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## Michigan League for Human Services



August 2005

### Family Needs Increase While the Safety Net Erodes

**P**overty and need are increasing dramatically in Michigan, yet the structure of the cash assistance safety net has made it less accessible each year. Few would claim that an annual salary of \$9,288 (\$774 per month, or 61 percent of the poverty level) is enough to enable a family of three to meet all of its basic needs, yet cash assistance is unavailable in Michigan for families that earn even one dollar above that amount. Other Midwestern states respond much more effectively to the needs of their working poor families while Michigan, with the highest un-employment in the nation and an increasing number of families in poverty, continues to watch its safety net erode. This paper outlines the ways in which the state's safety net falls short of meeting family needs and identifies specific changes that can increase its effectiveness.

#### Introduction

The Family Independence Program (FIP) is the ongoing cash assistance program in Michigan for low-income families who need help in meeting their basic needs. It is the safety net established to help families who are experiencing economic hardship due to unemployment or unexpected life circumstances. Based on the idea that work is the key to overcoming economic hardship, FIP requires recipients to work in paid employment and provides work supports and cash supplements conducive to that end. Michigan's high unemployment rate and its loss of tens of thousands of jobs over the past several years have strained the safety net while underscoring the importance of maintaining this critical assistance program for working families.

Unfortunately, the safety net is eroding at a time when need is increasing. Due to inflation, a family that has fallen into desperate economic times is able to purchase much less with its monthly assistance check than a family in similar circumstances several years ago. Moreover, because the income eligibility requirements and monthly FIP payments have not been updated for many years, the program has become inaccessible to many

working poor families. In order to be eligible for FIP, a family must be much poorer in 2005 than it would have had to be five or ten years ago. Further, families who are working their way out of poverty often lose their assistance before they are able to meet all of their basic needs. A comparison of the FIP eligibility and payment scale with the current inflation and poverty indexes reveals the reason for, and extent to which, Michigan's cash assistance safety net is eroding.

#### Income Eligibility for Cash Assistance

The Family Independence Agency has established a *payment standard* for families that receive FIP assistance (Fig. 1). The payment standard serves two functions:

- a) It is the basis for determining the maximum amount of monthly gross income (FIP payment plus any earned income) that a family is allowed to have and still qualify for FIP assistance. When the family's total income exceeds this maximum amount, it can no longer receive cash assistance but may still be eligible for support services.

Fig. 1

- b) It is the maximum monthly FIP grant amount that a family may receive. A family's grant is determined by its gross income.

Payment standards are based on family size and vary from county to county according to a shelter area designation. All have remained the same since 1993.<sup>1</sup>

To provide an incentive to work and increase the income available to the family, the FIP program applies an *earned income disregard* to the family's earnings. This is the amount of earned income that may be disregarded when matching the family's earnings against the payment standard to determine eligibility for cash assistance. Michigan's earned income disregard is the first \$200 of each employed person's gross earned income, plus 20 percent of the remainder.

If there were no earned income disregard, public assistance recipients would lose one dollar of assistance for every dollar of earned income. For example, a single mother with two children in Wayne County would lose all of her cash assistance if her FIP benefit and earned income together exceeded \$459 (the amount of the payment standard for that county and family size).

The earned income disregard, however, allows her to have a combined total of earned income and FIP assistance of up to \$774 per month. This figure constitutes the maximum allowable income level for FIP eligibility; when a recipient earns enough that his or her total income exceeds this level, the recipient's FIP payments are terminated and the case is closed.

FIP Payment Standard 1993-2005 (Employable Adult Living Arrangement)						
Group Size	Shelter Area					
	I	II	III	IV	V	VI
1	\$255	\$255	\$260	\$276	\$290	\$305
2	341	346	356	371	386	401
3	424	434	444	459	474	489
4	528	538	548	563	578	593
5	624	634	644	659	674	689
6	757	767	777	792	807	822
7	833	843	853	868	883	898
8+	Add \$76 for each additional person.					
<b>Shelter Area I:</b> Alger, Baraga, Gogebic, Huron, Iron, Keweenaw, Luce, Mecosta, Menominee, Presque Isle, Schoolcraft						
<b>Shelter Area II:</b> Arenac, Chippewa, Delta, Houghton, Iosco, Lake, Manistee, Oceana, Ontonogon, Osceola, Oscoda						
<b>Shelter Area III:</b> Alcona, Benzie, Cheboygan, Crawford, Dickinson, Gladwin, Hillsdale, Jackson, Kalkaska, Mackinac, Mason, Missaukee, Montcalm, Muskegon, Newaygo, Ogemaw, Sanilac, Wexford						
<b>Shelter Area IV:</b> Allegan, Alpena, Antrim, Berrien, Branch, Calhoun, Cass, Charlevoix, Clare, Emmet, Gratiot, Ionia, Isabella, Marquette, Montmorency, Roscommon, St. Joseph, Shiawassee, Tuscola, Wayne						
<b>Shelter Area V:</b> Barry, Bay, Clinton, Eaton, Grand Traverse, Kalamazoo, Kent, Lapeer, Leelanau, Lenawee, Midland, Otsego, Ottawa, Saginaw, Van Buren						
<b>Shelter Area VI:</b> Genesee, Ingham, Livingston, Macomb, Monroe, Oakland, St. Clair, Washtenaw						

### Help for Michigan's Families is Diminished

The State of Michigan has kept both the earned income disregard and the payment standard at the same levels since 1993, despite inflation. This has seriously eroded the value of the FIP benefit and has decreased the amount of goods that can be purchased with the monthly FIP check. In 1993 a single mother with two children would lose her benefits if she had earned income higher than \$774 per month, but in 2005 that amount is equal to only \$575 per month in 1993 dollars. In other words, this year a monthly cash assistance check can purchase only 67 percent of what it could purchase in 1993 (Fig. 2).

<sup>1</sup>All examples and calculations in this paper are based on the payment standard for Shelter Area IV, which includes Wayne County. It is the standard generally used by government and the media for statistical and reporting purposes.

Fig. 2

The Declining Value of the FIP Grant (Family of Three)						
Payment Standard			Payment Standard After Application of Earned Income Disregard			
Year	Amount	Amount in 1993 Dollars <sup>1</sup>	Amount	Amount in 1993 Dollars <sup>1</sup>	Amount 1993 Dollars <sup>1</sup> (Annual)	Reduction of Purchasing Power Since 1993
1993	\$459	\$459.00	\$774	\$774.00	\$9,288.00	0%
1994	\$459	\$447.54	\$774	\$754.68	\$9,056.16	2.6%
1995	\$459	\$435.21	\$774	\$733.88	\$8,806.56	5.5%
1996	\$459	\$422.72	\$774	\$712.83	\$8,553.96	8.6%
1997	\$459	\$413.24	\$774	\$696.84	\$8,362.08	11.1%
1998	\$459	\$406.90	\$774	\$686.15	\$8,233.80	12.8%
1999	\$459	\$398.11	\$774	\$671.33	\$8,055.96	15.3%
2000	\$459	\$385.17	\$774	\$649.49	\$7,793.88	19.2%
2001	\$459	\$374.51	\$774	\$631.52	\$7,578.24	22.6%
2002	\$459	\$368.68	\$774	\$621.70	\$7,460.40	24.5%
2003	\$459	\$360.46	\$774	\$607.84	\$7,294.08	27.3%
2004	\$459	\$351.11	\$774	\$592.08	\$7,104.96	30.7%
2005	\$459	\$345.81	\$774	\$575.32	\$6,903.84	32.7%

<sup>1</sup>Values obtained through the Bureau of Labor Statistics' CPI Inflation Calculator  
Prepared by Michigan League for Human Services

Assuming that most FIP recipients have little or no discretionary income, it is very likely that many are forced to forego or compromise certain necessities over time as their purchasing power decreases. This can result in risks to health and nutrition, increased stress in family relationships, and neglecting long-term financial needs in order to meet immediate needs.

The freezing of the payment standard and the earned income disregard has caused FIP recipients to fall further below the federal poverty threshold each year, and has required families to be at a much lower level of poverty in order to qualify for cash assistance. In 1993, the maximum FIP cash

Fig. 3

The Payment Standard as Percentage of the Poverty Threshold, by Year			
Year	Poverty Threshold (Annual)	Payment Standard as % of Poverty Threshold	Maximum Eligible Income as % of Poverty Threshold
1993	\$11,522	48%	81%
1994	\$11,821	47%	79%
1995	\$12,158	45%	76%
1996	\$12,516	44%	74%
1997	\$12,802	43%	73%
1998	\$13,003	42%	72%
1999	\$13,290	41%	70%
2000	\$13,738	40%	68%
2001	\$14,128	39%	66%
2002	\$14,494	38%	64%
2003	\$14,824	37%	63%
2004	\$15,219	36%	61%

Sources: Michigan Department of Human Services; U.S. Census Bureau  
Prepared by Michigan League for Human Services

assistance level after application of the earned income disregard brought a single working mother with two children up to 81 percent of the poverty threshold, but in 2004 it only brought a similar family to 61 percent (Figs. 3 and 4).

The loss in purchasing power is particularly dramatic when viewed in the context of housing costs. For many years prior to the 1990's, a monthly cash assistance check usually covered a family's rent for a dwelling appropriate for its family size. Since 1986, when the maximum monthly grant of \$443 equaled 110 percent of the average cost of a 2 bedroom dwelling in the Wayne County Metropolitan Area, the purchasing power of the monthly grant has eroded steadily. In 2005 a FIP grant now covers only 57 percent of an average 2 bedroom dwelling (Fig. 5).

As more families fall into the gap between the payment standard and the poverty threshold, earning too much to be eligible for FIP assistance yet having an income that is considered poor by national standards, FIP becomes less accessible

each year. Many families whose purchasing power would have qualified them for FIP assistance in 1993 are being denied such assistance now. Moreover, it cannot be assumed that employment providing an income that is barely over the

Fig. 4

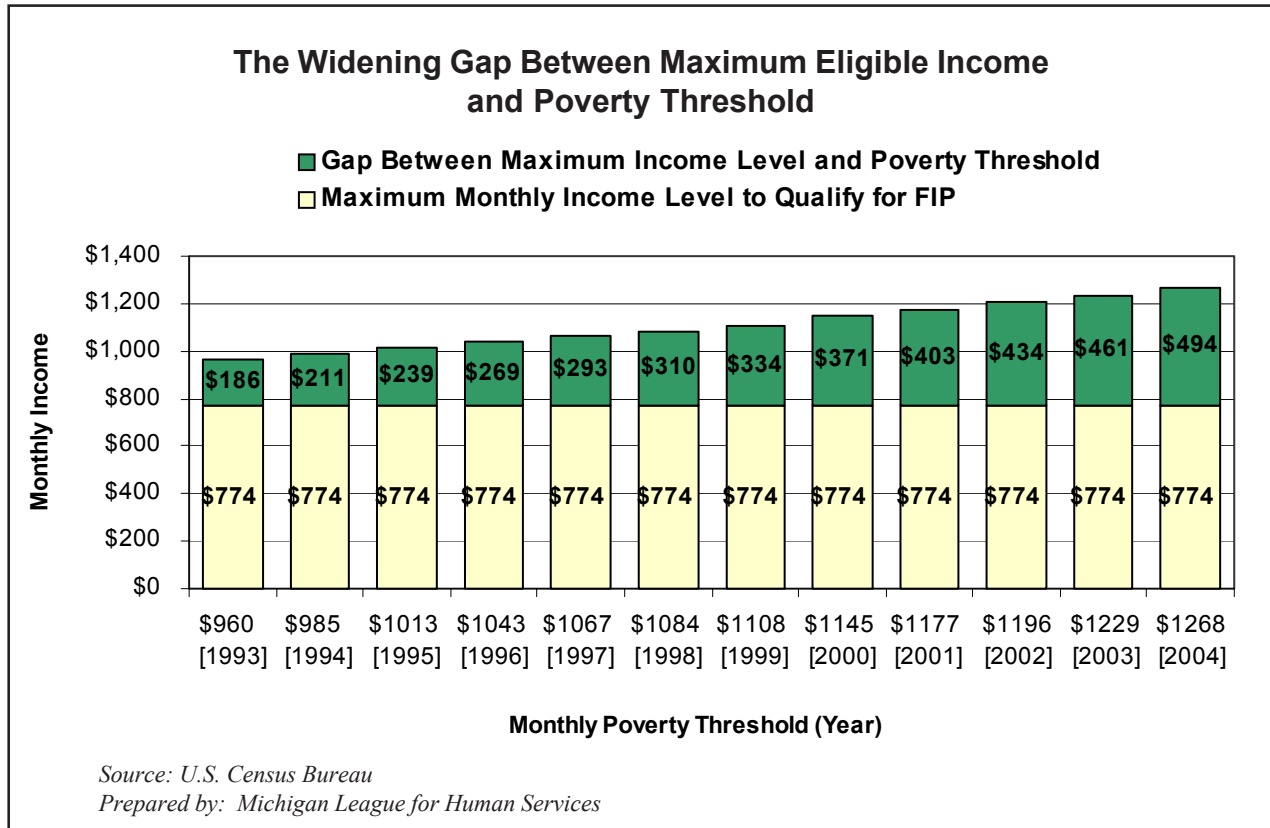


Fig. 5

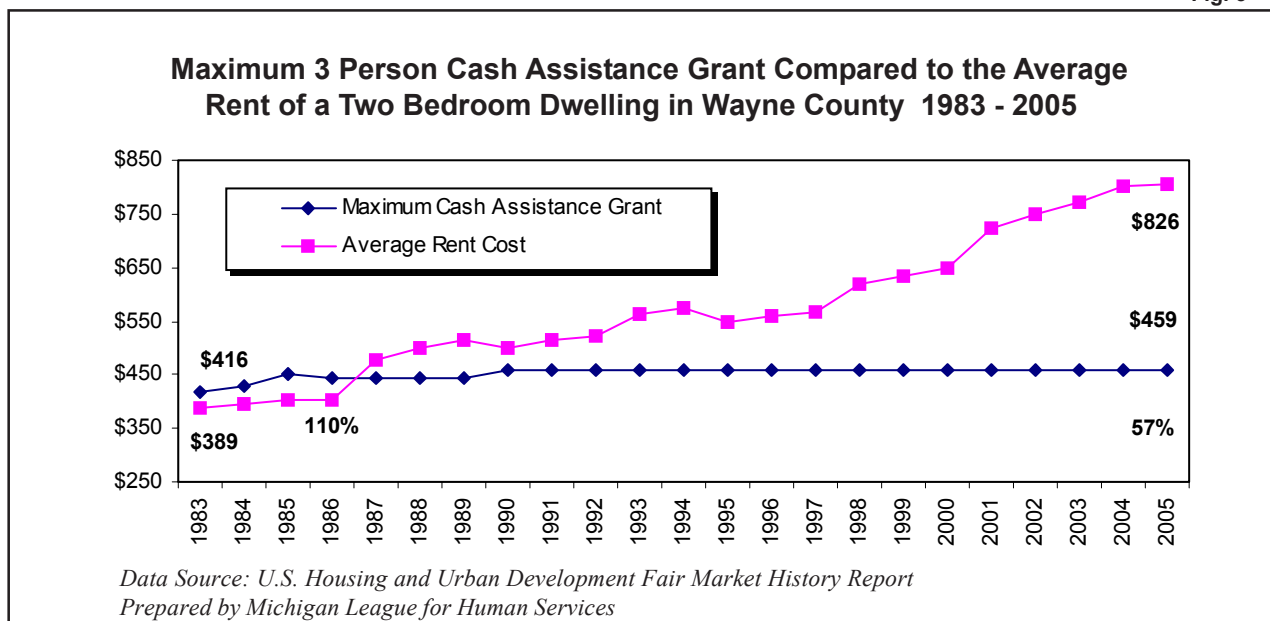


Fig. 6

eligibility limit will continue. The earnings of recipients and recent welfare leavers often come from jobs that are vulnerable to economic downturns such as the state is experiencing now, causing employers to make short-term layoffs or to temporarily reduce work hours. Families whose income fluctuates around the eligibility cutoff point often must reapply for assistance or suffer sporadic reductions in their weekly income.

Michigan's maximum income level for cash assistance, in addition to being far below the federal poverty level, is far lower than those of other Midwestern states (Fig. 6). Four other Midwestern states have a maximum income level of over \$1,000 a month, significantly higher than Michigan's maximum of \$774 per month. In fact, Michigan's level is the eleventh-lowest in the country, despite the fact that its cost of living is much higher than that of many other states.

### Increased Need for Cash Assistance in Michigan

Family poverty in Michigan is rising at an alarming rate. In 2003, 16 percent of all Michigan children were in poverty. The number of families in poverty increased by 14.3 percent between 2000 and 2003, and the number of single-parent, female-headed households increased by ten percent.<sup>2</sup> While it is well known that living in a single-parent family

Comparison of Michigan's Cash Assistance Income Eligibility Level With That of Other Midwestern States	
State	Income Eligibility Level for a Family of Three
Minnesota	\$1,497
Illinois	\$1,185
Indiana	\$1,151
Iowa	\$1,065
Ohio	\$994
Michigan	\$774

**Note:** Wisconsin is not included because eligibility is determined on a case-by-case basis for cash assistance and by number of hours worked as well as level of income.  
*Source: The Urban Institute, Welfare Rules Databook: State TANF Policies as of July 2003*

increases a child's chance of living in poverty, the fact that the percentage of total families in poverty increased at a significantly greater rate than the percentage of single-parent families indicates that current poverty trends in Michigan have more to do with the state's economic conditions than with family structure. (Fig. 7)

Michigan's unemployment rate has been among the highest in the nation for many months. Massive job loss in a number of sectors, particularly in manufacturing, has left a large

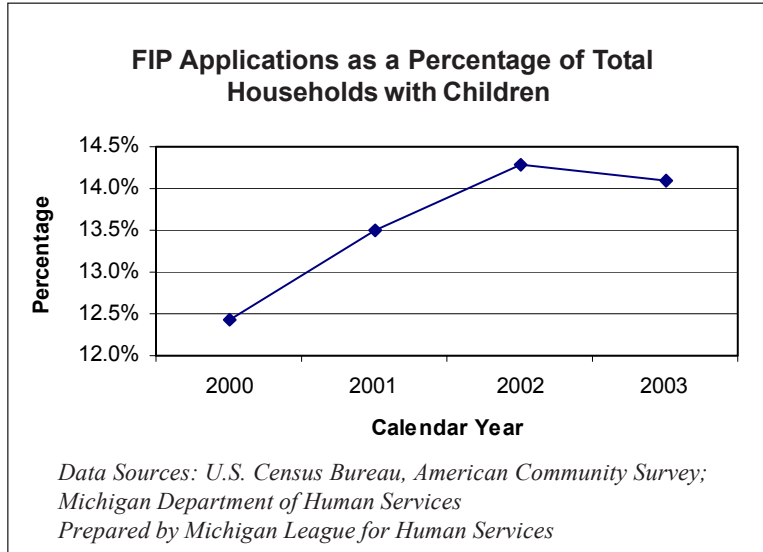
Fig. 7

Poverty and Need in Michigan 2000-2003					
	2000	2001	2002	2003	Increase
<b>Number Below Poverty</b>					
Families	195,658	206,366	215,758	223,579	14.3%
Families with female householder, no husband present	120,041	126,504	121,946	132,551	10.4%
Individuals	975,044	1,024,263	1,078,173	1,118,345	14.7%

*Data Source: U.S. Census Bureau, American Community Survey  
 Prepared by Michigan League for Human Services*

<sup>2</sup> U.S. Census Bureau, American Community Survey Multi-Year Profiles 2000-2003.

Fig. 8



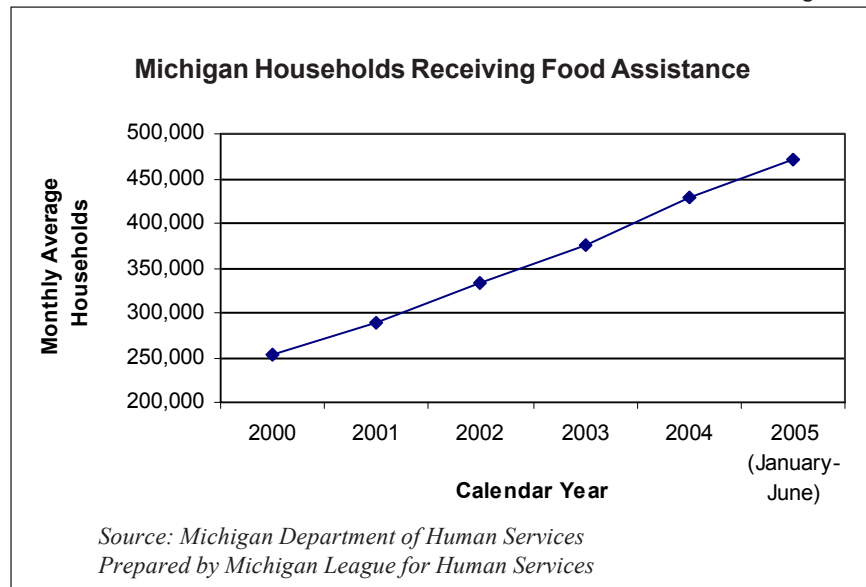
average number of FIP applications received each month has grown steadily higher, and in 2004 was 15 percent higher than in 2000 (Fig. 8). Applications as a percentage of the total Michigan households with children under 18 rose for the first three years before dipping slightly in 2004. As filling out a FIP application is a very time-consuming (and for some, very difficult) task, parents who have submitted a completed application have likely done so because of an inability to make ends meet and satisfy the family's basic needs.

number of families without a means of support. While some laid-off workers have been able to find new work within a few months, other unemployed jobseekers have exhausted their unemployment insurance and must rely on cash assistance. Of those who have found work, the new job often offers too few hours or an inadequate salary for their family size; those workers' families, too, would be greatly helped by temporary cash assistance.

Underscoring the extent of need that exists throughout Michigan is the large increase in applications for cash assistance over the past several years. Beginning in 2000, the annual

Another indicator of a rising level of need in Michigan is the dramatic increase in the number of households receiving Food Assistance (formerly known as Food Stamps). Between December 2000 and June 2005, the Food Assistance caseload increased by 87 percent, from 254,923 in December 2000 to 477,266 in June 2005. Families are eligible for Food Assistance if their income is below 130 percent of the federal poverty threshold for their family size. Although this eligibility amount is considerably higher than the maximum allowable income for FIP households, the consistent increase in the number receiving food assistance suggests that a large number of the recipients need cash assistance as well, but do not qualify because of the outdated payment standards (Fig. 9).

Fig. 9



**Increased Case Closures and Application Denials Due to Earned Income**

The widening gap between the FIP maximum income level and the poverty threshold has resulted in many families earning too little to meet their needs, but too much to receive cash assistance. This is shown in the high numbers of application denials and case

Fig. 10

FIP Applications, Denials and Closures Due to Earned Income Since the Beginning of the Current Economic Downturn*						
Fiscal Year	FIP Applications			FIP Closures		
	Total Applications Received	Denied Due to Too Much Earned Income (number)	(% denied)	Total Cases Closed	Closures Due to Too Much Earned Income (number)	(%)
2000	160,635	35,011	46.0%	78,594	38,047	48.4%
2001	177,187	39,857	48.8%	70,819	31,577	44.6%
2002	181,199	40,815	48.0%	76,589	30,798	40.2%
2003	184,590	38,642	45.6%	65,356	24,021	36.8%
2004	185,804	36,823	44.0%	73,997	24,837	33.6%
<b>Change 2002-2004</b>	<b>15.7%</b>	<b>5.2%</b>	<b>-4.5%</b>	<b>-5.8%</b>	<b>-34.7%</b>	<b>-30.7%</b>

\*The current economic downturn can be said to have begun in March 2001, the beginning of the most recent national recession. FY 2000 was the last full year before the downturn began.

Source: Michigan Department of Human Services, *Annual Program Statistics Calculations and Chart* by Michigan League for Human Services

closures due to having too much earned income (Fig. 10). In the years 1998-2000, before the current economic downturn, closures for that reason accounted for nearly 50 percent of all FIP denials and closures. Since 2000 (the last year before the beginning of the current economic downturn) the number of closures due to earned income has decreased by nearly 35 percent, but it remains the most common reason for FIP case closures. (The two next most common reasons for case closure have been failure to turn in a required monthly reporting form, and insufficient information or documentation.)<sup>3</sup>

If the maximum amount of earned income allowed for FIP recipients were enough income for a family to live on, then it would be highly desirable that having too much earned income would be the most common reason for case closure. It would indicate that FIP recipients are successfully moving off cash assistance into jobs that can meet their financial needs. However, as this paper has noted, the maximum amount of combined cash assistance

and earned income (\$774) is far below the poverty threshold and has been falling further each year. For many people the only jobs available are low-wage jobs that cannot pull a family out of poverty.<sup>4</sup> In this context, the fact that 44 percent of case closures in 2004 were for having too much earned income suggests that many of the families whose cases were closed are continuing to experience need. Likewise, it follows that many applicants are being denied assistance, despite a real need.

### Increased Use of Sanctions to Close Cases

The 1996 federal welfare reform legislation included new eligibility rules including, most notably, increased work participation requirements and use of sanctions to enforce them. The sanction policies in Michigan were made stricter under legislation approved in 2002 (though as the following chart indicates, the increase under the 2002 legislation was not nearly as dramatic as that achieved by the 1996-1997 legislation). Under the current policies,

<sup>3</sup>Michigan Department of Human Services, *Program Statistics*.

<sup>4</sup>For more information on low-wage jobs in Michigan, see the Michigan League for Human Services, *Michigan's Growing Low-Wage Labor Force, 2005*.

any instance of non-compliance with work requirements without good cause is punished by a full-family termination of cash assistance for a minimum of one month. Non-compliance can include failing to accept an available job or quitting a job (unless there is a better job available), failing to participate in activities assigned by the Michigan Works! Agency, reducing hours of employment, or being fired from a job for misconduct or absenteeism.

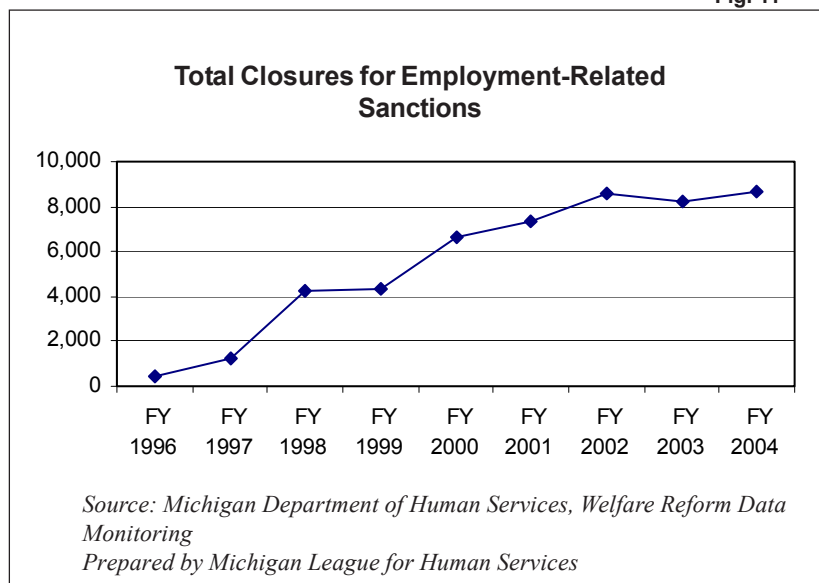
Following enactment of the 1996 welfare legislation, case closures due to employment-related sanctions increased each year through 2002, dipped slightly the following year and then increased again (Fig. 11). Before 1996, such sanctions accounted for less than one-half percent of case closures. By 2004 the rate had jumped to 11.7 percent (8,644 employment-related sanction closures out of 73,997 total closures).<sup>5</sup>

Case closures due to these sanctions are troublesome because case studies indicate that the circumstances that lead to sanctions are often due to the same obstacles that prevent parents' success in the workforce: transportation, child care, and mental and physical health. Without income, these parents and their families are likely to suffer greatly.

### FIP's Decreased Effectiveness in Addressing Poverty in Michigan

The FIP caseload decline during the 1990's and the increase in the number of FIP families with members employed have been hailed as positive achievements. But these achievements may mask a significant weakening of the safety net during the same period. A much higher number of very poor Michigan families are now without access to cash

Fig. 11

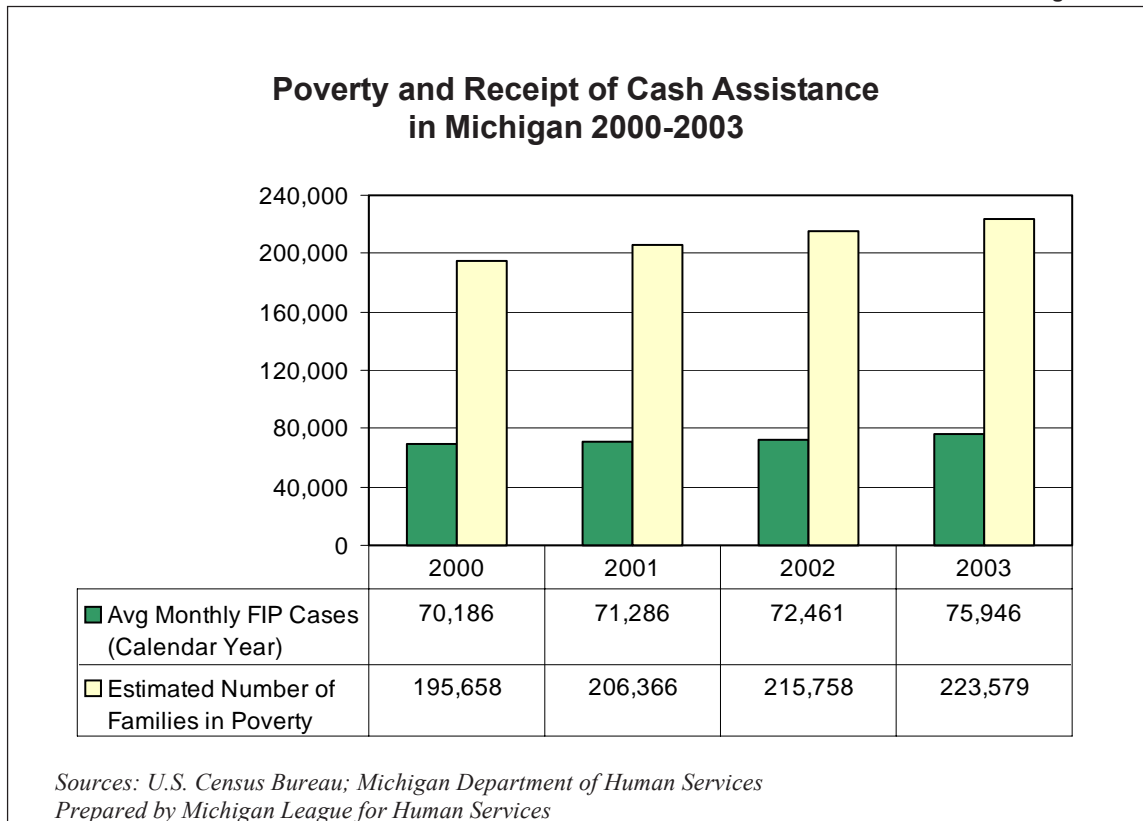


assistance, even though such assistance is often vital for paying housing expenses and transporting children to day care and a parent to work. Yet in 2003, families who received FIP assistance accounted for only 34 percent of the total number of Michigan families who were in poverty (Fig. 12).

These statistics show that Michigan's cash assistance program is not doing the job it should in alleviating poverty in Michigan. Families living in poverty-and even those who are living just above the poverty level-cope with tremendous hardships that put health, family relationships and children's school performance at risk. Preventing families from falling to such onerous and debilitating levels of poverty has historically been one of the most important functions of a cash assistance or "welfare" program. However, when large numbers of poor families work and support children yet cannot get the assistance they need, modifications should be made to the cash assistance system to make it more responsive. In this case, keeping the system up to date in terms of both the cash benefit and the maximum eligible income level would go a long way toward assuring that those families receive needed help.

<sup>5</sup>Michigan Department of Human Services, *Program Statistics and Welfare Reform Data Monitoring*.





### Conclusion

Poverty continues to be a serious problem in Michigan. Yet, at the same time, the safety net for families in Michigan has clearly eroded, due to the fact that the eligibility structure and the amount of the assistance payment have both failed to keep up with inflation. This failure has resulted in less purchasing power for FIP recipients and in large numbers of working poor families being denied assistance that is needed to meet their basic needs.

To strengthen the effectiveness of FIP, two adjustments need to be made that will increase the value of the FIP payment as well as ensure that working poor families maintain their eligibility. First, Michigan needs to *revise the payment standards to include an annual adjustment*. The increase should be enough to bring the maximum allowable income for FIP back to the level of 20 percent below the federal poverty threshold, which is where it was in 1993. The annual adjustment

should be pegged to inflation so that it will not fall below that percentage. In this way the assistance given to families will be consistent over time and will ensure that all in need will be eligible.

Second, Michigan needs to *revise the earned income disregard*. The disregard has been praised by welfare analysts for increasing the economic security of those rising out of poverty and for providing an incentive to work. However, combining a flat rate with a percentage without adjusting the flat rate over time causes the amount of disregarded income to diminish in its value each year.

Moreover, the flexibility of FIP regarding the length of time on assistance should be maintained. Because Michigan currently has the highest unemployment of any state in the nation, now is not the time to further weaken its safety net by pushing poor families off cash assistance prematurely. Because the earned income disregard makes it

much more profitable to work than to receive cash assistance, it should be assumed that families who receive cash assistance for long periods of time do so out of necessity. Rather than using a time limit to determine that such families no longer need cash assistance, it would make more sense to determine whether the families are experiencing barriers to gainful employment and to address those barriers.

Modifying the payment standard and the earned income disregard, and maintaining Michigan's flexibility with regard to time limits,

would help to ensure that FIP remains accessible to those most vulnerable to changes in the economy and in their life circumstances. By restoring the effectiveness of the cash assistance safety net, work could much more effectively function as a stepping stone out of poverty, families who fall on hard times would experience less hardship, and children in low-income working families would fare better on a range of critical child well-being measures.