
The Incomes of Parents Leaving AFDC and MFIP

Working Paper, Series Five

This brief summarizes the incomes of parents leaving Aid to Families With Dependent Children (AFDC) and Minnesota Family Investment Program (MFIP). Key findings are:

- Parents leaving MFIP tend to have higher incomes compared to parents leaving AFDC
- Parents' incomes tend to increase with the number of years since they were last on AFDC or MFIP
- Parents leaving their first episode on welfare may have lower incomes, which may be accompanied by some parents returning to welfare

This brief is part of a series of forthcoming research on the income dynamics of welfare recipients. It combines information for single and married parents. Later analyses will provide more detailed examinations of the income characteristics of various demographic groups from different regions for different time periods. Further work will be done on the effectiveness of the earned income credit and dependent care credit. The research is based upon information from M-1 state income tax files and information on welfare recipients.

The income information includes most, but not all welfare recipients. It includes those who file a standard M-1 tax form. It does not include all welfare recipients' incomes.¹ For example, some

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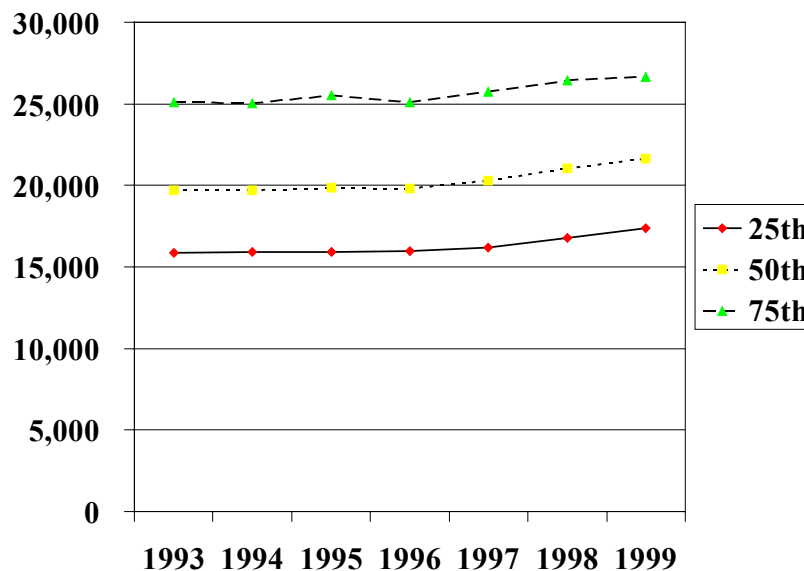
¹ There is no way of knowing how many more recipients have income. We know that in 1998 approximately 66 percent of recipients that received welfare that year also filed an income tax form. We eventually plan to add property tax refund statements and wage detail information. Previous analyses suggest that this will add some parents, but will not include everyone.

may have too little income to be required to file. Also, some may move out of the state and have income from other states.² More information on the data used is in the appendix.

Incomes for families leaving MFIP after one year are higher than the incomes of families leaving AFDC after one year. The figure and table below show the 25th, 50th, and 75th percentile incomes of parents one year after leaving AFDC or MFIP.³ For example, median income in 1993 for parents leaving welfare in 1992 was \$19,690. The incomes of parents leaving AFDC did not change much over the years (1992 to 1996). However, in the years after welfare reform, the income of parents the year after they left welfare was higher. For parents leaving in 1996, the real median income in 1997 was \$19,809. For parents leaving in 1998, their median family income in 1999 was \$21,616.

There are many potential causes for the higher incomes. One probable reason is a higher income threshold before parents leave MFIP. Another might be the added emphasis on work in MFIP. Also, economic conditions may have led to higher incomes. During the late 1990s, wages may have risen due to an increased demand for labor and because employers were bidding wages upward to attract more employees. Of course, all of these potential reasons are speculative and the real answers need further examination.

Figure 1
Real Adjusted Gross Income One Year After Parents Leave Welfare



² This may bias the sample results. It is uncertain whether incomes would be lower or higher. Included in this population are migrant farm laborers, persons who leave the state because they have found another job, and persons who leave the state because their spouse works outside the state.

³ This is for parents on their last recorded episode on welfare. Details of the procedure are listed in the appendix.

Table 1
Real Adjusted Gross Income One Year After Parents Leave Welfare

Percentile	Income in Year*						
	1993	1994	1995	1996	1997	1998	1999
25 th	\$15,850	\$15,917	\$15,928	\$15,995	\$16,179	\$16,780	\$17,353
50 th	19,690	19,682	19,871	19,809	20,290	21,023	21,616
75 th	25,082	25,046	25,538	25,075	25,763	26,459	26,680

* Real income is estimated for year 2001 with the CPI-U for Minneapolis-St. Paul.

After families leave welfare, their incomes tend to steadily increase. Figure 2 and Table 2 list the 25th, 50th, and 75th percentiles of parents' incomes before and after they leave welfare. The table shows that for those reporting income taxes, the median income seven years before leaving welfare was \$17,976. The median income of parents who have left welfare is \$20,291. By six years after leaving welfare, their median incomes were \$25,480.

The figure shows an increase in the rate of annual income growth after a parent leaves welfare. The lower rate of increase before may be in conjunction with parents being on welfare, or parents returning to welfare. Without further examination, it is uncertain why incomes rise after parents leave welfare. For example, it could be because parents are able to find and keep a job. Or, it might be that the parent marries, resulting in higher family income.

Because MFIP is relatively new, we cannot provide comparisons between the two programs. There would only be one or two years of information. Instead, this is for all parents who leave welfare in general.

Figure 2
Real Adjusted Gross Incomes of Parents Before and After Leaving Welfare

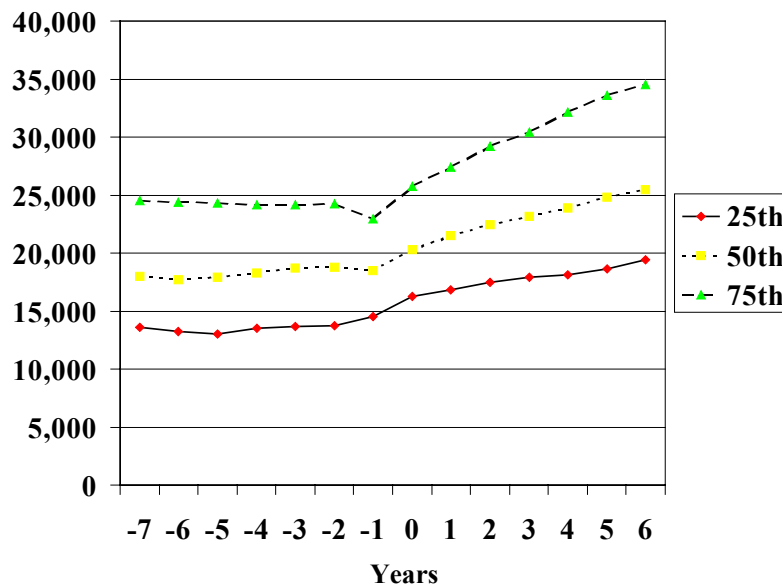


Table 2
**Real Adjusted Gross Incomes of Parents
 Before and After Leaving Welfare***

Period	Year	Income by Percentile		
		25th	50th	75th
Years Before Leaving Welfare	-7	\$13,564	\$17,976	\$24,498
	-6	13,204	17,728	24,408
	-5	13,056	17,909	24,324
	-4	13,549	18,295	24,168
	-3	13,688	18,707	24,173
	-2	13,743	18,753	24,218
	-1	14,524	18,494	22,968
Year Left Welfare		16,279	20,291	25,740
Years After Leaving Welfare	1	16,866	21,494	27,376
	2	17,460	22,437	29,204
	3	17,882	23,159	30,453
	4	18,163	23,860	32,190
	5	18,640	24,787	33,631
	6	19,403	25,480	34,536

* Real income is estimated for year 2001 with the CPI-U for Minneapolis-St. Paul.

A higher proportion of parents leaving their first episode on welfare may have lower incomes. Figure 3 and Table 3 below list parents' incomes after leaving their first episode. As before, income rises once parents leave their first episode. Although the shapes of the graphs are similar, the incomes are lower for parents leaving their first episode on welfare than for parents leaving their final episode. The median income the year after parents leave their first episode is \$18,135. The median income for parents leaving their last episode is \$20,291.

The difference might be in conjunction with some parents returning to welfare. For many reasons, parents may experience a decrease in their income. For example, parents may lose their job. Or, parents may divorce their spouse. Or, parents leaving their first episode of welfare may simply be younger and have less time and less experience to find and keep a higher paying job. The reasons may be as unique as each individual, but the overall result is that incomes tend to be lower after parents leave their first episode, in comparison to their later episodes.

Figure 3
**Real Income Before and After the End
 of the Parent's First Episode on Welfare**

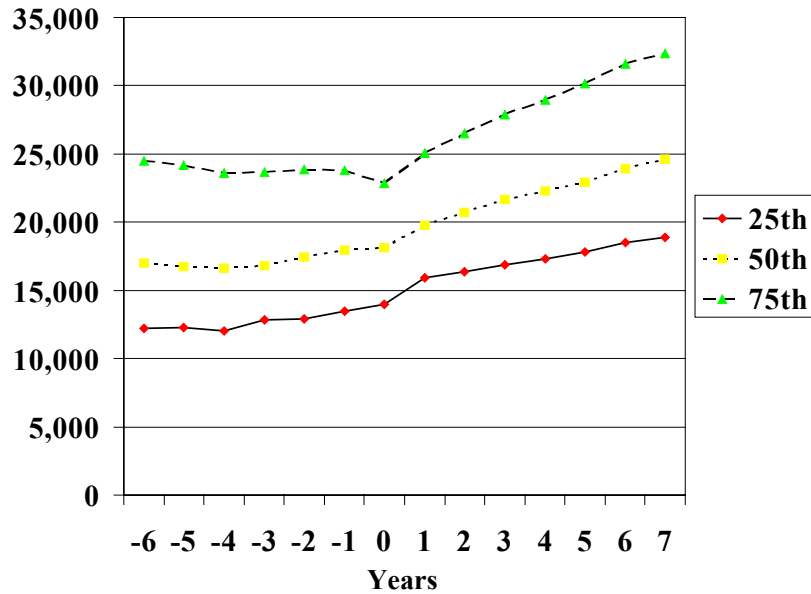


Table 3
**Real Income Before and After the End
 of the Parent's First Episode on Welfare***

Period	Year	Income by Percentile		
		25th	50th	75th
Years Before Leaving Welfare	-6	\$12,243	\$17,007	\$24,493
	-5	12,305	16,735	24,173
	-4	12,050	16,645	23,597
	-3	12,870	16,800	23,684
	-2	12,907	17,419	23,858
	-1	13,449	17,942	23,776
Year Left Welfare		13,961	18,135	22,872
Years After Leaving Welfare	1	15,901	19,753	25,055
	2	16,337	20,712	26,473
	3	16,866	21,669	27,865
	4	17,329	22,290	28,946
	5	17,786	22,929	30,171
	6	18,507	23,949	31,594
	7	18,898	24,634	32,366

* Real income is estimated for year 2001 with the CPI-U for Minneapolis-St. Paul.

Appendix

Technical Note on the Data

The results come from an administrative data set provided by the Minnesota Department of Human Services (DHS) and the Minnesota Department of Revenue (DOR). The DHS data includes information on every AFDC- and MFIP-eligible adult between the months of January 1992 and September 2001. The data from the Department of Revenue is M-1 income tax information.

We merged the two data sets by first identifying a household head. The data is collapsed into families and only those cases with both eligible parents and eligible children are selected. The data does not consider suspended cases as eligible cases. Parents are classified as suspended for one month after becoming ineligible for AFDC or MFIP.

The data on welfare recipients is merged with M-1 tax records. The data is not a sample, but is an attempt to include every current and former welfare recipient who filed a M-1 form. The data does not necessarily include everyone with income. As stated before, not every welfare recipient files a M-1 form. Also, some welfare recipients did not have enough identifying information to merge the two data sets.

Income is estimated adjusted gross income. It is equal to federal taxable income plus an estimated income subtracted via the standard deduction along with personal and dependent exemptions. The deductions and exemptions are estimated using information on filing status and the number and age of children eligible for AFDC and MFIP. It was assumed anyone over 18 years old was no longer claimed as a dependent. Some parents may have income, but report zero federal taxable income. This is because their exemptions and standard deduction is greater than their income. For that reason adding back in the exemptions and deductions may overstate the income of some parents. However, a relatively small proportion of parents have zero federal taxable incomes.

Table 1 and Figure 1 were constructed by finding the last episode that parents are on welfare. The incomes are for the year immediately following the year they left. In more recent years, it is likely that an increasing proportion of parents will return in future years. However, the data reported in the table include those parents who have not returned for at least two years. A check using data for parents who do not return for three years instead, did not produce substantially different levels of income.

Table 2 and Figure 2 were calculated by identifying the year that parents leave welfare and by grouping income tax records based upon the number of years before or after leaving welfare. The data is such that income information two or more years after leaving welfare are of AFDC recipients. For parents leaving welfare in 1992, there may be income information up to seven years after they leave welfare (1999).

Table 3 and Figure 3 are the same as Table 2 and Figure 2, except that Table 3 and Figure 3 are for the year parents leave their first episode. To help eliminate parents who may have been on welfare in previous years, but before the beginning of this data set, entrants had to be away from welfare for at least one year. Although this is a standard practice, it cannot guarantee that everyone included in the analysis is on his or her first episode. However, it is likely that parents, especially in recent years, are more likely to be on their first episode.