipients were married at the end of the follow-up period, compared with 7 percent of AFDC recipients. There are a variety of ways in which MFIP might have affected marriage rates. Analyses shown in the report suggest that this effect was the result of MFIP's enhanced incentives and changed eligibility rules.
- **Findings from Volume 2 of this final report show that, compared with the AFDC group, long-term recipients in MFIP were less likely to experience domestic abuse, and their children were better off.** MFIP's effects on additional aspects of families and children were evaluated for a group of single mothers with children age 2 to 9 when they entered the program. This part of the evaluation found that long-term recipients in MFIP were less likely to experience domestic abuse than their AFDC counterparts. In addition, they reported that their children exhibited fewer behavioral problems and performed better in school. For children in recent applicant families, however, MFIP had few effects.
- **Making families better off costs more than the typical welfare-to-work program.** The estimated annual costs of MFIP, over and above those of the AFDC program, ranged from about \$1,600 to \$3,800 per family (not shown in the table). The largest components of these costs were MFIP's more generous benefit payments and the cost of families' continued enrollment in Medicaid while receiving MFIP benefits. These net costs contrast with costs of previous welfare-to-work programs that did not include financial incentives and that in some instances produced savings for the government. However, MFIP's costs need to be weighed against the benefits they bought, both for families in the program and for society as a whole. For example, most MFIP families had higher incomes and more consistent health insurance coverage, and long-term recipients with early-school-age children experienced less domestic abuse and saw improved outcomes for their children. Although it is difficult to put dollar values on such benefits, MFIP produced a number of gains in terms of family and child well-being.

## II. Findings for Two-Parent Families

*Recipients* had been receiving benefits for at least one month when they entered the program. Members of this group received MFIP's financial incentives, and most were immediately required to participate in employment-related services, because they had already received welfare for more than six months.

*Applicants* were applying for welfare when they entered the program. Members of this group received MFIP's financial incentives but did not face a mandate to work or participate in employment-related services until they had received benefits for six months.

- **Compared with two-parent families in AFDC, both recipient and applicant families in MFIP were as likely to have at least one parent working but were less likely to have both parents working, leading to lower combined earnings.** Table ES2 presents findings for two-parent families. Families in MFIP and in AFDC had similar employment rates during the two-year, three-month follow-up period; that is, they were equally likely during each quarter of follow-up to have at least one parent working. However, combined earnings for MFIP families were somewhat lower on average, because in some families one spouse left work or worked fewer hours. (Most two-parent AFDC families were in AFDC-Unemployed Parent, or AFDC-UP.)

Table ES2

**MFIP's Impacts for Two-Parent Families, Quarterly Averages  
Through the First Quarter of Year Three, in All Counties**

Outcome	MFIP	AFDC	Impact (Difference)	Percentage Change
<b>Recipients</b>				
At least one parent employed (%)	60.2	62.5	-2.3	-3.7
Family earnings (\$)	2,193	2,682	-489 ***	-18.2
Received welfare (cash assistance and Food Stamps) (%)	76.4	66.0	10.4 ***	15.7
Welfare benefits (cash assistance and Food Stamps) (\$)	1,889	1,367	522 ***	38.2
Welfare was only source of income (%)	30.6	28.4	2.1	7.5
Income from earnings and welfare, accounting for separation or divorce <sup>a</sup> (\$)	3,958	3,769	189 *	5.0
Measured poverty <sup>b</sup> (%)	66.1	70.6	-4.5 **	-6.4
Married and living with spouse at the end of year 3 <sup>a</sup> (%)	67.3	48.3	19.1 ***	39.5
<b>Sample size (total = 1,523)</b>	<b>761</b>	<b>762</b>		
<b>Applicants<sup>a</sup></b>				
At least one parent employed (%)	78.6	78.4	0.1	0.2
Family earnings (\$)	4,057	4,492	-435 *	-9.7
Received welfare (cash assistance and Food Stamps) (%)	42.9	33.7	9.2 ***	27.4
Welfare benefits (cash assistance and Food Stamps) (\$)	783	433	350 ***	81.0
Welfare was only source of income (%)	9.8	8.8	1.1	12.0
Income from earnings and welfare (\$)	4,840	4,924	-85	-1.7
Measured poverty <sup>b</sup> (%)	40.3	41.1	-0.8	-1.9
<b>Sample size (total = 733)</b>	<b>348</b>	<b>385</b>		

SOURCES: MDRC calculations using data from Minnesota's Unemployment Insurance (UI) earnings records, public assistance benefit records, and the 36-month survey.

NOTES: A two-tailed t-test is applied to regression-adjusted impact estimates. Statistical significance levels are indicated as \*\*\* = 1 percent; \*\* = 5 percent; \* = 10 percent.

The results are weighted to reflect the composition of the caseload in the seven counties.

<sup>a</sup>Information about marital status was only collected for survey sample members. This calculation assumes that a similar proportion of full sample members as survey sample members experienced a divorce or separation at some point during the follow-up period. Because the sample for applicants is too small, marital status is not measured.

<sup>b</sup>The poverty rate is calculated as the percentage of sample members whose incomes from earnings and benefits are below the poverty line. This measure of poverty is not comparable to the official poverty rate, since income does not include income from other sources. For two-parent recipient families, income accounting for separation and divorce is used to calculate poverty.

- **Both recipient and applicant families in MFIP were more likely than AFDC two-parent families to receive some welfare.** More two-parent families in the MFIP group than in the AFDC group received welfare during the follow-up period. Among recipients, for example, 76.4 percent of MFIP families received benefits each quarter, compared with 66.0 percent of AFDC families. This effect is the result of MFIP's enhanced work incentives, which allowed more of these families to combine welfare and work. Among two-parent applicant families, 42.9 percent in MFIP and 33.7 percent in AFDC received benefits each quarter — substantially lower proportions than among two-parent recipient families.

- **Two-parent recipient families in MFIP were more likely than their AFDC counterparts to stay married.** Table ES2 shows that 67.3 percent of MFIP families were married at the end of year 3, compared with only 48.3 percent of AFDC families. This effect was concentrated among recipients who were married at program entry, and so it reflects an increase in marital stability rather than an increase in the rate of marriage. These findings are based on respondents' self-reports to the three-year survey and were confirmed using divorce records data in each county. Because of the small number of applicant families who participated in the three-year survey, MFIP's effects on marital stability could not be estimated for them.
- **Two-parent recipient families in MFIP had higher incomes than two-parent AFDC families.** When MFIP's effects on reducing separations and divorces are taken into account, MFIP families had higher incomes from their combined earnings and welfare benefits than AFDC families. As shown in Table ES2, their income from welfare and earnings was higher by an average of \$189 per quarter.
- **MFIP's costs for two-parent applicant families are comparable to costs for single-parent families; costs are higher for two-parent recipient families.** For two-parent applicant families — the group most likely to leave welfare quickly — MFIP cost about \$2,500 more than the AFDC system per year per family. For two-parent recipient families, MFIP added about \$3,800 per family per year to government costs.

### III. Conclusions

The findings show that enhanced financial incentives combined with mandatory participation in employment-related services can move a significant number of welfare recipients into the workforce, can increase their earnings and income, and can reduce the likelihood that they will rely solely on welfare for support. The MFIP program was particularly successful at achieving these three goals for people who are a high priority for policymakers — single-parent long-term recipients.

Both of MFIP's main components contributed in different ways. The financial incentives were critical for increasing income and reducing poverty; families would not have been better off if their benefits had been reduced nearly dollar for dollar as earnings increased, as was the case under AFDC. When offered alone, however, the incentives caused some families to go to work but caused others to reduce their work hours. In contrast, by coupling the financial incentives with the mandate to participate in employment-related services, MFIP increased full-time work and earnings and thus avoided one of the potential tradeoffs of using incentives; it made families better off without reducing their work effort.

The importance of the participation mandate in avoiding tradeoffs between incentives and work effort is also apparent from the results for two-parent families. Because AFDC-UP, the AFDC program for two-parent families, already had participation requirements, the key differences between it and MFIP for two-parent families were MFIP's enhanced financial incentives and its loosened eligibility criteria. The results show that providing working families with more generous benefits did cause some spouses in dual-earning couples to cut back on their work hours. In addition, however, reduced hours for one spouse may have increased the stability of the couple's marriage. Allowing parents who want to stay married to actually do so can have important effects on families and children.

In 1998, Minnesota replaced its AFDC system statewide with a modified version of MFIP called MFIP-S. The new program differs from the original MFIP in two key ways: The financial incentives are somewhat less generous, and single-parent long-term recipients are required to work 35 hours per week or

to participate in employment services within six months of welfare receipt. (Many counties require participation immediately upon entering the welfare system.) In addition, MFIP-S has a sharper “work first” focus and larger sanctions (reductions in benefits) for noncompliance than MFIP, and it operates in the context of the federal five-year time limit on the receipt of benefits. In general, the evaluation results for the field trial are a good starting point for predicting the likely results of statewide MFIP, at least until the five-year time limit begins to directly affect the welfare caseload. Some of the changes in MFIP-S, such as the less generous financial incentives, might reduce the program’s direct effects on income and poverty, while others might increase the program’s effects on employment and earnings, particularly for recent applicants to welfare. It is difficult to gauge how these changes will affect the program’s nonfinancial effects, such as impacts on child well-being for long-term recipients or on marital stability for two-parent families.

Although it is difficult to predict the program’s effects in the context of time limits, these evaluation results indicate that two elements of MFIP-S — enhanced financial incentives and time limits — may work at cross-purposes. Enhanced incentives will allow working families to receive benefits longer, which will encourage them to use up their allotted 60 months. Minnesota has addressed this problem in part by stopping the time-limit clock for families who are working and receiving only the portion of their grant that represents Food Stamps. Another way to make these two policies more complementary might be to stop the time-limit clock for parents who work full time. At least one other state, Illinois, is currently doing this.

In addition to these programmatic differences, it is important to note that the economy — nationally and especially in Minnesota — was very strong during the evaluation period covered by this report, with unemployment rates as low as 3 percent in some counties. The ability of parents to find full-time jobs and meet MFIP’s participation requirement may depend critically on the state of the economy. Similarly, it is difficult to predict how community effects may come into play, now that the program is designed to saturate each county — indeed, the state — rather than being implemented for subsets of selected counties’ caseloads.