



Michigan League FOR Human Services

June 2007

Working for a Living in Michigan 2007 Update

In 2003 the Michigan League for Human Services published *Working for a Living in Michigan: State Workforce Policies and Low-Income Workers*, a look at how well Michigan workforce, employment, and economic development policies serve low-income working families. That report was designed as a tool for assessing state policy efforts to help working poor families escape poverty and achieve economic self-sufficiency. It surveyed a broad range of indicators of economic distress among working families, indicators of how well state policy is designed to assist low-income working families, and indicators of how well state policies perform in supporting the efforts of working families to gain and retain employment and increase earnings. The picture presented defined a formidable challenge to state policymakers, numerous policy weaknesses, and poor policy performance in several areas. Recommendations were presented to address the design and performance weaknesses identified. (A copy of the 2003 report is available at the League's website: www.milhs.org.)

The 2003 report was prepared as part of the Working Poor Families Project, a project designed to assess the feasibility of monitoring the extent to which working poor families are in poverty and the degree to which a state's workforce and economic development policies directly address the earnings and employment opportunity needs of these families. Michigan was one of five states—Arkansas, Florida, Michigan, Texas, and Wisconsin—that piloted this project with reports in 2003. As of 2006, 18 additional states and the District of Columbia have joined the project, which is funded by the Annie E. Casey, Ford, Joyce and Charles Stewart Mott foundations.

As part of the ongoing work of the project, the League is updating the 2003 report through a series of briefs that will revisit selected indicators reported in the initial report, discuss changes in the status of working families, report progress in improving state policies, and update recommendations. This initial brief will provide background on the findings of the first report and offer an overview of the current extent of economic distress in Michigan. Future briefs will address issues related to Michigan's progress in the areas of education and skills training, employment opportunity, and conditions of employment for Michigan's low-wage workers.

The first *Working for a Living in Michigan* report was published just in time to contribute to the current administration's broad review of workforce and economic development policies and to a review of Michigan's welfare-to-work program, Work First. A goal of the general review was to better link Michigan's workforce education and training efforts to the specific skill requirements of Michigan's current and future employers.

It is hoped that these updates to the 2003 report will stimulate more discussion and provide useful information and insightful recommendations as Michigan continues its effort to strengthen the economy, support the work efforts of more families, and increase economic self-sufficiency.

Working for a Living in Michigan

Brief One: More Economic Distress for Working Families

Background

The 2003 Working for a Living in Michigan report was designed to serve as a baseline for monitoring Michigan's progress in several areas related to workforce development. Specifically, the report outlined the extent of economic distress in Michigan and examined Michigan's performance on a broad range of indicators associated with education and skills training, employment opportunity and conditions of employment. The report documented that thousands of working families were unemployed, underemployed, or working at low wages. Thousands of working adults did not have health insurance and too many families were paying too large a share of their incomes for housing. Overall, economic distress was found to be quite extensive, especially given Michigan's standing as a fairly high income state.

Further, the 2003 report identified a strategic weakness in state policy: the absence of a comprehensive and coordinated approach to reducing poverty and increasing economic self-sufficiency among Michigan's working families. This far reaching weakness was considered significant because it undermines the effectiveness of a whole range of program level policies. With regard to specific policy areas, both design strengths and weaknesses were found. However, weaknesses outweighed strengths across the board.

Education and Training

In 2003, education and training policies did not provide adequate employment paths out of poverty for working poor families, nor did they provide adequate support for near-poor working families

trying to achieve economic self-sufficiency. Policies were weakened by:

- An insufficient effort to focus resources on education and training for low-skill workers to match the effort under economic development policies to attract high-skill jobs to the state;
- An inadequate system for monitoring and reporting workforce development program outcomes for entry-level and low-wage workers.

Employment Opportunity

Employment opportunity policies did a poor job of creating career path jobs and providing training targeted to low-wage workers. Policies in this area:

- Placed more emphasis on creating high-skill jobs for which low-wage workers are unqualified than on creating jobs for which low-skill workers can qualify;
- Did not define hiring, training and promotion targets for entry-level and low-wage workers in most economic development contracts that provide assistance to employers;
- Did not require economic development programs to monitor employment and wage growth outcomes for economically disadvantaged workers, except where required for use of federal funds.

Conditions of Employment

Conditions of employment policies were inadequate to protect low-income working families from the hardships of poverty while they work to lift themselves out of poverty. Several weaknesses in this policy area undercut the employment efforts of low-skill workers and their families:

- Michigan did not have a state Earned Income Tax Credit;
- The state minimum wage was no higher than the federal minimum wage;
- Too few workers were covered by the state unemployment insurance system;
- The state Medicaid program did not cover all working poor families that were without employer provided health insurance;
- Performance monitoring policies did not provide sufficient data for assessing how well programs served entry-level and low wage workers.

The 2003 report also assessed policy performance, using two sets of indicators. One set of indicators provided a measure of the impact of state policies on workforce level outcomes (such as labor force participation rates and percent of workers in low-wage jobs). Another set measured program level outcomes (such as percent of unemployed adults served by Michigan Works! agencies who receive training). Although some performance strengths were found, the overall conclusion for each policy area was that policy performance left much to be desired.

Updated Findings and Recommendations

Since the 2003 report was published, economic distress for working families in Michigan has increased substantially. Thousands of working families that were already enduring the hardships of poverty in 2003 are enduring even greater hardship. Thousands of working families that were only at risk of falling into poverty have now fallen. And just

above them, more working families have joined the at-risk cohort.

Michigan's policy approach to assisting low-income working families is changing and policy coordination is becoming integrated between state departments. While previous budget cuts weakened the power of state policies to help low-income families succeed in the workforce, policies are beginning to be put into place to respond to the hardships that Michigan's low-income families are facing.

As would be expected given the slow improvement in state policies, the state's policy performance until very recently had been deteriorating in many areas. Fewer working families were receiving the assistance they needed to weather the hardships brought on by bad economic times; fewer working men and women were obtaining the education and training they needed to obtain employment or move to better jobs, and fewer good jobs were being created.

Fundamentally, the state's policy approach to assisting low-income working families was too weak even in economic good times to substantially reduce poverty among working families. In the context of a recession followed by a slow recovery, state policy performance, while making progress, is not completely adequate to assist all the barriers families in Michigan are facing today.

However, a major administrative effort to rework state policy is underway. In 2003 the current administration conducted a comprehensive review of the state's workforce and economic development efforts with the goal of restructuring those policies to better meet the challenges of competition in a global economy. In 2004, a review of Michigan's welfare-to-work program, Work First, was undertaken to bring that program's policies and goals into better alignment with the skill requirements of employers and to improve employment retention and wage growth outcomes for participants. Very strong recommendations, several of which corresponded with recommendations in the 2003 Working for a Living in Michigan report, came out of those reviews.

In 2007, some of those recommendations are being implemented through a 21st Century Workforce Strategy that includes targeted approaches to workforce development. For example, efforts have been made to better coordinate efforts across departments and agencies and a pilot for a replacement to the Work First program, Jobs, Education, and Training (JET) has been authorized and is being implemented across the state. Further, legislation has been enacted that raised Michigan's minimum wage; a state Earned Income Tax Credit has also been enacted.

However, given the slow change in state policy since 2003, many of the recommendations offered in the 2003 report continue to be relevant. More policy coordination is needed, along with better measurement of policy performance. Employment opportunity policies must target more job development efforts to unemployed and low-wage workers. Policies that support wage levels and access to key employment and unemployment benefits must be strengthened.

Prospects for Improvement

While changes are being made to the state's workforce development system, the high rate of unemployment and underemployment in the state makes it challenging to reduce poverty among working families and to move more of those families to economic self-sufficiency. The slow recovery from the recession of 2001 is expected to continue in Michigan for at least another year. The loss of traditional manufacturing jobs, which paid good wages and provided benefits but did not necessarily require high skill levels, will also continue, leaving Michigan with a declining supply of wage growth opportunities for workers with limited occupational skills. Thus, the challenge of increasing wage growth and reducing poverty among low-income working families will continue to overwhelm state efforts, unless those efforts are significantly strengthened through continual policy design changes and increased investment.

More Economic Distress for Working Families

The first half of the current decade has not been good for working families in Michigan. The recession that began in 2001 hurt tens of thousands of working families, moving thousands into poverty or near-poverty circumstances and worsening the hardships of those already impoverished. At the same time, housing and health care costs continued to rise while assistance available to the state has been consistently cut by the federal government.

Unfortunately, the second half of the current decade is providing more distress for working families in Michigan. Thousands of working families have lost economic ground and hardship and financial distress have increased. Personal bankruptcies and home foreclosure rates are on the increase, the

unemployment rate is second in the nation (second to Mississippi), and the state's cash assistance and food assistance caseloads have continued to rise. Further, when a family with limited resources loses a job, even if one parent is still working, the ability of the family to maintain its standard of living is highly compromised.

In 2006, the poverty threshold for a family of three was **\$16,242**; a family of four was **\$20,444**.

Source: U.S. Census Bureau

The number of families engaged in work but still living below the federal poverty line that are engaged in work has increased from just over 72,000 to just above 88,000. While the number of families increased, the percent fell as fewer families in poverty are

working—from 46.1 percent to 42.9 percent. Another 196,000 working families are considered “near-poor,” with incomes between the poverty line and 200 percent of poverty. Although not in poverty by official standards, these families endure substantial economic hardship and insecurity. They routinely make difficult choices between rent payments, school supplies, medical care and other ordinary essentials. An illness or layoff can be economically devastating, with consequences ranging from a depletion of savings to greater reliance on charities and public assistance to bankruptcy, foreclosure, eviction and homelessness.

Several indicators provide more specific information about working families in poverty. More families are spending more than one third of their income on housing. This is up by nearly 15,000 families, to approximately 69,000 in 2005, as opposed to 54,000 families in the 2003 report. The number of self-employed working poor families nearly doubled, up to 10,709 (in 2004) from 5,793, suggesting that thousands of self-employed families that were not in poverty slipped into poverty and/or thousands of poor working families turned to self-employment to replace lost earnings.

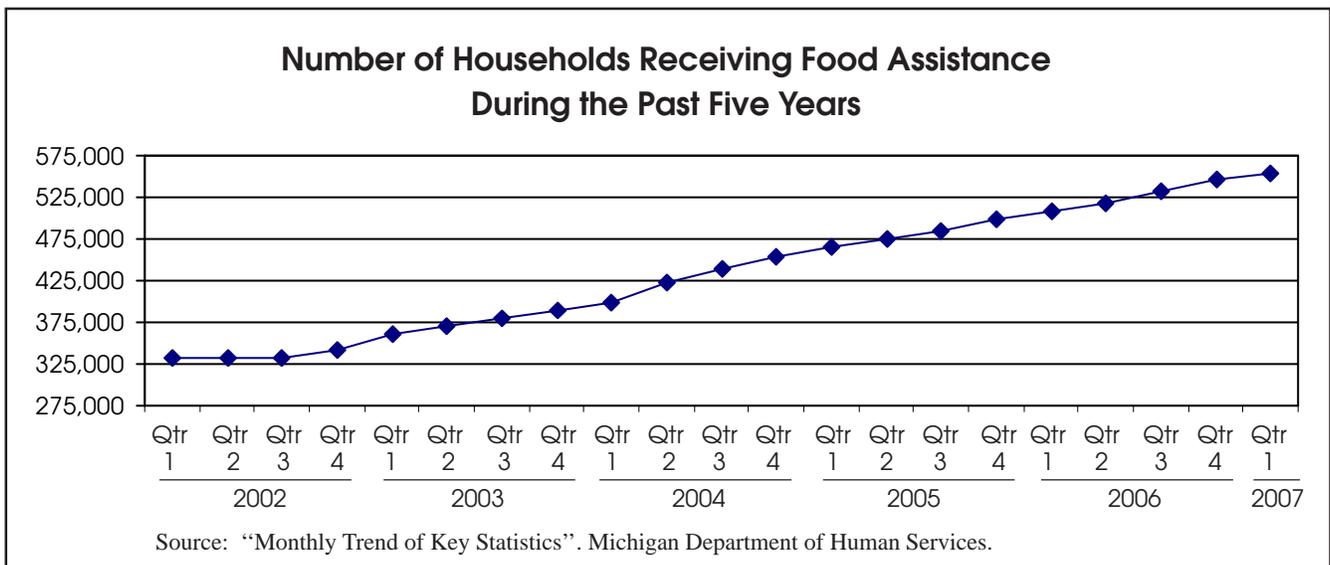
The number of working poor families with one or more parents without health insurance increased

slightly. This increase may be an indicator of the loss of jobs in Michigan that often provided employees with healthcare benefits. It could also be due to more families having a parent who is self-employed, or the rising cost of health care premiums, which may force families already in poverty, but who earn too much for Medicaid, to forego health insurance.

Education beyond high school did not protect working families from substantial income losses. The number of working families below poverty and with at least some schooling beyond high school increased from 29,000 to nearly 37,400. This increase may be a reflection of the large losses in manufacturing jobs that Michigan has suffered in recent years.

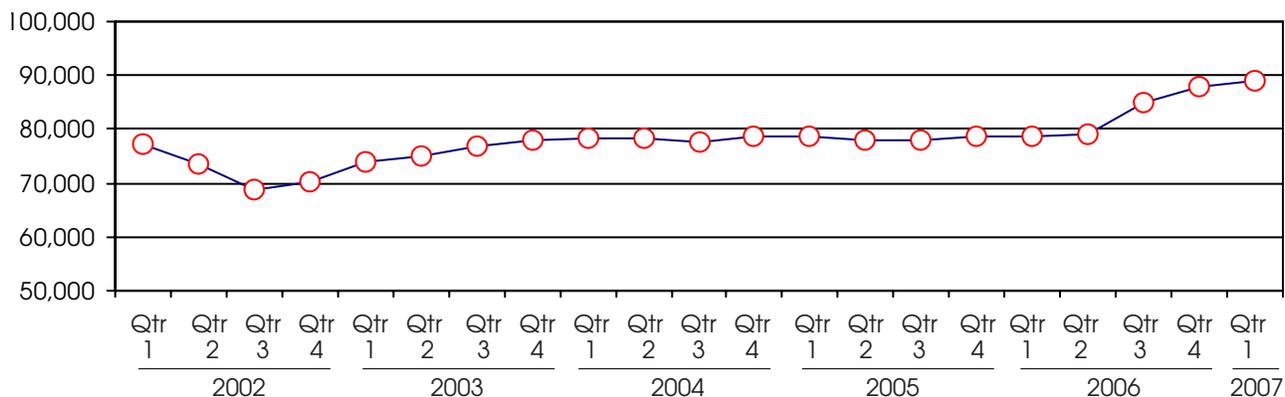
Other Indicators of Economic Distress

Measures of the difficult economic circumstances confronting low-income working families include increased caseloads for Michigan’s Food Assistance (formerly known as Food Stamps) and cash assistance programs.² The average number of households receiving Food Assistance each quarter has in-



² The Michigan Department of Human Services, formerly known as the Family Independence Agency, administers these programs.

Number of Families Receiving FIP During the Past Five Years



Source: "Monthly Trend of Key Statistics". Michigan Department of Human Services.

creased by 67 percent between the first quarter of 2002 and the first quarter of 2007, up from just over 330,000 to just over 553,000 cases. The cash assistance caseload, however, has increased only slightly, due to severe limitations on eligibility. Between 2002 and 2007, the cash assistance caseload increased from just under 80,000 to just under 90,000.

Income eligibility for the Food Assistance Program is set at 130 percent of the federal poverty level, so the rapid growth of the Food Assistance caseload is strong evidence that thousands of families who were not poor have slipped into poverty or near-poverty in recent years. It is also likely that some of the caseload growth came from already poor families who finally had to give up trying to make it on their own.

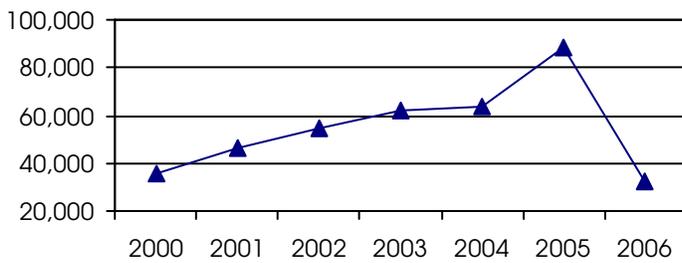
Income eligibility for cash assistance is not automatically adjusted for inflation each year, whereas Food Assistance eligibility adjusts annually for families of four or more. Until recently, state policy has held the income eligibility level for cash assistance constant at the 1994 level of \$774 per month. This policy has effectively required families

to be "poorer" each year in real dollars in order to qualify for cash assistance.³ However, in May, 2006 income eligibility for cash assistance changed to \$810 per month, due to the elimination of designated shelter areas that dictated payment levels.

This new eligibility level, however, is only 59 percent of the federal poverty level, meaning cash assistance is available only to those families in dire poverty. Given the restrictions placed on being able to obtain cash assistance, the fact that the caseload rose at all shows that thousands of families that were poor in 2001 have slipped much deeper into poverty. Data on employment among cash assistance recipients also points to large numbers of families slipping deeper into poverty. As of September 2006 the percent of cash assistance recipients who were required to work and had earnings from employment was 32.5 percent. This is down from a high of 75 percent of cash assistance families required to work and with income in October, 2000. This shift in families without earned income, while required to work, is another signal of the downturn Michigan's economy has faced and how it has pushed families already in poverty further into poverty.

³ In effect, a family with income of \$780 per month today would not be eligible for cash assistance, yet would be poorer in real terms than a family in 1994 with income of \$750 per month that would have been eligible.

Personal Bankruptcy Filings in Michigan



Source: American Bankruptcy Institute. Chart created by the Michigan League for Human Services.

There are other disturbing trends relevant to working families in Michigan. Filings for personal bankruptcy have been rising steadily as families have become overwhelmed by medical bills and other expenses that they can no longer pay. According to the American Bankruptcy Institute, in the fourth quarter of 2006 there were a total of 9,445 personal bankruptcy filings in the state of Michigan, a decrease of 19,447 filings during the same time period in 2005.

However, the number of bankruptcies for the fourth quarter of 2006 is lower than the fourth quarter numbers for all years from 2001-2005.

This decrease, however, should be viewed with caution as bankruptcy laws changed in the fall of 2005, making it harder for individuals to have their debts erased. This change could have been responsible for the increase in filings in 2005 and decrease in 2006, as many of the individuals and families that filed may have filed later, but did so sooner to avoid law changes. Michigan also had a total of 88,402 personal bankruptcy filings in 2005, which placed Michigan at seventh in the nation for total number of non-business filings. This is up from approximately 63,500 filings in 2004.

Foreclosure rates in Michigan also continue to rise to some of the highest rates in the nation. According to RealtyTrac, an organization that tracks foreclosure rates across the nation, Michigan now ranks third, behind Colorado and Nevada in the number of homes in a stage of foreclosure. Detroit, next to Greeley, Colorado rates second in the number of home foreclosures.

Disproportionate Impact on Minorities

As the level of economic distress in Michigan increases, it also has a disproportionate impact on minority families. Poverty among working families with at least one minority (Hispanic or nonwhite) parent is considerably higher than for all working families (13.9 percent versus 7.8 percent). Similarly, a larger proportion of minority working families are below 200 percent of poverty (37.3 percent versus 25 percent).

Minority Working Families in Poverty

Poverty Status	MINORITY		ALL FAMILIES	
	Number	Percent	Number	Percent
Below 100% poverty	37,230	12.9%	85,194	7.2%
Below 200% poverty	99,775	37.3%	299,336	25.4%

The unemployment rate for minority workers is also much higher. The City of Detroit, with a population that is nearly 90 percent nonwhite, and a labor force of 358,974 had an unemployment rate of 12.3 percent in April 2007 compared to 7.1 percent for Michigan as a whole. This is compared to the high for the city since January 2000, of 15.7 percent in July 2006, and a low of 6 percent in April 2000.⁴ Statewide, the unemployment rate for African-Americans was 15.7 percent in 2004, compared to a

⁴ Local Area Unemployment Statistics, Labor Market Information, Michigan Department of Labor and Economic Growth, <http://www.michlmi.org>

rate of 5.7 percent for whites.⁵ With more working nonwhite families in poverty and with higher rates of unemployment, nonwhite families are also overrepresented in public assistance programs. In

March of 2001, 55.8 percent of the cash assistance caseload was African-American. By March of 2005 the percent had increased to 57.2.⁶

Consequences of Economic Losses for Low-Income Working Families

Low-income parents and their children suffer the direct consequences of lost earnings. Physical and emotional health are damaged. Domestic violence increases. Marriages fail. Children perform more poorly at school. Families unable to earn adequate income through work must turn to public assistance and private charities. The damage to these families can be enormous and, in the most tragic situations, irreparable. While low-income families may bear the

direct the impact of their situation, the surrounding community is not left unharmed. Overall, the quality of life for everyone slips downward when working families cannot find and keep jobs that sustain them. The level of need for services and help with basic necessities increases, making the importance of a stronger safety net all the more apparent.

⁵ Labor Market Information for Affirmative Action Programs 2005, Bureau of Labor Market Information and Strategic Initiatives, Michigan Department of Labor and Economic Growth, <http://www.michlmi.org/LMI/reports/affirm2005.pdf>.

⁶ Information Packet, Budget and Policy Analysis Division, Michigan Department of Human Services, May 2005.

Table 1 : Family Economic Distress

Indicator	2003 REPORT		2007 UPDATE	
	Number	Percent	Number	Percent
1. Number and percent of families below 100% of poverty engaged in work (2001, 2003)	72,288	46.1	88,330	42.9
2. Number and percent of working families in poverty	72,288	6.1	88,330	7.8
3. Number and percent of working families with at least one minority parent that are in poverty	29,403	11.5	37,230	13.9
4. Number and percent of working families with income less than 200% of poverty	285,644	24	284,500	25.0
5. Number and percent of working families below 100% of poverty that spend more than 1/3 of income on housing	54,489	79.1	69,330	80.9
6. Number and percent of working families below 100% of poverty with at least one resident parent who does not have a high school diploma or equivalent	17,746	24.5	24,960	28.3
7. Number and percent of working families below 100% of poverty with at least one resident parent who has some post-secondary education (education beyond high school)	29,088	40.2	37,470	42.4
8. Percent of working poor families self-employed relative to other self-employed (2001, 2004)	5,793	7.5	10,709	12.6
9. Number and Percent of working families in poverty with at least one parent between the ages of 25 and 54	63,141	87.3	74,755	84.6
10. Number and Percent of working families below 100% of poverty with at least one parent without health insurance, 1999-2001	24,837	33.1	30,106	35.4

Source: 2005 American Community Survey and Current Population Survey
Table prepared by Michigan League for Human Services

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