

**Updated: October 1999**

# **Basic Needs Budgets**

## **for Custodial and Noncustodial Parents**

### **A Research Report**

This report outlines the income and resources a low-income family headed by a single parent would need to maintain a no-frills, or "basic needs," standard of living. It includes budgets for a variety of hypothetical single-parent families in both the metropolitan and nonmetropolitan parts of Minnesota. It also includes budgets for noncustodial single parents, usually men, with child support obligations. We used a computer model to estimate the complex mixture of expenditures, wages, taxes, and government credit and support programs affecting the families. The findings in this report can help policymakers design, evaluate, and improve government programs that are aimed at helping low-income, single-parent families maintain financial self-sufficiency.

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## What Are Basic Needs Budgets?

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**Basic needs budgets show the hourly wage necessary for both custodial and noncustodial single-parent families to maintain a basic, no-frills standard of living.**

The budgets provide information on the wage level that allows parents to adequately provide for their families. The budgets include expenditures for basic needs (e.g., day care, housing, food, and clothing) along with a detailed account of net income (wages plus transfers less taxes).

**Basic needs budgets in this report examine at-risk families: those headed by women whose only sources of income are wages, government transfers, and child support.**

Census data shows that in 1990 there were about 85,000 female-headed custodial parent families in Minnesota.<sup>1</sup> The example families in this report have no asset income, no house, and with the exception of nonmetropolitan areas, no car. The families meet all expenses without help from families, friends, church groups, or other service organizations. They are unable to obtain day care, food, or clothing at free or reduced costs from others.

The report also presents budgets for noncustodial parents (living alone) who have child support obligations to female-headed families.

### Components of Basic Needs Budgets

The basic needs budgets attempt to quantify the resources necessary for custodial and noncustodial single-parent families to meet their basic needs.

On the expenditure side, the budgets allow for

- ▶ housing
- ▶ food
- ▶ day care
- ▶ child support and child care assistance paid by the noncustodial parent to the custodial parent
- ▶ clothing
- ▶ transportation
- ▶ health care
- ▶ federal and state income taxes

On the resource side, the budgets include

- ▶ wages
- ▶ child support and child care assistance received by the custodial parent from the noncustodial parent
- ▶ Minnesota Family Investment Program (MFIP)
- ▶ food stamps
- ▶ federal and state tax credits

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<sup>1</sup> U.S. Census PUMS data, includes families headed by women who are divorced, separated, widowed, and never-married.

**Basic needs budgets were calculated using a computer model and pre-determined standards of adequacy to determine hourly wages necessary for a family to maintain a no-frills standard of living.**

The basic needs budget uses a budget-based approach to

- ▶ measure the needs of low-income families,<sup>2</sup> and
- ▶ determine the hourly wage needed to meet that budget, given taxes and government entitlement transfer programs.

Such budget-based approaches include payments for basic necessities using, whenever possible, pre-established standards of adequacy. The budgets in this report differ from other budget-based studies in that they incorporate market-rate costs for full-time day care and model child support guidelines in Minnesota Statutes. The budgets are also different from other budget-based studies in that they report wages necessary for expenditures. The poverty threshold and other alternative measures are generally reported in terms of income. Use of wages reflects an assumption that all income comes from wages after accounting for government transfers and taxes.

In order to calculate the wage necessary for a family to pay for expenditures, a computer model adds up total family expenditures—what it costs to pay for food, housing, clothing, transportation, health insurance, child care, and miscellaneous personal needs. Next, the computer model estimates the wage necessary to pay for these expenditures taking into account tax liability, tax credits, entitlement transfer programs, child support paid and received, and eligibility for MinnesotaCare health insurance. Payment of taxes increases the wage necessary to meet the basic standard of living. Conversely, receipt of credits or transfers such as Minnesota Family Investment Program (MFIP), decreases the basic needs wage. The Appendix provides a more detailed explanation of the underlying assumptions.

**All basic needs wages are in increments of \$0.25 per hour, with the assumption of a minimum work effort of 40 hours per week at minimum wage (\$5.15 per hour).** The wage calculation accounts for interactions between transfer payments, tax credits and income, and certain expenditures. For example, an MFIP child care award varies with income, but any child support award is counted as part of income. An increase in the child support award could potentially raise the copayment associated with the MFIP child care award. All taxes, tax credits, transfer payments, child support, and child care assistance were modeled in accordance with federal and state regulations. The Appendix lists the assumptions underlying the expenditure and resource items that make up the budgets.

The budgets show basic needs wages for families participating in entitlement programs. These programs can substantially reduce the basic needs wage once they are received.

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<sup>2</sup> Citro, Constance F., and Robert T. Michael. *Measuring Poverty: A New Approach*. Washington, D.C.: National Academy Press (1995).

**The report also discusses the wages needed to pay for expenses while receiving transition year child care or participating in the basic sliding fee child care program.**

MFIP transition year child care and basic sliding fee child care use the same payment schedule. While all parents who leave MFIP are eligible for one year of transition child care, the basic sliding fee program is not guaranteed for all caretakers. There are caretaker waiting lists. The discussion examines the benefit of transitional child care for caretakers formerly on MFIP.

Other nonentitlement programs such as section 8 housing are not included. These programs can provide greater assistance and even further reduce the wages needed to pay for expenses.<sup>3</sup>

**Basic needs budgets provide information useful to evaluate whether current or proposed programs help families attain a basic standard of living.**

Many state and federal tax and transfer programs are directed at helping families out of poverty. This report focuses primarily on female-headed custodial parent families. The wage level necessary for various hypothetical families to meet basic needs is one measure of how well the current mix of programs works. Some examples, illustrated by the tables in this report, result in wage levels that seem attainable. Others result in wages that seem difficult for young workers to attain. Budgets that require prohibitively high wages suggest which families are most likely to fall below a basic standard of living and can give policymakers insight into changing current policies to encourage greater self-sufficiency. The budget items also provide insights on potential incentives or disincentives for caretakers to enter or remain in the work force. Adjustments in tax and transfer programs may help realign the programs with their goals. For example, incentives may be realigned so that a caretaker who is working full-time and receiving child support will end up with more net income than a caretaker working full-time, receiving MFIP, but not receiving child support.

**Regional Differences  
The Seven-county Metropolitan Area  
and Nonmetropolitan Minnesota**

Day care and housing costs differ substantially between metropolitan and nonmetropolitan areas. To take these differences into account, each section of the report presents budgets for hypothetical families in the seven-county metropolitan area, and in nonmetropolitan Minnesota.

**The seven-county metropolitan area** consists of the counties surrounding Minneapolis and St. Paul: Anoka, Carver, Dakota, Hennepin, Scott, Ramsey, and Washington.

**Nonmetropolitan Minnesota** consists of counties outside of U.S. Census Bureau metropolitan statistical areas (MSAs). Nonmetropolitan Minnesota excludes the expanded ten-county metropolitan area (Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Washington, and Wright counties), and also the counties included in other MSAs—Olmsted (Rochester); Benton, Sherburne, Stearns (St. Cloud); Polk (Grand Forks); St. Louis (Duluth-Superior); Clay (Fargo-Moorhead); and Houston (LaCrosse).

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<sup>3</sup> An analysis with section 8 housing can be provided upon request.

## Findings and Conclusions

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### Basic Needs Budgets for Custodial Parents Who Do Not Receive Child Support (page 8)

Table S-1 shows the basic needs wages for custodial parents who live in the seven-county metro area and in nonmetropolitan Minnesota.

Table S-1 Metropolitan and Nonmetropolitan Custodial Parents Who Do Not Receive Child Support			
Basic Needs Wage	Children Ages 2 and 5 Market-rate day care		Children Ages 8 and 11
	40 hours/week	20 hours/week	No day care
In Metro Area	\$5.15/hour	\$5.15/hour	\$5.15/hour
In Nonmetro Area	\$5.15/hour	\$5.15/hour	\$5.15/hour

Regardless of the area, parents can pay for basic necessities by working a full-time job at the minimum wage. As opposed to a previous study,<sup>4</sup> in which the high cost of day care and housing drove basic needs wages upward, this study finds that MFIP child care, other transfer programs, and tax credits combined substantially to reduce the costs incurred by the caretaker. (page 8)

In nonmetropolitan Minnesota, the basic needs wage is the same as in the seven-county metropolitan area even though expenses for child care and housing are lower in nonmetropolitan areas. This is largely because MFIP child care requires a copay that is the same for both areas. Housing costs are lower in nonmetro areas and tend to drive the basic needs wage down rather than up. (page 9)

Without MFIP, child care can be a large part of the basic needs budget. Under MFIP, child care assistance substantially reduces the costs, resulting in lower wages. Parents either receiving less than market rate day care or not requiring day care can earn the same wages and pay for necessary expenses. (page 9)

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<sup>4</sup> Hirasuna, Don, and Nina Manzi. *Basic Needs Budgets for Custodial and Noncustodial Parents*. House Research Department. September 1996.

## Basic Needs Budgets for Custodial Parents Who Receive Child Support (page 12)

Table S-2 shows basic needs wages for metro and nonmetro parents receiving child support. The amount of child support awarded under court guidelines increases as the noncustodial parent's income increases. The table shows wages based on noncustodial parents with earnings at the 25th, 50th, and 75th percentiles for males between 23 and 27 years old in metro and nonmetro Minnesota.

Table S-2 Metropolitan and Nonmetropolitan Custodial Parents Who Receive Child Support Children Ages 2 and 5			
Seven-county Metropolitan Area			
Noncustodial Parent Earns	\$8.50/hour (25th percentile)	\$11.75/hour (50th percentile)	\$15.75/hour (75th percentile)
<b>Custodial Parent Requires                      Basic Needs Wage of</b>	<b>\$7.75/hour</b>	<b>\$5.15/hour</b>	<b>\$5.15/hour</b>
Nonmetropolitan Area			
Noncustodial Parent Earns	\$7.00/hour (25th percentile)	\$9.50/hour (50th percentile)	\$13.00/hour (75th percentile)
<b>Custodial Parent Requires                      Basic Needs Wage of</b>	<b>\$5.25/hour</b>	<b>\$5.15/hour</b>	<b>\$5.15/hour</b>

Most custodial parents in the metropolitan area, who receive child support, can meet basic needs at the same wage level as those who do not. If the noncustodial parent receives wages at the 25th percentile, then the custodial parent must earn a higher wage than if the parent did not receive child support, but was eligible for MFIP. Under such a case, the increased child support income and increased state income tax credits cannot offset decreased child care and MFIP benefits.  
 (page 12)

In the nonmetropolitan area, transfer programs, income taxes, and child care expenses are such that receipt of child support does not affect the wage required to meet basic needs. (page 13)

### Basic Needs Budgets for Noncustodial Parents (page 21)

Table S-3 shows basic needs wages for metro and nonmetro noncustodial parents paying child support, with custodial parents earning at the 25th, 50th, and 75th percentiles. The custodial parent’s wage has no bearing on the child support award, but does affect child care assistance payments required of the noncustodial parent under court guidelines.

Table S-3 Metropolitan and Nonmetropolitan Noncustodial Parents Who Pay Child Support Children Ages 2 and 5			
Seven-county Metropolitan Area			
Custodial Parent Earns	\$8.25/hour (25th percentile)	\$10.75/hour (50th percentile)	\$13.50/hour (75th percentile)
Noncustodial Parent Requires <b>Basic Needs Wage of</b>	<b>\$14.25/hour</b>	<b>\$13.75/hour</b>	<b>\$13.25/hour</b>
Nonmetropolitan Area			
Custodial Parent Earns	\$6.00/hour (25th percentile)	\$8.00/hour (50th percentile)	\$10.75/hour (75th percentile)
Noncustodial Parent Requires <b>Basic Needs Wage of</b>	<b>\$12.75/hour</b>	<b>\$12.25/hour</b>	<b>\$12.00/hour</b>

Noncustodial parents in both the seven-county metropolitan area and in nonmetropolitan Minnesota must command relatively high wages in order to meet child support and child care obligations and provide for their own basic needs. (pages 16 and 17)

Noncustodial parents who do not pay child support or child care can meet a basic needs budget at close to the minimum wage of \$5.15 per hour. (page 18)

Court guidelines that set child support payments at a percentage of income require noncustodial parents who want to meet their obligations to either command high wages or forego necessities. (page 18)

### Basic Needs Budgets for Custodial Parents Who Do Not Receive MFIP (page 20)

Table S-4 shows basic needs wages for custodial parents who do not receive child support or MFIP. In some cases, wages needed to pay for expenses are markedly higher than those shown in Table S-1 for custodial parents who receive MFIP.



Table S-4 <b>Metropolitan and Nonmetropolitan Custodial Parents                  Who Do Not Receive Child Support or MFIP</b>			
	Children Ages 2 and 5 Market-rate day care		Children Ages 8 and 11
	40 hours/week	20 hours/week	No day care
<b>Basic Needs Wage</b>			
In Metro Area	\$16.75/hour	\$6.00/hour	\$5.15/hour
In Nonmetro Area	\$6.25/hour	\$5.15/hour	\$5.15/hour

Custodial parents who qualify for MFIP at the basic needs wage would have to earn less money to meet their budgets than if they no longer qualified, or if they worked their way off of MFIP. MFIP ineligibility would have the strongest effect on parents with young children in full-time day care. Policymakers may wish to consider the potential impact of current law. (page 21)

Parents who are ineligible for MFIP because of increased earnings are eligible for transition year child care. For one year, the parent pays a copay for market rate day care based upon a sliding fee scale. A parent with two children would need to earn at least \$8.00 an hour to become ineligible for MFIP. If that parent enters both children in full-time day care, under transition year child care and extended Medical Assistance the parent would receive \$4,570 in excess of expenditures on basic needs. After the transition year ends, the parent would incur a \$4,723 deficit if he or she does not receive basic sliding fee child care assistance. For nonmetro areas, transition year child care and extended Medical Assistance results in a \$5,231 surplus and after the transition year assistance without results in a \$611 surplus. (page 24)

## Basic Needs Budgets for Custodial Parents Who Do Not Receive Child Support

This section reports and analyzes basic needs budgets for custodial parents who do not receive child support. Because child care costs vary depending on whether a family uses formal or nonformal care, the tables in this section show the wage necessary for families with young children to pay for basic needs under two child care assumptions: full-time day care at the market-rate and nonformal day care at half the market rate. The tables also show the basic needs wage for families with older children who are not in day care.

	Children Ages 2 and 5		Children Ages 8 and 11
	Market-rate day care	½ Market-rate day care	No day care
	<b>\$5.15/hour</b>	<b>\$5.15/hour</b>	<b>\$5.15/hour</b>
<b>Basic Needs Wage</b>			
<b>Resources</b>			
Wages	\$10,712	\$10,712	\$10,712
Child Support Received	0	0	0
MFIP	3,480	3,480	3,480
Federal Tax Credits	3,756	3,756	3,756
State Tax Credits	769	769	751
Property Tax Refund	1,140	1,140	1,140
<b>Total Resources</b>	<b>\$19,857</b>	<b>\$19,857</b>	<b>\$19,839</b>
<b>Expenditures</b>			
Housing	\$7,728	\$7,728	\$7,728
Food	2,890	3,206	4,455
Clothing/Personal Care	2,653	2,653	2,653
Transportation	1,460	1,460	1,460
Day Care	60	60	0
Health Care	194	194	194
Federal Income and Payroll Taxes	819	819	819
State Income Tax	0	0	0
<b>Total Expenditures</b>	<b>\$15,804</b>	<b>\$16,120</b>	<b>\$17,309</b>

Table 2 Nonmetropolitan Custodial Parent Who Does Not Receive Child Support			
	Children Ages 2 and 5		Children Ages 8 and 11
	Market-rate day care	½ Market-rate day care	No day care
<b>Basic Needs Wage</b>	<b>\$5.15/hour</b>	<b>\$5.15/hour</b>	<b>\$5.15/hour</b>
<b>Resources</b>			
Wages	\$10,712	\$10,712	\$10,712
Child Support Received	0	0	0
MFIP	3,480	3,480	3,480
Federal Tax Credits	3,756	3,756	3,756
State Tax Credits	769	769	751
Property Tax Refund	750	750	750
<b>Total Resources</b>	<b>\$19,467</b>	<b>\$19,467</b>	<b>\$19,449</b>
<b>Expenditures</b>			
Housing	\$4,824	\$4,824	\$4,824
Food	2,890	3,206	4,455
Clothing/Personal Care	2,653	2,653	2,653
Transportation	3,239	3,239	3,239
Day Care	60	60	0
Health Care	194	194	194
Federal Income and Payroll Taxes	819	819	819
State Income Tax	0	0	0
<b>Total Expenditures</b>	<b>\$14,679</b>	<b>\$14,995</b>	<b>\$16,185</b>

**Single parents receiving MFIP can pay for basic needs with a full-time minimum wage job (\$5.15 per hour). This is true in both metropolitan and nonmetropolitan areas.** At this income level, the parent receives \$3,480 in MFIP income and pays a \$60 copay for child care expenses.<sup>5</sup> The parent also receives an additional \$4,525 from state and federal income tax credits and \$1,140 from the property tax refund in the metro area. The nonmetropolitan parent receives a lower property tax refund, reflecting the lower cost of housing in nonmetropolitan Minnesota.

**In an earlier version of this report, day care and housing dominated the budgets and drove the basic needs wage up. Under current law, child care expenses are considerably lower for parents receiving MFIP, since they also receive child care assistance.** The first column of Table 1 shows the budget for a metro area custodial parent with two children enrolled in full-time day care at the market rate. For a custodial parent with two children aged 2 and 5 years old, the custodial parent contributes a copay of \$60 a year. If paid for at the market rate without subsidy, the child care costs for licensed family care would equal \$11,292 a year. MFIP child care assistance implemented as part of Minnesota’s welfare reform has substantially reduced the wage that a family must command to meet basic needs.

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<sup>5</sup> The Department of Human Services estimates an MFIP grant of \$3,468. The difference in grant amounts is due to the Department of Human Services calculation based on the practice by social workers who determine biweekly or weekly payments. The basic needs budget calculations here are based upon monthly payments which results in some rounding differences between the two estimates.

Housing costs continue to be a dominant factor in the list of basic needs expenditures. The annual fair market rental rate determined by HUD for a two-bedroom apartment in the metro area equals \$7,728 a year. This item represents 51.9 percent of all expenditures on consumption items (food, clothing, housing, day care, transportation, and health care) and 49.2 percent of all outlays including taxes.

**Nonformal child care arrangements from family and friends do not lower child care costs for parents receiving MFIP.** The child care copay is the same regardless of the type of day care arrangement. Under MFIP, the copay is on a sliding fee scale and is determined by the parent's gross income and family size independent of any nonformal care arrangements. The previous version of this report presented budgets for parents with children in child care full-time at the market rate, and half-time at the market rate. With the implementation of MFIP child care, both these parents now have the same out-of-pocket child care expense, based on their income rather than on the cost of child care or the number of hours the children are cared for. For parents on MFIP, child care costs are no longer a significant factor in calculating the overall wage needed to meet basic needs.

**Both housing and child care costs are lower in nonmetropolitan areas, but these do not affect the basic needs wage.** This is partly because the basic needs wage is already at the minimum age for the more expensive metro area and partly because the MFIP copay for child care makes out-of-pocket expenses the same for parents regardless of where they live.

**Housing costs less in the nonmetro area.** Fair market rent is estimated at \$4,824 a year. Table 1 shows that in the Twin Cities metro area, a parent's resources exceeds expenditures by \$4,162. Table 2 shows that the same parent would receive an additional \$734 in surplus resources by living in the nonmetro area. The additional surplus is less than the difference in fair market rents between the metro and nonmetro because the property tax refund decreases with rent and transportation costs would be higher in nonmetro areas.

### Day Care Cost Estimates

The basic needs budgets in this report assume that parents work full-time and cannot rely on family members to care for children. In attempt to assure some minimum quality, the budgets use average market rates for licensed family child care homes. These cost estimates are considerably higher than those found in other studies. For example, Lino (1994)<sup>1</sup> estimates annual day care costs for custodial parents with two children aged 2 and 5 at approximately \$870. Lino's estimates are for all U.S. custodial parents with incomes below \$32,000. The difference in expenditures occurs for several reasons:

- Lino's universe of custodial parents includes unemployed and part-time workers, who purchase fewer hours of day care.
- Lino includes families who use nonformal day care. Families with nonformal care options spend considerably less on day care.<sup>2</sup>
- Lino includes all types of day care regardless of quality.
- Lino's estimates are for the entire United States. Day care costs for rural areas can be lower than for urban areas, and may differ from state to state.

<sup>1</sup> Lino, Mark. "Expenditures on a Child by Families, 1993," *Family Economics Review*. 7 (1994): 2-19.

<sup>2</sup> Schwenk, Nancy E. "Child-Care Trends," *Family Economics Review*. 6 (1993): 8-16, indicates that in 1990, 19 percent of the youngest pre-school children were cared for by relatives.

**In nonmetropolitan Minnesota, the basic needs wage equals the minimum wage for a full-time worker, regardless of the child care scenario.** Table 2 shows that a custodial parent in nonmetropolitan Minnesota can enroll two children in full-time market-rate child care and still pay for expenses with a full-time minimum wage job. Without the MFIP copay, full-time day care would cost \$11,292 in the metro area and \$6,617 in the nonmetro area. As noted in a later section, paying market rate child care without a subsidy increases the wage parents would need in order to meet basic needs.

**As children age, parents may no longer need day care.** The third column of Tables 1 and 2 show the basic needs budgets for a custodial parent with children ages 8 and 11. Expenses are slightly higher even though these parents face no child care costs. This is because the food costs of raising an 8- and 11-year-old are higher than for a 2- and 5-year-old. The wage remains the same, the necessary expenses requires the parent to earn at least minimum wage in a full-time job.

## Basic Needs Budgets for Custodial Parents Who Receive Child Support

This section reports basic needs wages for custodial parents (single parents with children) living in both metropolitan and nonmetropolitan Minnesota who receive child support at the levels stipulated in current court guidelines. Actual payments may often fall short of court guidelines. Tables 3 and 4 show basic needs wages that would be necessary if noncustodial parents met child support and child care assistance obligations in full. The tables should not be interpreted as representing the situation that exists for all cases in which the courts order child support payments.

Because child care assistance awards depend on the combined incomes of both the custodial and the noncustodial parent, the tables show the custodial parent's basic needs wage given three different wage levels for the noncustodial parent: the 25th, 50th, and 75th percentiles for males between ages 23 and 27. Table 3 uses noncustodial wages from the seven-county metropolitan area; Table 4 uses noncustodial wages from nonmetropolitan Minnesota. All of the examples in both tables assume that the custodial parent pays for full-time day care at the market rate, equal to the most costly set of expenditures for basic needs modeled in this report. In this way the tables model the situation for parents who do not have access to nonformal care.

Table 3 Metropolitan Area Custodial Parent Who Receives Child Support Children Ages 2 and 5			
Noncustodial Parent Earns	\$8.50/hour (25 <sup>th</sup> percentile)	\$11.75/hour (50 <sup>th</sup> percentile)	\$15.75/hour (75 <sup>th</sup> percentile)
<b>Custodial Parent Requires</b>			
<b>Basic Needs Wage</b>	<b>\$7.75/hour</b>	<b>\$5.15/hour</b>	<b>\$5.15/hour</b>
<b>Resources</b>			
Wages	\$16,120	\$10,712	\$10,712
Child Support Received	6,024	10,837	13,419
MFIP	0	0	0
Federal Tax Credits	3,209	3,756	3,756
State Tax Credits	2,353	2,143	2,143
Property Tax Refund	1,140	1,140	1,140
<b>Total Resources</b>	<b>\$28,846</b>	<b>\$28,588</b>	<b>\$31,170</b>
<b>Expenditures</b>			
Housing	\$7,728	\$7,728	\$7,728
Food	2,890	2,890	2,890
Clothing/Personal Care	2,653	2,653	2,653
Transportation	1,460	1,460	1,460
Day Care	11,292	11,292	11,292
Health Care	952	929	1,266
Federal Income and Payroll Taxes	1,499	819	819
State Income Tax	106	0	0
<b>Total Expenditures</b>	<b>\$28,579</b>	<b>\$27,771</b>	<b>\$28,108</b>

Table 4 <b>Nonmetropolitan Area Custodial Parent Who Receives Child Support                  Children Ages 2 and 5</b>			
Noncustodial Parent Earns	\$7.00/hour (25 <sup>th</sup> percentile)	\$9.50/hour (50 <sup>th</sup> percentile)	\$13.00/hour (75 <sup>th</sup> percentile)
Custodial Parent Requires <b>Basic Needs Wage</b>	<b>\$5.25/hour</b>	<b>\$5.15/hour</b>	<b>\$5.15/hour</b>
<b>Resources</b>			
Wages	\$10,920	\$10,712	\$10,712
Child Support Received	3,798	7,508	9,565
MFIP	0	0	0
Federal Tax Credits	3,756	3,756	3,756
State Tax Credits	2,143	2,143	2,143
Property Tax Refund	792	838	838
<b>Total Resources</b>	<b>\$21,409</b>	<b>\$24,957</b>	<b>\$27,014</b>
<b>Expenditures</b>			
Housing	\$4,824	\$4,824	\$4,824
Food	2,890	2,890	2,890
Clothing/Personal Care	2,653	2,653	2,653
Transportation	3,239	3,239	3,239
Day Care	6,617	6,617	6,617
Health Care	221	296	462
Federal Income and Payroll Taxes	835	819	819
State Income Tax	0	0	0
<b>Total Expenditures</b>	<b>\$21,280</b>	<b>\$21,339</b>	<b>\$21,505</b>

**Many custodial parents who receive child support can meet basic needs by working a full-time job at the minimum wage.**

Table 3 shows basic needs wages for custodial parents receiving child support from noncustodial parents earning wages at the 25th, 50th, and 75th percentiles for a 23- to 27-year-old male living in the seven-county metro area. For most of the examples, the basic needs wages are the same for custodial parents receiving MFIP and parents receiving child support. In the seven-county metro area, custodial parents who receive child support must earn wages between \$7.75 an hour and \$5.15 an hour.

A metro area custodial parent who receives child support from a noncustodial parent earning \$8.50 an hour (the 25th percentile for males aged 23 to 27 in the metro area) must earn \$7.75 per hour to meet a basic needs budget. Table 3 shows that this custodial parent receives \$6,024 in child support. Child care expenses are considerably higher. No longer qualifying for MFIP and MFIP child care, the parent pays \$11,292 for market-rate day care. The increased child care cost combined with higher state and federal income taxes results in a higher basic needs wage, despite receiving federal and state tax credits that offset part of the increased child care expenses.

Custodial parents in Tables 3 and 4 who receive child support at the court-ordered level do not receive MFIP grants, since the child support payments are greater than the grant amounts. If child support were less than the grant amount, then the child support agency would capture the amount and use it to reduce the custodial parent's MFIP grant. The \$7.75 basic needs wage for metro area custodial parents with low-earning noncustodial partners may result in an adverse incentive for these custodial parents to try and remain on MFIP for as long as possible. However, in order to receive MFIP, current law requires the parent to cooperate with the child support enforcement agency. Also, custodial parents are faced with a lifetime limit of five years of MFIP benefits.

**Child Support and Child Care Assistance Estimates**

Under Minnesota court guidelines, child support awards depend on the noncustodial parent's income, while child care assistance awards depend on the incomes of both the noncustodial and the custodial parent.

Court guidelines set child support payments as a percentage of the noncustodial parent's income. As a result, child support obligations increase as the noncustodial parent's income increases. Similarly, the higher the noncustodial parent's wage relative to the custodial parent's, the greater the child care assistance payment required of the noncustodial parent. The child care award is calculated by multiplying the ratio of the noncustodial parent's income to both parents' incomes by 75 percent of actual day care expenses.

The income ratio is applied to 75 percent of actual expenses on the assumption that the custodial parent will recover the remaining 25 percent as federal and state dependent care credits. The guidelines also provide that child care payments cannot result in the noncustodial parent's income dropping below the federal poverty level. This provision can result in a reduction of the child care award for low-income noncustodial parents.



**A metropolitan area custodial parent who receives a large child support award has additional resources and may not have to make as much money to meet basic needs as one who receives a small child support award.** Table 3 shows that the higher the wage level for the noncustodial parent, the higher the resources for the custodial parent. A custodial parent with a noncustodial parent earning wages at the 50th percentile can pay for basic needs with a full-time minimum wage job. This includes \$10,837 in child support and \$11,292 in day care costs. If the noncustodial parent earns wages equivalent to the 75th percentile, \$15.75 an hour, the custodial parent receives an additional \$13,419 in child support income. Since the custodial parent's expenditures remain the same, he or she would receive surplus income that may go toward other items besides basic necessities.

**In the nonmetropolitan area, expenses are such that receipt of child support does not affect the wage required to meet basic needs.**

**For parents in the nonmetropolitan area, the basic needs wage is from \$5.15 to \$5.25 per hour, with child support.** The \$5.15 per hour results from the assumption made in the model that the custodial parent must work at least a full-time job at the minimum wage. Without the assumption of full-time work at minimum wage, the model would show that some nonmetro area custodial parents may be able to work part-time in order to meet a basic needs budget.

**When noncustodial parents in nonmetropolitan Minnesota earn higher wages, child support payments increase and the custodial parent experiences a surplus of resources over expenditures.** Table 4 shows basic needs wages for noncustodial parents at three wage levels: the 25th, 50th, and 75th percentile for males aged between 23 and 27 years old in nonmetropolitan Minnesota. If the noncustodial parent earns wages at the 25th percentile (\$7.00/hour) and meets child support obligations, the nonmetropolitan custodial parent can pay for basic needs with a \$5.25 an hour job. If the noncustodial parent has earnings at the 75th percentile (\$13.00/hour), child support payments increase and the custodial parent's budget surplus increases to \$5,509. Some of these custodial parents may be able to work less than full-time and still be able to meet a basic needs budget.

## Basic Needs Budgets for Noncustodial Parents

This section reports the basic needs budgets for noncustodial parents living alone. The budgets assume that the noncustodial parent pays child support and child care assistance in accordance with state guidelines. Tables 5 and 6 list the basic needs wage, resources, and outlays for example noncustodial parents living in the seven-county metropolitan area and nonmetropolitan Minnesota.

Because child care assistance awards depend on the combined incomes of both the custodial and noncustodial parent, the tables show the noncustodial parent's basic needs wage given three different wage levels for the custodial parent: the 25th, 50th, and 75th percentiles for females between ages 23 and 27. Table 5 uses custodial wages from the seven-county metropolitan area; Table 6 uses custodial wages from nonmetropolitan Minnesota. The child care assistance awards were calculated under the assumption that the custodial parent pays for full-time day care at the market rate. In this way the tables model the situation for parents who do not have access to nonformal care.

Table 5 Metropolitan Area Noncustodial Parent Children Ages 2 and 5			
Custodial Parent Earns	\$8.25/hour (25 <sup>th</sup> percentile)	\$10.75/hour (50 <sup>th</sup> percentile)	\$13.50/hour (75 <sup>th</sup> percentile)
Noncustodial Parent Requires	<b>\$14.25/hour</b>	<b>\$13.75/hour</b>	<b>\$13.25/hour</b>
<b>Basic Needs Wage</b>			
<b>Resources</b>			
Wages	\$29,640	\$28,600	\$27,560
MFIP	0	0	0
Food Stamps	0	0	0
Federal Tax Credits	0	0	0
State Tax Credits	0	0	0
Property Tax Refund	3	39	57
<b>Total Resources</b>	<b>\$29,643</b>	<b>\$28,639</b>	<b>\$27,617</b>
<b>Expenditures</b>			
Housing	\$4,704	\$4,704	\$4,704
Food	2,034	2,034	2,034
Clothing/Personal Care	1,270	1,270	1,270
Transportation	1,460	1,460	1,460
Day Care	0	0	0
Child Support Paid	11,794	11,057	10,358
Health Care	1,222	1,222	1,222
Federal Income and Payroll Taxes	5,671	5,435	5,200
State Income Tax	1,476	1,393	1,310
<b>Total Expenditures</b>	<b>\$29,631</b>	<b>\$28,575</b>	<b>\$27,557</b>

Table 6 Nonmetropolitan Area Noncustodial Parent Children Ages 2 and 5			
Custodial Parent Earns	\$6.00/hour (25 <sup>th</sup> percentile)	\$8.00/hour (50 <sup>th</sup> percentile)	\$10.75/hour (75 <sup>th</sup> percentile)
Noncustodial Parent Requires <b>Basic Needs Wage</b>	<b>\$12.75/hour</b>	<b>\$12.25/hour</b>	<b>\$12.00/hour</b>
<b>Resources</b>			
Wages	\$26,520	\$25,480	\$24,960
MFIP	0	0	0
Food Stamps	0	0	0
Federal Tax Credits	0	0	0
State Tax Credits	0	0	0
Property Tax Refund	0	0	0
<b>Total Resources</b>	<b>\$26,520</b>	<b>\$25,480</b>	<b>\$24,960</b>
<b>Expenditures</b>			
Housing	\$3,132	\$3,132	\$3,132
Food	2,034	2,034	2,034
Clothing/Personal Care	1,270	1,270	1,270
Transportation	3,239	3,239	3,239
Day Care	0	0	0
Child Support Paid	9,266	8,704	8,274
Health Care	1,222	1,222	1,222
Federal Income and Payroll Taxes	4,964	4,729	4,611
State Income Tax	1,226	1,143	1,102
<b>Total Expenditures</b>	<b>\$26,354</b>	<b>\$25,473</b>	<b>\$24,883</b>

**Noncustodial parents in both the seven-county metropolitan area and nonmetropolitan Minnesota must command relatively high wages in order to meet child support and child care obligations and provide for their own basic needs.**

Court guidelines set child support as a percentage of the noncustodial parent's income and set child care payments to the custodial parent based on the income of both parents. At low wage levels, the noncustodial parent does not have enough money left after paying child support and taxes to provide for basic personal expenses (food, housing, clothing, transportation, and health care). As a result, a noncustodial parent with a basic needs budget of about \$10,600 for personal expenses must earn substantially more than that in order to meet parental and tax obligations. The first column of Table 5 shows the basic needs budget for a metropolitan area noncustodial parent with support and child care obligations to a custodial parent with earnings of \$8.25 per hour. Of \$29,640 in wages received, \$11,794 is transferred to the custodial parent as child support or child care assistance, and another \$7,064 is owed as state and federal income taxes, leaving a little over \$10,700 for the noncustodial parent to meet his own basic needs.

**A nonmetropolitan noncustodial parent making payments to a custodial parent who earns \$6.00 per hour must command an hourly wage of \$12.75 to meet support obligations and a basic needs budget.** The first column of Table 6 shows that a noncustodial parent with earnings of \$26,520 per year must pay over half that amount in child support, child care assistance, and taxes, leaving slightly over \$11,000 for housing, food, clothing, transportation, and health care.

The \$12.75 wage necessary for the nonmetropolitan noncustodial parent is lower than the metropolitan area wage of \$14.25 because of lower child care and housing costs in nonmetropolitan Minnesota. The noncustodial parent in nonmetropolitan Minnesota faces lower housing costs, and indirectly faces lower child care assistance payments because of less expensive child care available to the nonmetropolitan custodial parent.

**The noncustodial parent's wage is only modestly dependent on the custodial parent's wage.** The size of the child care award depends upon the noncustodial parent's share of the total income earned by both parents. Thus, as the custodial parent's income increases, the amount of child care the noncustodial parent must pay decreases. However, for the range of wages considered within the table, the change in the noncustodial wage is small.

**Noncustodial parents who do not pay child support or child care can meet a basic needs budget at close to the minimum wage of \$5.15 per hour.**

Both metro area and nonmetropolitan noncustodial parents who do not pay child support have relatively low-cost basic needs budgets. These individuals need only provide food, housing, clothing, and transportation for themselves. In the metropolitan area, these fixed costs require only a full-time job at the minimum wage of \$5.15 an hour. In nonmetropolitan Minnesota, lower housing costs are offset by higher transportation costs. Since mass transit is often unavailable, nonmetro parents are assumed to pay for a car loan, car maintenance, and other transportation expenses. Because of this, the nonmetro noncustodial parents need to earn a slightly higher \$5.75 an hour to meet their own basic needs.<sup>6</sup> Comparison with Tables 5 and 6 shows that noncustodial parents who meet child support obligations for two children, as opposed to simply providing for their own needs, must more than double their wage income—to \$14.25 per hour in the metro and \$12.75 per hour in the nonmetro—to meet the basic needs budget.

**In both the metropolitan area and in nonmetropolitan Minnesota noncustodial parents who meet child support obligations must earn more than the median wage.** In the metropolitan area, noncustodial parents meeting child support obligations must earn between \$14.25 and 13.26 per hour, depending on the custodial parent's wage and distribution of child care expenses. This is more than the metropolitan area median wage of \$11.75 per hour for males aged 23 to 27. Similarly, the nonmetropolitan area noncustodial parent who meets child support obligations must earn between \$12.75 and \$12.00 per hour, again more than the nonmetropolitan median wage of \$8.00 per hour for males aged 23 to 27.

**Court guidelines set child support as a percentage of the noncustodial parent's income, regardless of the custodial parent's income and without considering the absolute amount of money necessary to meet the children's basic needs.** The "income shares" philosophy underlying the court guidelines holds that children are entitled to a share of each parent's income. The guidelines protect a poverty level wage for the noncustodial parent, but the budgets modeled in this report find a poverty level wage inadequate for meeting the noncustodial parent's basic

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<sup>6</sup> Without a car loan but with maintenance expenses, the nonmetro noncustodial parent would need to earn \$5.50 an hour.

needs. Basic needs budgets above the poverty level drive up the noncustodial parent's basic needs wage. Under child support guidelines, as income increases, the percentage of income that must be paid as child support increases also. Increased child support combine with tax obligations to result in a basic needs wage for noncustodial parents well above the median wage for males ages 23 to 27.

**Noncustodial parents unable to earn a high enough wage to meet child support obligations and their own basic needs budgets must choose between paying child support and providing for their own food, clothing, and shelter.** The relatively high wage required for a noncustodial parent who pays child support and child care assistance is often associated with a high skill level. Noncustodial parents unable to command such a wage face a difficult choice: they can pay child support or meet their own no-frills budget, but not both. If the custodial parent receives MFIP, the noncustodial parent may evade child support obligations with the knowledge that payments would not have significantly increased the children's standard of living.

**One possibility for increasing child support payments would be to modify court guidelines to recognize regional variations in basic needs costs for noncustodial parents.** In the metro area particularly, the basic needs budget for single, noncustodial parents is substantially higher than the poverty level wage protected under court guidelines. Court guidelines could be modified to allow higher protected amounts for regions with higher costs. Further, child support payment percentages could be set so that noncustodial parents could comply with obligations and meet their own basic needs budget at a wage closer to the area median than is now possible.

## **Basic Needs Budgets for Custodial Parents Who Do Not Receive MFIP**

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Some parents will eventually leave MFIP. Reasons for leaving include:

- increased earnings
- gaining additional income from another household member
- receiving additional child support income
- children becoming adults, making the household ineligible
- reaching the five-year time limit on benefits

Single parents with young children will be among those who leave MFIP due to an increase in earnings or by reaching the five-year time limit.

This section examines single parents who have left MFIP and still have young children. The section shows that the wage needed to pay for basic expenses is substantially higher without the MFIP grant and without MFIP child care. As of July 1, 1997, parents receiving MFIP can have at most 60 months more of assistance. Parents may also leave because of higher wages. Any parent who leaves because of higher wages is eligible for a transition year of child care. Afterwards, current legislation does not provide for additional grants. However, the legislature has awarded special appropriations for those parents who are at the end of their transition year.<sup>7</sup>

Tables 7 and 8 show basic needs wages without MFIP and MFIP child care in the metropolitan area and in nonmetropolitan Minnesota. Table 7 relates to a metropolitan area custodial parent who does not receive child support, and Table 8 to a nonmetropolitan custodial parent who does not receive child support. Even though the parent is ineligible for MFIP, the parent can still be eligible for food stamps, which have no time limit on benefits for recipients who meet work requirements. Parents may receive food stamps separately from the MFIP program. The section does not include tables showing the effect on noncustodial parents or on custodial parents who receive child support, as the wage required for those parents to meet a basic needs budget would not change if MFIP were eliminated.

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<sup>7</sup> [Laws 1998, first special session, chapter 1, article 2, section 1, subdivision 2](#), adds \$12,250,000 for continued assistance for transition year families for FY 99. [Laws 1999, chapter 205, article 1, section 72, subdivision 3](#), adds \$2.5 million for FY 2000 for uninterrupted service.

Table 7 Metropolitan Area Custodial Parent Who Does Not Receive Child Support or MFIP			
	Children Ages 2 and 5		Children Ages 8 and 11
	Market-rate day care	½ Market-rate day care	No day care
<b>Basic Needs Wage</b>	<b>\$16.75/hour</b>	<b>\$6.00/hour</b>	<b>\$5.15/hour</b>
<b>Resources</b>			
Wages	\$34,840	\$12,480	\$10,712
Child Support Received	0	0	0
MFIP	0	0	0
Food Stamps	0	2,522	1,268
Federal Tax Credits	960	3,710	3,756
State Tax Credits	0	2,095	751
Property Tax Refund	402	1,140	1,140
<b>Total Resources</b>	<b>\$36,202</b>	<b>\$21,947</b>	<b>\$17,627</b>
<b>Expenditures</b>			
Housing	\$7,728	\$7,728	\$7,728
Food	2,890	3,206	4,455
Clothing/Personal Care	2,653	2,653	2,653
Transportation	1,460	1,460	1,460
Day Care	11,292	5,646	0
Health Care	3,170	204	194
Federal Income and Payroll Taxes	5,739	955	819
State Income Tax	1,229	0	0
<b>Total Expenditures</b>	<b>\$36,161</b>	<b>\$21,851</b>	<b>\$17,309</b>

Table 8 Nonmetropolitan Area Custodial Parent Who Does Not Receive Child Support or MFIP			
	Children Ages 2 and 5		Children Ages 8 and 11
	Market-rate day care	½ Market-rate day care	No day care
<b>Basic Needs Wage</b>	<b>\$6.25/hour</b>	<b>\$5.15/hour</b>	<b>\$5.15/hour</b>
<b>Resources</b>			
Wages	\$13,000	\$10,712	\$10,712
Child Support Received	0	0	0
MFIP	0	0	0
Food Stamps	2,122	1,885	516
Federal Tax Credits	3,600	3,756	3,756
State Tax Credits	2,095	1,711	751
Property Tax Refund	768	838	838
<b>Total Resources</b>	<b>\$21,586</b>	<b>\$18,902</b>	<b>\$16,573</b>
<b>Expenditures</b>			
Housing	\$4,824	\$4,824	\$4,824
Food	2,890	3,206	4,455
Clothing/Personal Care	2,653	2,653	2,653
Transportation	3,239	3,239	3,239
Day Care	6,617	3,309	0
Health Care	208	194	194
Federal Income and Payroll Taxes	995	819	819
State Income Tax	0	0	0
<b>Total Expenditures</b>	<b>\$21,426</b>	<b>\$18,244</b>	<b>\$16,185</b>

**Custodial parents who do not receive MFIP and MFIP child care would have to earn more money to meet their budgets; metropolitan area parents with children in full-time day care would be most adversely affected.**

**Ineligibility for MFIP and MFIP child care would require metropolitan area custodial parents with children in full-time day care to more than triple their earnings in order to meet basic needs.** Without MFIP, a metropolitan area custodial parent with two children in full-time child care would have to increase earnings from \$5.15 to \$16.75 per hour to meet the basic needs budget. Table 7 reports the wage necessary for a custodial parent in metropolitan Minnesota to pay for basic needs without assistance from child support, MFIP, or MFIP child care. With MFIP, the custodial parent's MFIP grant, state and federal income tax credits, property tax refund, \$60 copay for child care, and relatively low federal and state income taxes combine in a way to allow the parent to pay for basic needs with a full-time minimum wage job. Without MFIP or MFIP child care, the parent receives less in state and federal income tax credits and property tax refund, pays \$11,292 in day care, pays substantially higher state and federal income taxes, and pays more for health care. All of these combine to drive the basic needs wage up.<sup>8</sup> This is the case even when the parent applies for the food stamp program, which has a work requirement but unlike MFIP does not have a lifetime five-year time limit.

**Nonformal care arrangements from family and friends can lower day care costs for parents not receiving MFIP. For metropolitan areas, reducing full-time day care costs by half dramatically reduces the wage needed to pay for basic necessities.**

**Table 7 shows a single parent with two children enrolled in full-time day care results in a basic needs wage of \$16.75 an hour. If that same parent finds day care at half the market rate, then the parent's basic needs wage drops to \$6.00 an hour.**

Little information is available on nonformal care arrangements and the cost to families. The second column of Table 7 shows the basic needs budget for a custodial parent of two who obtains child care at half the market rate. This could represent a situation in which the parent obtains free child care from relatives or friends for 20 hours each week and purchases the remaining 20 hours at the market rate. Alternatively, this could represent a situation in which a friend or relative cares for the children full-time but at a rate substantially lower than the market rate. Schwenk<sup>9</sup> (1993) is not able to give an idea of how many hours a parent can use nonformal care, but can give an idea of how many have access. Nonformal day care by relatives is usually free or low-cost, with only two-fifths of relatives receiving cash payments.

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<sup>8</sup> Health care costs increase because the parent is enrolled in MinnesotaCare. Premiums for MinnesotaCare are on a scale that increases with income.

<sup>9</sup> Schwenk, Nancy E. "Child Care Trends," *Family Economics Review*. 6 (1993): 8-17.



**Government transfer programs and tax credits are directed toward low-income families and withdrawn as income rises. The phase-outs for food stamps, decreased state and federal income tax credits, decreased property tax refund, increased income taxes, and increased health care costs combine to have a dramatic effect on the basic needs wage required to pay for full-time, market-rate child care costs in the metropolitan area.**

Table 7 shows that a single parent who earns \$6.00 per hour and pays \$5,646 for child care—half the market rate—receives over \$8,200 per year in food stamps and state and federal tax credits. Spending less on child care enables a parent to meet a basic needs budget at a much lower wage compared to the wage required if the parent must pay the market rate for child care. Full-time child care for two children costs \$5,646 more than half-time care in the metro area, but paying for full-time care means a parent has to earn \$19,840 more in wage income. As wages increase to the level needed to meet total expenditures including full-time child care, the parent's income moves out of the range that qualifies for food stamps and federal and state tax credits. Higher wages also mean a smaller property tax refund and higher state and federal income taxes. Health care costs also increase, as premiums to the state-subsidized MinnesotaCare program increase with income.

From a different perspective, the dramatic increase in wages from \$6.00 to \$16.75 when day care increases from half-time to full-time points out the high marginal tax rates imposed on that income range. Workers begin earning enough to pay more in income taxes, and at the same time receive fewer dollars in tax credits—the federal earned income tax credit, the federal child care credit, the state working family credit, and the state dependent care credit. Added to the high marginal rates are food stamps phase-outs and increased health care expenditures. The combined increase in taxes, decreased tax credits, and decreased net benefits from other government programs result in less gain in net income for every additional dollar earned.

**Because the cost of child care is such an important component of the basic needs budget for parents not receiving MFIP, parents of older children do not have to earn as much money to meet basic needs.**

**As children age, metro area parents can decrease outlays on child care resulting in a decreased basic needs wage.** The third column of Table 7 shows the basic needs budget for a custodial parent with children ages 8 and 11 in the seven-county metropolitan area. The wage necessary to pay for expenditures equals \$5.15 an hour—\$11.60 an hour less than the wage required for a parent with children aged 2 and 5 years old in full-time day care.

Families who purchase day care will need to spend more for the children when they are young. Older children move out of day care and attend school. The oldest children no longer need after-school day care, thereby eliminating all day care expenses. Food expenditures increase because older children consume more food than younger children. The lower wage for parents with older children reflects a combination of decreased expenditures on child care and increased income from food stamps, and state and federal income tax credits that is available at the lower wage level.

**Transition year child care and extended Medical Assistance can make a difference in whether the parent is able to pay for basic necessities.** Parents leaving MFIP because of increased earnings may be eligible for extended Medical Assistance for up to one year after leaving MFIP. Their income, net of child care expenses, must be less than 185 % of the federal poverty guidelines.

For a parent with two children to leave MFIP because of increased earnings, he or she must earn at least \$8.00 an hour. At that wage, a parent living in the metro area would receive a \$4,723 in excess of expenditures on basic needs. Without transition year child care and extended Medical Assistance, that same parent earning \$8.00 an hour would incur a \$4,571 deficit in the metro area. For nonmetro areas, transition year child care and extended Medical Assistance results in a surplus of \$5,231 in excess of basic needs. Without transition year child care and extended Medical Assistance, a parent still may experience a surplus of \$611.

Transition year child care makes up a large majority of transition year assistance and is largely what causes the parent to go from a surplus to a deficit.<sup>10</sup> For the single parent in the metro area, transition year child care reduces child care costs from \$11,292 to \$264 a year. Extended Medical Assistance reduces costs by a smaller \$166. In the nonmetro area, the single parent reduces child care costs by \$6,353 and reduces health care costs by \$166.

**One consideration for these MFIP ineligible families may be the health, safety, nutrition, and economic opportunities for young children.** Because child care costs are higher for very young children than for school-age children, parents with very young children have higher expenditures and may be less likely to pay for basic necessities. Parents of older children are likely to be older themselves. They will have more work experience and command higher wages than parents of very young children. Whether or not these concerns are such that they merit a change in policy is uncertain, but they may at least merit further consideration.

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<sup>10</sup> Participation in Basic Sliding Fee Child Care can significantly reduce child care costs and the wage required to satisfy basic needs—\$5.15 for a single parent with two children living in the metro area and enrolled in full-time day care. However, the basic sliding fee is not an entitlement. Like section 8 housing assistance it can reduce the wage once parents are taken off the waiting list.

## **Appendix: Assumptions for Budget Calculations, Calendar Year 1998**

**Housing.** Housing costs are median fair market rents as determined by the U.S. Department of Housing and Urban Development (HUD). Custodial parents with either one or two children are assumed to live in two-bedroom apartments; noncustodial parents are assumed to live in efficiency apartments. HUD determines rents separately for the seven-county metropolitan area, for other metropolitan areas in the state, and for nonmetropolitan counties. The seven-county metropolitan examples use median fair market rents for the metropolitan area, and the nonmetropolitan examples use the median fair market rents for nonmetropolitan counties of Minnesota.

**Food.** Food expenditures are based on the U.S. Department of Agriculture (USDA) low-cost food plan. This food plan is the second least expensive plan calculated by the USDA. Food costs vary for each family member based on age and gender.

**Child support payments.** Child support payments are based on Minnesota court guidelines currently in effect. The payments used in the budgets do not include payment of health care. While not all noncustodial parents make child support payments in full, there is little data available on the amount actually paid with respect to the noncustodial parent's income. Examples involving transfers between the noncustodial and the custodial parent represent cases in which courts award child support in accordance with laws currently in effect, and all parties comply with the court orders.

**Child care paid by noncustodial parent.** Payments from the noncustodial parent to the custodial parent for child care are based on the income-share apportionment method used by Minnesota courts. Under this method, noncustodial parents are ordered to pay for child care based on the custodial parent's actual day care expenses and the noncustodial parent's income relative to the custodial parent's income. However, the child care payments cannot cause the noncustodial parent's income to fall below the federal poverty level. As with child support, examples involving child care transfers between the noncustodial and the custodial parent represent cases in which courts award child support in accordance with laws currently in effect, and all parties comply with the court orders.

**Clothing/personal care.** Expenditures for clothing and personal care are based on the U.S. statistical abstract of actual expenditures in these areas. Clothing and personal care expenditures vary for each family member based on age and gender.

**Transportation.** For metro areas, transportation expenditures allow for two bus trips a day for every day of the year. The bus fares are actual fares reported by the Minnesota Department of Transportation (DOT). For nonmetro areas, transportation costs are estimated for an automobile. The costs include variable costs (gas and maintenance), insurance, motor vehicle registration tax, and car loan payments. The registration tax and car loan payments are for a car purchased for \$7,500. Data for automobile costs come from the U.S. Statistical Abstract, NAICS State Average Expenditures and Premiums for Personal Automobiles in 1994, Edmunds Bank Rate Monitor, and the DOT's Division of Motor Vehicle Safety.

**Health care.** Eligible families are assumed to participate in Medical Assistance. All other families participate in the cheaper of MinnesotaCare or private market rates. Parents with MinnesotaCare are assumed to pay an annual copay equal to the average amount paid per adult. For parents with income that exceeds the limits, they are assumed eligible with premiums equal to the unsubsidized cost of MinnesotaCare. The private market rate is the minimum cost of insurance plans from Medica, HealthPartners, and Blue Cross. For private market rates, it is assumed that the parent pays the entire amount of the deductible.

**Day care.** Day care costs are average 1997 hourly rates for metropolitan and nonmetropolitan family day care homes, as determined by the Department of Children, Families and Learning, adjusted to 1998 levels. Since the cost of food consumed by children in day care is included in the cost of day care, food costs for families with children in day care are adjusted based on the number of hours the child is assumed to spend in day care.

**Federal taxes.** Federal taxes paid include the federal income tax and payroll taxes for Social Security and Medicare. The federal income tax calculation assume that the custodial parent claims dependent exemptions for children in the household.

**State taxes.** State taxes paid includes only the Minnesota individual income tax. This item does not include the state sales tax, as the major consumption items in the budget (food, clothing, and rent) are exempt from sales tax. Property tax is assumed to be included in rent paid.

**Wages.** Wages are based on the hourly wage determined to meet the basic needs budgets. All examples assume full-time work at 40 hours per week, 52 weeks per year. Examples assume that all income is from wages.

**Minnesota Family Investment Plan (MFIP).** Eligible families are assumed to apply for and receive MFIP. The examples assume participation in regular MFIP and no participation in any pilot programs such as Work First. All examples assume MFIP guidelines in current law and assume that families that are income eligible meet all other MFIP program requirements, such as those limiting total assets.

**Food stamps.** Families who are ineligible for MFIP, but are eligible for food stamps, are assumed to apply for and receive food stamps. The examples assume food stamp guidelines in current federal law and assume that families that are income eligible meet all other food stamp program requirements.

**Federal income tax credits.** The examples assume that eligible families claim the federal earned income and dependent care income tax credits.

**State income tax credits.** The examples assume that eligible families claim the Minnesota working family credit and the state dependent care credit.

**Property tax refund.** Eligible families are assumed to claim Minnesota's property tax refund, also known as the "renter's credit." Property tax paid as used in calculating the refund is set at 19 percent of rent paid, as in current law.