

# State Notes

## TOPICS OF LEGISLATIVE INTEREST

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### Drivers of Caseload Change in the Family Independence Program By David Fosdick, Fiscal Analyst

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#### Introduction

In December 2008, the Michigan Legislature approved Executive Order (EO) 2008-21. The EO reduced State GF/GP expenditures in fiscal year (FY) 2008-09 by \$145.8 million, and \$23.3 million of the savings realized in the EO came from base adjustments in the Family Independence Program (FIP). These adjustments in the EO recognize a trend of caseload decline in FIP that has been evident since April 2007. This caseload decline is difficult to understand as most measures of economic health in the State of Michigan have significantly worsened. This article will examine changes in the FIP caseload since 2000, with a discussion of issues that have been driving FIP caseload declines in recent years.

#### FIP Summary and Recent Caseload History

The Family Independence Program is the primary cash assistance program administered through the State of Michigan. Individuals meeting financial criteria (low income and asset levels) and nonfinancial factors (e.g., family size and composition, employment status, and child support status) are eligible for cash grants. The program is primarily funded through Federal Temporary Assistance for Needy Families (TANF) and State General Fund/General Purpose (GF/GP) funds.

Table 1 provides a summary of the average quarterly caseload in FIP since FY 2000-01. The table shows slow but steady growth in program caseload between FY 2000-01 and FY 2005-06, a sudden spike in caseload at the end of FY 2005-06 and the beginning of FY 2006-07, and then a dramatic decrease in cases from the midpoint of FY 2006-07 through FY 2007-08.

**Table 1**

Average Quarterly FIP Caseload - FY 2000-01 through FY 2007-08						
Quarter	Caseload	% Change	Quarter	Caseload	% Change	
Oct to Dec 2000	67,376	---	Oct to Dec 2004	78,514	1.2%	
Jan to Mar 2001	69,279	2.8%	Jan to Mar 2005	78,784	0.3	
Apr to Jun 2001	70,056	1.1	Apr to Jun 2005	78,050	(0.9)	
Jul to Sep 2001	71,459	2.0	Jul to Sep 2005	77,836	(0.3)	
Oct to Dec 2001	74,349	4.0	Oct to Dec 2005	78,740	1.2	
Jan to Mar 2002	76,935	3.5	Jan to Mar 2006	78,735	0.0	
Apr to Jun 2002	73,525	(4.4)	Apr to Jun 2006	79,204	0.6	
Jul to Sep 2002	68,825	(6.4)	Jul to Sep 2006	84,760	7.0	
Oct to Dec 2002	70,379	2.3	Oct to Dec 2006	88,042	3.9	
Jan to Mar 2003	73,936	5.1	Jan to Mar 2007	88,854	0.9	
Apr to Jun 2003	75,072	1.5	Apr to Jun 2007	85,520	(3.8)	
Jul to Sep 2003	76,955	2.5	Jul to Sep 2007	79,140	(7.5)	
Oct to Dec 2003	77,822	1.1	Oct to Dec 2007	75,803	(4.2)	
Jan to Mar 2004	78,226	0.5	Jan to Mar 2008	73,739	(2.7)	
Apr to Jun 2004	78,214	0.0	Apr to Jun 2008	71,854	(2.6)	
Jul to Sep 2004	77,612	(0.8)	Jul to Sep 2008	68,876	(4.1)	

**Source:** Department of Human Services



## **Factors Affecting FIP Caseload Change**

### Social Welfare Act Changes in FY 2005-06 and FY 2006-07

The first factor in recent FIP caseload activity that has to be understood is the dramatic increase in the FIP caseload observed between the fourth quarter of FY 2005-06 and the third quarter of FY 2006-07. The caseload, fairly steady for some time at 77,000 to 79,000 cases, ended up growing to nearly 90,000 cases within a six-month period.

This increase was directly tied to changes in FIP policy accomplished through a statutory change. In December 2005 the Legislature approved Public Act 323 of 2005; the legislation modified a requirement in the Social Welfare Act that an individual attend an orientation session conducted by the Department of Human Services (DHS) and the Department of Labor and Economic Growth before receiving FIP payments, by permitting recipients to attend the orientation session after eligibility was determined. When the legislation was enacted in December 2005, the FIP caseload was 79,138; by March 2007, the caseload had reached 89,333.

Partially in response to this increase in cases, the Legislature passed Public Act 9 of 2007 in May 2007. The legislation modified the Social Welfare Act to require individuals to participate in work-related activities after an initial determination that an applicant may be eligible for FIP benefits. As a result of this statutory change, the FIP caseload was back to 78,719 cases by August 2007.

### Continued Caseload Decline in FY 2007-08

It is appropriate to assume that caseload declines observed in FY 2006-07 are directly tied to the statutory changes discussed above; the caseload continued to decline at a significant rate throughout FY 2007-08.

The reasons for the continued reduction in the FIP caseload over the past fiscal year are more difficult to determine. The economy in Michigan has continued to grow weaker; this was evidenced by growth in measures of unemployment and declines in wages in Michigan. The economic weakness in Michigan likely accounts for observed caseload growth in Medicaid and the Food Assistance Program (FAP), programs targeted to similar populations of Michigan residents.

Table 2 provides a comparison of changes in seasonably adjusted unemployment, Medicaid caseload, Food Assistance caseload, and FIP caseload. The table further demonstrates that changes in FIP are seemingly not tied to economic conditions in the State at this time or the need for State-administered assistance programs.

In FY 2007-08, the FIP caseload declined 9.6%, an average monthly decline of over 1.0%, while Medicaid caseload increased by 3.2% FAP caseload increased by 7.8%, and unemployment grew from 387,000 individuals to nearly 430,000 individuals. This strongly suggests that noneconomic factors account for the decline in the FIP caseload in FY 2007-08.

Several factors appear to be related to this caseload change. The factors include modification of Department policy related to referrals of FIP applicants to Work First, more aggressive use of sanctions within FIP, demographic changes in the State, and passage of an increased minimum wage.



**Table 2**

<b>Family Independence Program (FIP) and Food Assistance Program (FAP) Caseloads FY 2007-08</b>							
<b>Month</b>	<b>FIP Cases</b>	<b>FIP % Change</b>	<b>Medicaid Cases</b>	<b>Medicaid % Change</b>	<b>FAP</b>	<b>FAP % Change</b>	<b>Unemployed</b>
Oct. 07	77,391	---	1,511,221	---	570,276	---	387,000
Nov. 07	75,351	(2.6%)	1,520,217	0.6%	572,769	0.4%	370,000
Dec. 07	74,666	(0.9)	1,516,627	(0.2)	575,711	0.5	372,000
Jan. 08	73,985	(0.9)	1,523,071	0.4	580,679	0.9	353,000
Feb. 08	73,851	(0.2)	1,529,518	0.4	586,024	0.9	358,000
Mar. 08	73,381	(0.6)	1,536,049	0.4	590,615	0.8	360,000
Apr. 08	72,257	(1.5)	1,534,049	(0.2)	594,381	0.6	346,000
May 08	72,147	(0.2)	1,549,983	1.0	599,089	0.8	428,000
Jun. 08	71,157	(1.4)	1,548,931	(0.1)	602,323	0.5	423,000
Jul. 08	69,587	(2.2)	1,554,446	0.4	604,863	0.4	419,000
Aug. 08	69,097	(0.7)	1,558,466	0.3	609,614	0.8	439,000
Sep. 08	69,943	(1.7)	1,559,063	0.0	614,955	0.9	429,000
<b>Average</b>	<b>72,568</b>	<b>(1.2%)</b>	<b>1,536,803</b>	<b>0.3</b>	<b>591,778</b>	<b>0.7%</b>	<b>390,333</b>

**Source:** Department of Human Services, Department of Community Health, Bureau of Labor Statistics, U.S. Department of Labor.

### Work First Referral

The statutory adjustments affecting the timing of referrals to Work First, discussed above, appear to have influenced caseload change in FY 2007-08. Table 3 provides data describing the number of applications for FIP, the number of FIP cases opened and the percentage of successful applications for each fiscal year of this decade.

**Table 3**

<b>Family Independence Program (FIP) Application Information FY 2000-01 to FY 2007-08</b>			
<b>Fiscal Year</b>	<b>Total Applications</b>	<b>Total FIP Openings</b>	<b>Percentage Apps/Opened</b>
FY 2000-01	184,148	74,890	40.7%
FY 2001-02	187,820	73,444	39.1%
FY 2002-03	189,724	74,446	39.2%
FY 2003-04	191,463	74,623	39.0%
FY 2004-05	188,024	72,286	38.4%
FY 2005-06	188,064	80,597	42.9%
FY 2006-07	185,538	79,560	42.9%
FY 2007-08	184,427	63,993	34.7%

**Source:** Department of Human Services

Compared with prior years, there was a decline in the number of applications received for FIP in FY 2007-08. This decline may be viewed as significant when one considers that the economy in Michigan continued to weaken during this time period.



Perhaps the more interesting element in Table 3 is the number of applications opened in FIP in FY 2007-08. Before the statutory changes that made opening a FIP case easier, as discussed above, about 40.0% of FIP applications were successfully opened. In FY 2005-06 and FY 2006-07, with the passage of more permissive language related to Work First referral, the percentage of opened cases grew to about 43.0%. In FY 2007-08, less than 35.0% of applications were successfully opened.

This decline in opened cases appears to be related to the enactment of new requirements mandating participation in Work First before enrollment in FIP. The relationship between passage of Public Act 9 of 2007, which mandated this change, and caseload changes is pretty clear. The legislation was enacted in May 2007; between October 2006 and May 2007, 48.2% of FIP applications were opened, but during the four months after passage of the amendment (June through September 2007) the percentage of opened FIP applications dropped to 33.8%.

### Changes in Sanction Policy

Major changes in the Social Welfare Act signed into law by Governor Granholm in December 2006 included a modification in sanctions applied to FIP recipients who are not complying with program rules. Recipients could be sanctioned for losing their job through misconduct or absenteeism, quitting a job, or not complying with Work First or their self sufficiency plan. The new sanction policy mandates that recipients be removed from FIP for 90 days for their first instance of noncompliance, 90 days for their second instance, and 12 months for a third violation.

More aggressive use of sanctions has led to a reduction in program caseload. The DHS has noted that about half of sanctioned individuals do not return to the program. Data on the number and percentage of FIP recipients removed because of sanctions show a steady increase since the policy was implemented in April 2007.

Table 4 compares the number of FIP case closures between FY 2005-06 and the first half of FY 2006-07 before implementation of the new sanction policy, with case closures due to sanctions under the new policy observed during the second half of FY 2006-07 and in FY 2007-08. Measures of the percentage of total closures that now come from sanctions and the percentage of current program caseload that is closed through sanctions are also provided.

**Table 4**  
**Sanction Closure FY 2005-06 to FY 2007-08**

Fiscal Year	Average Monthly Closures	Average Monthly Sanction Closures	Sanction Closures as a:	
			Percent of Closures	Percent of Caseload
FY 2005-06	5,973	706	11.8%	0.9%
FY 2006-07	6,887	1,588	23.0%	1.9%
<i>Oct 06- Mar 07</i>	<i>7,044</i>	<i>1,265</i>	<i>18.0%</i>	<i>1.4%</i>
<i>Apr 07- Sep 07</i>	<i>6,826</i>	<i>1,910</i>	<i>28.4%</i>	<i>2.3%</i>
FY 2007-08	6,374	1,720	27.0%	2.5%

**Source:** Department of Human Services

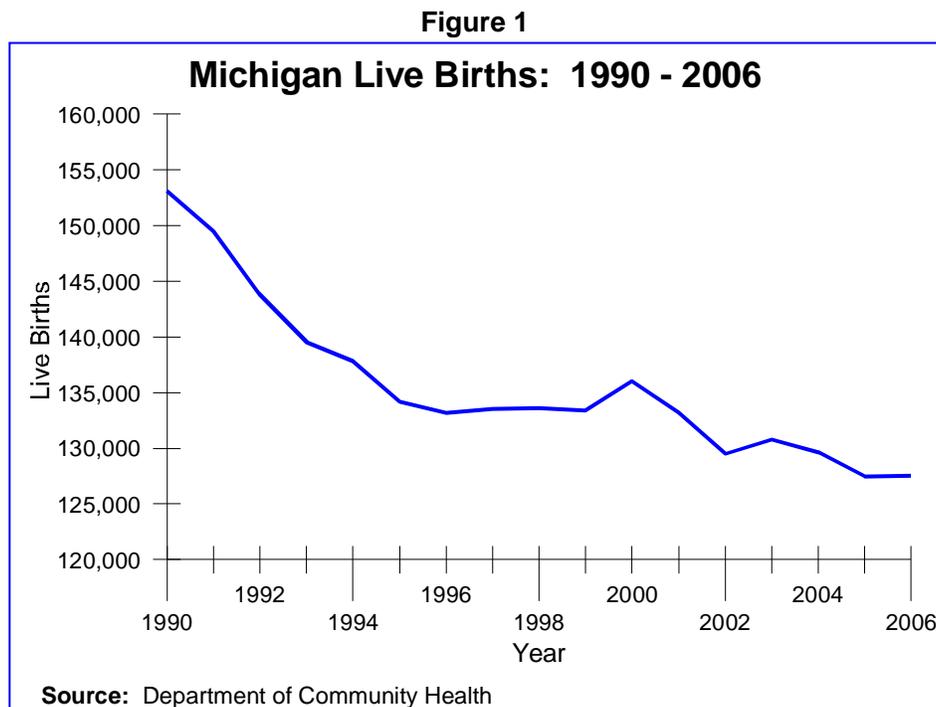
Removals from FIP because of sanctions jumped up from between 600 and 750 per month during FY 2005-06 to between 1,600 and over 2,000 per month in FY 2007-08. This sanction rate is especially interesting because it held fairly steady on a month-to-month basis even as caseload



declined from about 77,000 cases at the beginning of FY 2007-08 to below 70,000 cases by the end of the fiscal year.

### Demographic Change

The DHS has noted that there is a relationship between the births in the State of Michigan and caseloads in programs like FIP. Births have been declining in Michigan at a fairly consistent rate since 1990 (as demonstrated in Figure 1).



This decline in births (down nearly 20% since 1990) affects the FIP caseload in two ways. First, the cohort of families with older children eligible for the program declines each year as children age out of the program. There may very well be fewer eligible families with children under the age of 18 this year than in prior years because of changes in births. The declining number of Michigan births also reduces the number of FIP-eligible families with young children.

Additionally, population loss in the State may lead to a small impact on the number of overall families eligible for FIP benefits. This could have a small effect on the program as well.

### The Passage of Minimum Wage Legislation

The passage of new minimum wage legislation may have had a marginal impact upon FIP caseloads. While the program disregards a portion of earned income (the first \$200 and then 20.0% of earned income for each month), a significant number of FIP recipients earn income. In 2006, nearly 20.0% of FIP recipients had some level of earned income.



Increases in the minimum wage passed in 2006 would have led to increased income for some low-wage families and may have made them ineligible for FIP benefits. A minimum wage worker working 30 hours a week brought home about \$618 per month (pre-tax) before the increase in 2006 and now would make \$888 (pre-tax) per month under the current minimum wage. This may have led to a marginal reduction in the number of working individuals who are financially eligible for FIP benefits.

### **Conclusion**

While it is difficult to identify precisely the reasons for change in program caseload, it is clear that several factors have affected the number of Michigan residents collecting FIP benefits. Recently enacted legislation tightening program sanctions, modifying the process for referral to Work First, and increasing the State's minimum wage appear to have influenced the size and cost of the program at this time. It is not clear whether the declines in the FIP caseload that have been observed over the past few years will continue or whether the economic difficulty Michigan currently faces will lead to an increase in the number of individuals who successfully access cash assistance.