Making a Living?

The State of Working Minnesota
Labor Day 2000

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The Minnesota Budget Project, an initiative of the Minnesota Council of Nonprofits, provides independent research, analysis, and outreach on state budget and tax policy issues, emphasizing their effect on low- and moderate-income persons and the organizations that serve them.

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Executive Summary

Minnesota workers have realized many improvements in their standard of living during the 1990s, including wage and family income increases and a strong decline in unemployment. However, these general measures hide the fact that inequality is increasing, that increased incomes are largely due to more hours worked, and that basic costs — particularly housing — are out of reach for ordinary workers.

Low Unemployment Rate Disguises Disparities

Although Minnesota's unemployment rate has dropped to 2.8%, unemployment is considerably higher in the northern regions of the state. The unemployment rate also disguises the fact that many workers have a relatively tenuous connection to the workforce. Nearly 19% of Minnesota workers work only part-time hours. The number of workers laid off also has not declined over time.

Wages Grow Unequally

Minnesota's low, median, and high wage workers all saw their wages increase during the 1990s. However, these wages did not grow at the same rate, and for many workers, increases in the 1990s made up for declines in the 1980s. Since 1979, the wages of low wage workers have grown 7.5%, median wages 8.6%, and high wages 13.3%. These uneven growth rates have led to greater wage inequality between workers.

Family Incomes Up, Because Families Work More

Minnesota's median family income grew faster in the 1990s than in any other state, reaching $67,140 for a family of four, an annual growth rate of 2.1% since 1989. However, national data show that increased family incomes have come at the expense of more hours worked. The average U.S. worker spent 1,898 hours on the job in 1998, nearly two weeks per year more than in 1989. The average two-parent family with children worked a total of 3,452 hours per year, nearly four weeks more than in 1989. This makes it increasingly difficult for workers to balance work and family responsibilities.

Income Inequality on the Rise

Income inequality has been increasing in Minnesota. The incomes of the poorest 20% of families did not grow since the late 1970s relative to inflation, while the incomes of the middle 20% of families grew 16.6%, and the incomes of the top 20% of families grew 42.6%. The prosperity of Minnesota's economy has not been equally shared.

Basic Costs Outpace Income Gains

Minnesota workers are finding that basic costs are rising faster than their incomes. Housing in particular has become out of reach for ordinary workers. Median home prices in the Twin Cities have increased 61% since 1995, and have grown even faster in other parts of the state. It is now nearly impossible for an average family to buy a home in the metro area.

Introduction

Thanks to the daily efforts of Minnesota's workers and a robust national economy, Minnesota is enjoying strong economic growth. However, this growth has been accompanied by an increase in inequality between low wage and high wage workers. How fast wages are growing, whether employer-based health insurance and pensions are available, the affordability of housing and child care, and how to balance work and family responsibilities all depend on where a worker is on the income scale, and to some extent, where a worker lives, a worker's race and gender, and whether a worker is represented by a union.

Although recent times have brought wage gains to all levels of the workforce, many workers worry that they are falling behind. In fact, workers are falling behind in three ways. First, low- and moderate-wage workers are losing ground compared to those who are better off. Second, workers are working significantly more hours than in the past, making it harder for them to balance work and family responsibilities. Finally, the cost of basic family needs — especially housing — is out of reach even for middle-income workers.

The intent of this report is to shed light on the economic realities experienced by Minnesota's workforce as we arrive at Labor Day 2000. To create this snapshot, this analysis goes beyond the statewide averages and separates the population into groups based on family income or wage levels. This allows us to identify which struggles are common to all workers, such as balancing family and work responsibilities, and those which fall more heavily on low- and moderate-income workers, like purchasing a home.

At Work in a Strong Economy

The Face of the Workforce

Minnesotans participate in the workforce to a remarkable degree, as demonstrated by the following facts:

- In 1999, 87% of Minnesotans age 16 to 64 were employed, compared to 76% of all Americans in the same age range.[1]
- Minnesota has the highest percentage of women participating in the workforce in the nation, and the Twin Cities ranks first among metro areas. 70.1% of women in Minnesota participated in the workforce in 1998, compared to a national average of just under 60%. The rate of participation was even higher in the Twin Cities, at 72.6%.[2]
- 9.8% of employed Minnesotans worked more than one job in 1999, compared to 5.6% of all U.S. workers. Minnesota ranked fifth in the nation in the percentage of the workforce holding more than one job.[3]

Given that most working-age Minnesotans are already employed, the state's tight labor market will only be eased if new workers are added to the population. These new workers are more likely to be immigrants (see box), especially since migration to Minnesota from other parts of the U.S. has slowed since the early 1990s.[4]

Minnesota's population, and therefore its workforce, is less diverse than the nation as a whole, although diversity is increasing. Between 1990 and 1998, the growth of Minnesota's communities of color significantly outpaced the state's overall population increase of 7.7%. The number of African Americans grew by 45.5%, Hispanics by 60.1%, Asians by 56.1%, and American Indians by 12.6%.[5] Although Minnesota's non-white populations made up only 8.4% of the state's population in 1998, estimates predict that people of color will constitute 17% of the state's total population by 2025.[6] Because communities of color in Minnesota have a younger age distribution,

Immigrants Contribute to an Increasingly Diverse Labor Force

Below are estimates of the size of certain immigrant populations in Minnesota:

Hispanics	**125,000**
Hmong	**60,000**
Other Southeast Asians	**20,000**
Somalis	**6,000**
Russians	**6,000**
West Africans	**2,500**
Other East African	**2,000**
Yugoslavians	**1,600**
Tibetans	**500**

Source: State Demographic Center, Estimates of immigrant populations in Minnesota, 1999.

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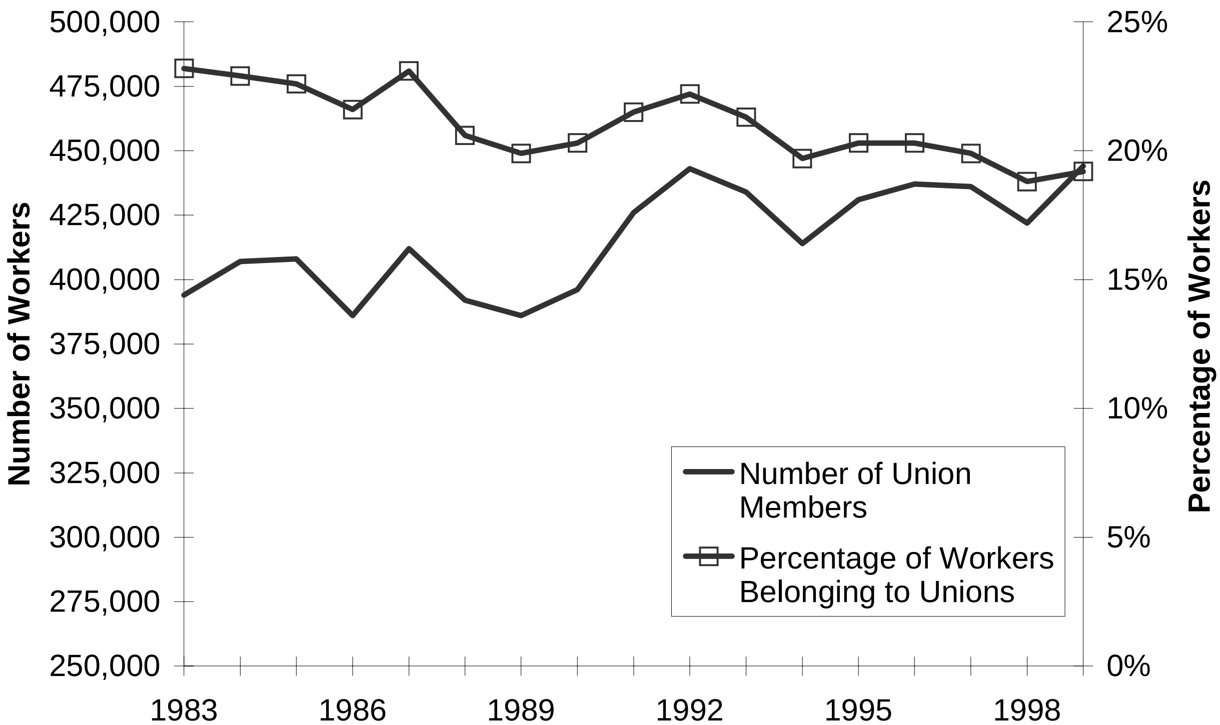
[1] State Demographic Center, *Employment To Population 16-64 Ratio*, 1999.
[2] Minnesota Legislative Commission on the Economic Status of Women analysis of Census and Bureau of Labor Statistics data. See Appendix 2 for a full definition of participation in the workforce.
[3] Economic Policy Institute (EPI) analysis of Current Population Survey data, cited in Lawrence Mishel, Jared Bernstein, and John Schmitt, *The State of Working America 2000-2001*, Economic Policy Institute, 2001.
[4] State Demographic Center, *Minnesota labor shortages are likely to continue*, May 1999.
[5] State Demographic Center, *Racial populations by age*.
[6] *Racial populations by age* and State Demographic Center, *Faces of the Future: Minnesota Population Projections 1995 – 2025*, 1998.

persons of color will make up an even larger proportion of the workforce.

Many Minnesota workers belong to labor unions. Minnesota ranks 10th in the nation in the percentage of the workforce who are union members. Despite several recent organizing victories and an increase in the actual number of workers organized, the percentage of workers who belong to unions has declined from 23.4% in 1983 to 19.2% in 1999.[7]

Graph 1: Number and Percentage of Union Members, Minnesota



Source: Bureau of Labor Statistics

Job Growth: A Service Sector Trend

Minnesota experienced 25.1% growth in non-farm payroll employment during the 1990s. While this is an improvement over the 18.1% growth seen in the 1980s, it is slower than the 30.7% growth experienced in the 1970s.

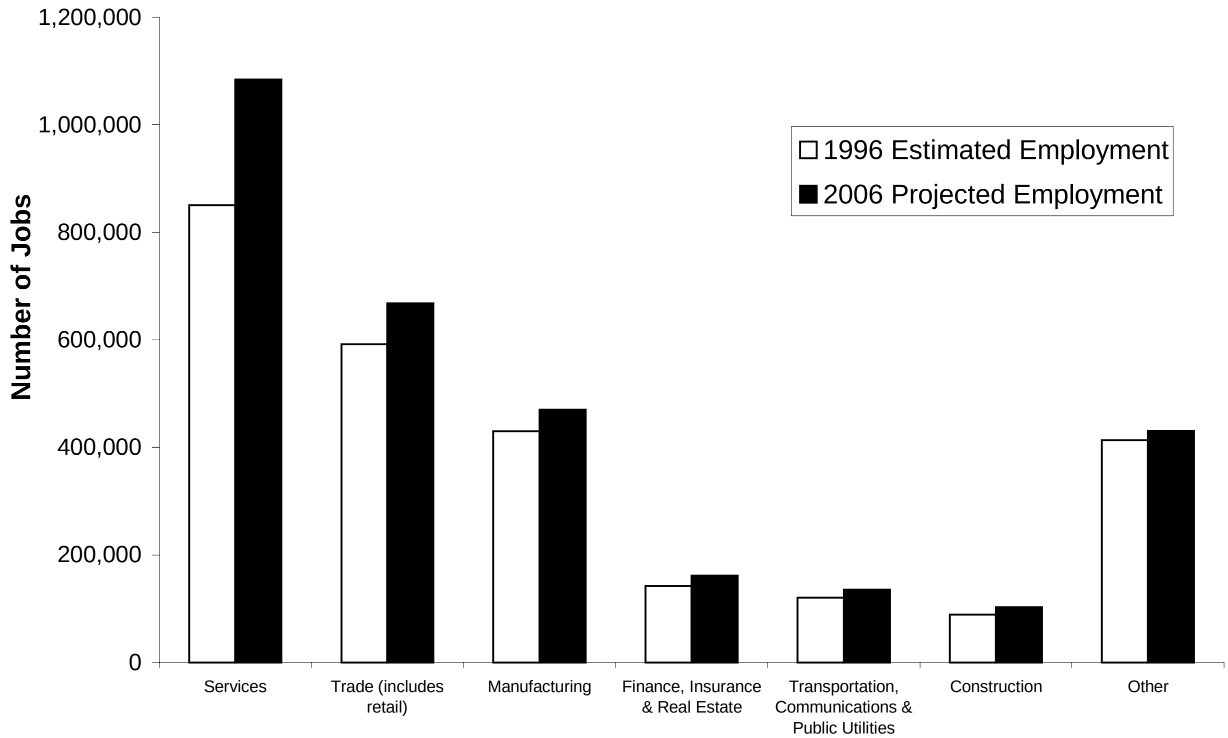
Job growth in the 1990s was affected by the national economy's long-term shift away from higher-paying manufacturing jobs and toward lower-paying jobs in service and retail occupations. In Minnesota, job growth has been particularly concentrated in the service sector, which includes business services, repair, entertainment and recreation, educational services, social services, health, and hospitals. In Minnesota, the number of jobs in the service sector increased 84% between 1982 and 1997 — by far the largest rate of job growth in any sector and nearly double the state's total job growth rate of 45.6%. The share of all jobs that were in the service sector grew from 22.3% to 28.2% over this time period. Construction and

[7] Bureau of Labor Statistics.

retail grew at about the same rate as jobs overall, but manufacturing jobs grew by only 25%, about half the rate of overall job growth. Further, manufacturing's share of total jobs fell from 20.3% to 17.5%.[8]

This trend is likely to continue. The Minnesota Department of Economic Security estimates that that service jobs will increase by 27.5% between 1996 and 2006 — compared to a total job growth of 15.8% — constituting 56% of all new jobs created and 35% of total employment. In comparison, manufacturing's share of total jobs is projected to fall from 16.3% to 15.4%.[9]

Graph 2: Employment Growth by Industry, Minnesota, 1996 - 2006



Source: Minnesota Department of Economic Security, *Minnesota Employment Outlook to 2006*.

When looking at the actual occupations adding the most jobs in Minnesota from 1996 to 2006, there is cause for concern. Among the 25 occupations adding the most jobs, eleven have median hourly wages under $10.00 an hour.[10]

Low Unemployment Rate Disguises Disparities

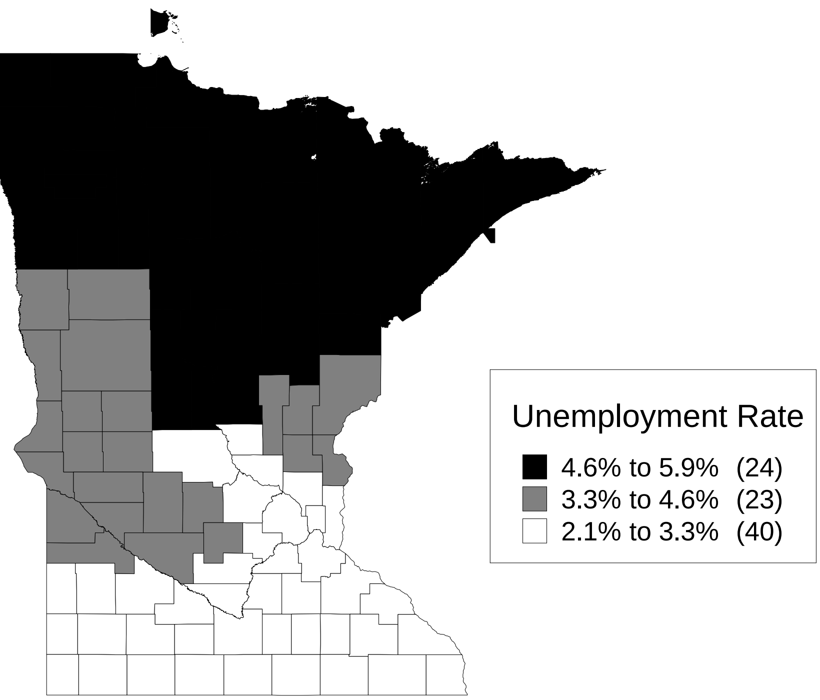
Minnesota's unemployment rate dropped significantly in the 1990s, reaching 2.8% in 1999. This is a significant decline from the state's 4.3% rate in 1989 and 4.2% in 1979.[11] This

[8] Center on Budget and Policy Priorities analysis of Bureau of Labor Statistics data, in Christina Smith FitzPatrick and Edward Lazere, *The Poverty Despite Work Handbook*, Center on Budget and Policy Priorities, 1999.
[9] Minnesota Department of Economic Security, *Minnesota Employment Outlook to 2006*, 2000.
[10] *Minnesota Employment Outlook to 2006*. This report measured median hourly wages for 1996.
[11] EPI analysis of Bureau of Labor Statistics data.

statewide rate, however, hides disparities among regions of the state and does not recognize that a number of Minnesota workers have a relatively tenuous connection to the workforce.

Although the state's unadjusted unemployment rate for 1999 was 2.8%, only the Twin Cities metro area and the regions around St. Cloud and Rochester had employment rates less than 3%. The northern regions of the state all had significantly higher unemployment rates.[12]

Map 1: Unemployment Rates by Economic Development Region, 1999



Source: Minnesota Department of Economic Security

The unemployment rate only includes persons actively seeking work. The **under**employment rate, on the other hand, counts those actively looking for work as well as persons who have given up looking for work or who are involuntarily working less than full-time.

In Minnesota, both unemployment and underemployment is more common among certain populations, especially among those with less education. In the late 1990s, the unemployment rate among women age 18 to 35 with a high school education was 4.3%, while the **under**employment rate was over two and half times greater. Likewise, for men aged 18 to 35 with less than a high school education, the underemployment rate was twice as high as the unemployment rate.

[12] Minnesota Department of Economic Security.

Table 1: Minnesota Unemployment and Underemployment Rates, By Gender and Educational Attainment, 1996-1999

	Women		Men	
Highest Education Level Achieved	**Unemployment**	**Under-employment**	**Unemployment**	**Under-employment**
Less than High School Education	N/A	21.4%	10.1%	20.2%
High School Education	4.3%	11%	6%	10.7%

Source: EPI analysis of Census Bureau data. Includes only persons age 18 to 35.

While statistically significant information is not available for Minnesota, national data show that both unemployment and underemployment rates are considerably higher for people of color compared to whites of similar ages and educational attainment.

Also masked by the low overall unemployment rate is the number of people working part-time. In the late 1990s, 19% of Minnesota workers worked part-time hours, the second highest rate in the nation. Among Minnesota workers, 28% of women and 10.5% of men work part-time hours. While some Minnesotans choose to work part-time, 2% of all workers are "involuntary" part-time workers who would rather work full-time hours.[13]

Statewide unemployment rates give a false measure of how firmly workers are connected to the labor force. Layoffs — whether due to outsourcing, downsizing, merger, relocation, or reorganization — remain a feature of the economy. There were 18,254 Minnesota workers laid off in 1998 and 21,769 in 1999. It does not appear that this trend is lessening, as 6,844 people were laid off during the first quarter of 2000, more than double the number laid off in the first quarter of 1999.[14] These statistics underestimate the true number of persons laid off, as official numbers only count "mass layoffs" of 50 or more workers.

Minnesota's Dislocated Worker Program retrains workers who have been, or are about to be, terminated from their jobs for reasons beyond their control and who have demonstrated a substantial attachment to the workforce. Minnesota is fortunate to have a state program that far exceeds federal requirements. In addition to workers laid off from plant closings and downsizings, the self-employed, displaced homemakers, and farmers may also be eligible to receive services. Three-quarters of those served in Minnesota move into jobs at about 90% of their previous wage; the national average has people recovering just 70% of their income in replacement jobs.

However, only approximately 15% of eligible Minnesota workers are served with the funds that are currently available. While that figure far exceeds the 5% of eligible workers served in

[13] EPI analysis.
[14] JOBS NOW Coalition analysis of Minnesota Department of Economic Security, *Rapid Response Reports*, and Minnesota Workforce Center, *Mass Layoff Statistics*, August 2000.

states that rely on the federal dislocated worker program alone, it is well below the need, even during good times.[15]

[15] Jim Korkki, Minnesota Department of Economic Security staff, *Evaluation of Minnesota's Dislocated Worker Program, Final Report*, Berkeley Planning Associates, 1997.

Wages Grow Unequally

Minnesota's median wage, which is the wage of a worker exactly in the middle of the wage scale, grew 8.6% from 1979 to 1999, reaching $13.45 an hour, or $27,976 for full-time, year-round work. The median wage has not followed a path of steady increase. The median wage dropped 3.7% in the 1980s, then rose 12.8% in the 1990s.[16]

This pattern of wages dropping in the 1980s and then increasing in the 1990s does not hold for all workers, as is shown by comparing Minnesota's median wage to low and high wages.[17]

- Minnesota's low wage dropped 5.3% in the 1980s, then grew 13.6% in the 1990s to $8.44, or $17,555 for full-time, year-round work. The total growth from 1979 to 1999 was 7.5%.
- High wages grew in both the 1980s and 1990s. Minnesota's high wage rose 4.6% in the 1980s and 8.4% in the 1990s, reaching $21.75 in 1999, or $45,240 for full-time, year-round work. The total growth from 1979 to 1999 was 13.3%.

Graph 3: Wage Growth in Minnesota, 1979 - 1999

Source: EPI analysis of Current Population Survey data. All dollar figures are adjusted for inflation.

The percentage of workers earning poverty level wages in Minnesota follows the rise and fall of low wages. In 1979, 21.9% of workers earned poverty level wages, increasing to 26.2% in 1989, then dropping to 18.7% in 1999. It is disturbing that in a time of strong economic growth and a tight labor market, nearly one out of five Minnesota workers earns poverty level wages.[18]

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[16] EPI and Minnesota Budget Project analysis of Current Population Survey data.
[17] In this analysis, a low wage worker earns a lower hourly wage than 80% of all workers and a high wage worker makes a higher hourly wage than 80% of all workers.
[18] Poverty level wages are those that on a full-time, year-round basis are insufficient to raise a family of four to the poverty line. In 1999, poverty level wages were those below $8.19 an hour. EPI analysis of Current Population Survey data.

Although specific information for Minnesota is unavailable, nationally poverty level work is more common among communities of color and among women. In 1999, 26.8% of all American workers earned poverty level wages, but 33.4% of women, 35.6% of African American workers, and 45.1% of Hispanic workers earned poverty level wages.[19]

Clearly the wage structure of Minnesota's economy is changing. Since 1979, the distances between high, median, and low wages have increased. Some argue that increased wage gaps are not harmful, as individual workers can move from low to high wages in the course of their working lives. However, the degree of income mobility in the U.S. economy is often overstated. Although the data on *wage* mobility is unclear, there is information available on *income* mobility. Even though individuals may increase their family income without increasing their wages — for example, by working more hours or by getting married — there is still not a large degree of income mobility, and thus the degree of wage mobility is likely even less. Between 1969 and 1994, 41% of individuals in the bottom 20% of family income remained in this income group 25 years later. Only 24.9% managed to step up into the second 20%, and a mere 5.8% had moved into the top 20%.[20]

The Gender Gap

Not only is there a gap between workers of different wages, but there is also one between women and men. In 1998, the median earnings of full-time working women in the U.S. were only 73.2% of the median earnings of full-time working men.[21] Although this wage gap has decreased since the 1970s, the reason has more to do with a decline in men's wages than increases for women.[22]

The size of the earnings gap varies depending on a woman's education and age. The gap is smallest when comparing women and men with less than a 9th grade education (76.2%) or a doctorate degree (75.4%). It is the largest for women with professional degrees — they make only 61.2% of the earnings of their male counterparts. When age is the variable, younger is better. Women between the ages of 25 and 34 earn 81.7% of their male counterparts' earnings, whereas women age 55 to 64 earn only 64.3%.[23]

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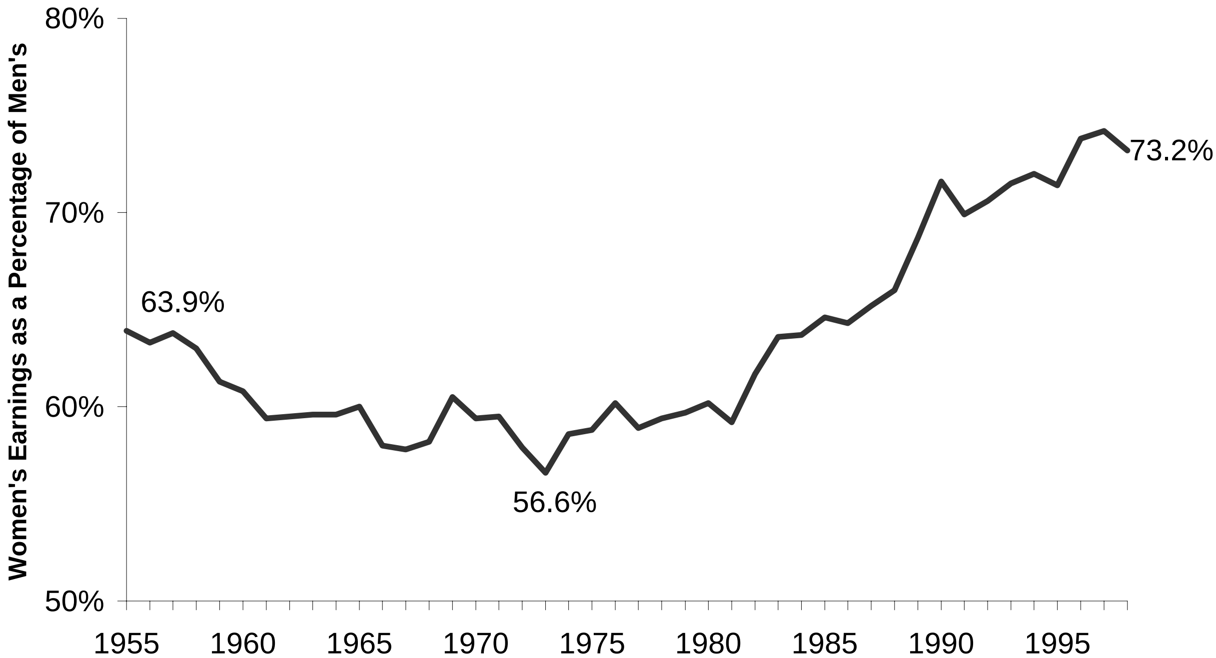
[19] EPI analysis.
[20] Unpublished data by Peter Gottschalk, cited in *The State of Working America*.
[21] Minnesota Legislative Commission on the Economic Status of Women analysis of U.S. Census Bureau data.
[22] *The State of Working America*.
[23] Minnesota Legislative Commission on the Economic Status of Women analysis of U.S. Census Bureau data.

Graph 4: Median Earnings of Full-time Women as a Percentage of Men's, U.S.



Source: Legislative Commission on the Economic Status of Women analysis of U.S. Census Bureau data.

The Union Factor: Higher Wages, Less Discrimination

The presence of unions positively influences wage rates and lessens wage inequalities among workers. Comparing full-time workers in the same industry, occupation, sector (public or private), region, and establishment size, union workers' total compensation, both wages and benefits, was 27.8% higher than that of non-union workers in 1997.[24]

One way to measure the benefits of being represented by a union is by measuring the ***wage premium***. The wage premium is how much more a union member makes compared to those with similar experience, education, and marital status and working in the same region, industry, and occupation. Controlling for these factors, Economic Policy Institute found that union workers made 15% per hour more than their non-union counterparts. For people of color, the premium is much higher: African American men in unions made 17% more than their non-union counterparts and Hispanic men made 21% more.

[24] EPI analysis of data from Bureau of Labor Statistics and Brooks Pierce, "Compensation Inequality," U.S. Department of Labor, 1998.

Family Incomes Grow Because Families Are Working Harder

From the broadest viewpoint, Minnesota's workforce is doing well. The state's median income (assuming a family of four) reached $67,140 in 1998, an annual increase of 2.1% during the 1990s. This same measure increased only 0.4% annually between 1979 and 1989.[25]

Although reliable figures are not available for Minnesota, national data show that the average income of African American families grew 1.1% annually from 1989 to 1998, more than double the rate for the average white family. Hispanic families saw their average incomes fall 0.4% per year over the 1990s, although their incomes grew much faster than whites' from 1995 to 1998.[26]

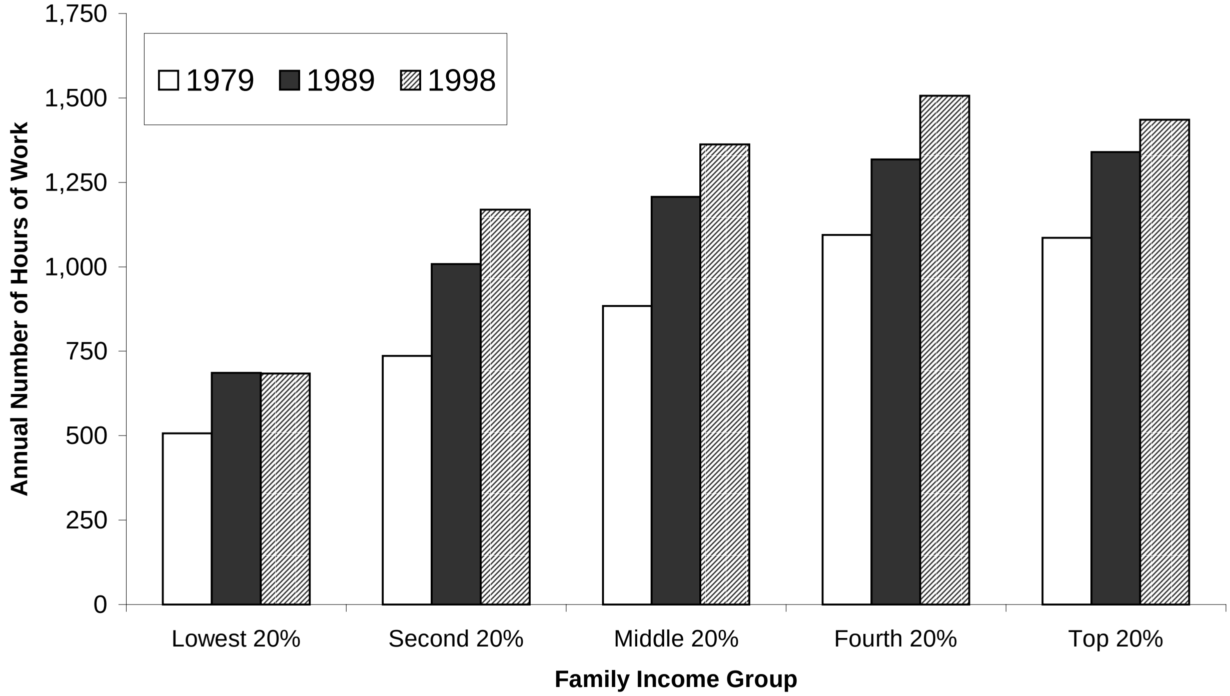
Family Income Gains: The Result of More Hours Worked

Increases in family income during the 1990s have been largely the consequence of workers putting in more hours, not wage increases. The average American worker spent 1,898 hours on the job in 1998 — nearly two weeks more per year than in 1989.

The average two-parent family with children worked nearly four more weeks per year than in 1989. For these families, income gains are largely the result of women working more, as shown below in Graph 5. Women in these families increased their work hours an average of 42% from 1979 to 1998, while the men in these families increased their average work hours only 4%.[27]

[25] EPI analysis of Census Bureau data. See Appendix 2 for definitions of median, family, and family income.
[26] EPI analysis.
[27] EPI analysis of Current Population Survey data.

Graph 5: Annual Hours of Work, Women in Married-Couple Families with Children, U.S.



Source: EPI analysis of Current Population Survey data. Includes families in which the head of household is age 25 to 54.

National data also indicate a difference in hours worked between racial groups of the same income level. Among married-couple families with children in the middle 20% of the income range, white families worked 3,789 hours per year, while African American families worked 4,278 hours per year and Hispanic families worked 4,050 hours per year. Because they must work more hours for the same amount of income, clearly minority workers are receiving lower wages than their white counterparts.

Farm Incomes Remain Low

Some of the trends seen among wage and salary workers — such as an increased number of work hours — are present also among farmers. Farmers face additional problems stemming from the unique features of the agricultural economy.

In 1998, average farm income in Minnesota was $15,754.[28] As low as this number is, it was up 32% from the previous year. Granted, this is an average of 70,000 farms that are different in many important ways. The general story, however, is beyond dispute: the income of working farmers in Minnesota is low and dependent on massive government subsidies.

[28] Farm income is the net income for the farm from farm work, including government subsidies. It excludes income not from farming and income earned off the farm. Minnesota Agricultural Statistics Office, *1999 Minnesota Agricultural Statistics*.

The income of farmers depends both on the value of what they sell and the production costs they face. The prices Minnesota farmers receive for their products have been at near-record lows in many cases during the last few years. Hogs and soybeans are two examples often cited, but many other important commodities, including milk, are heading in the same direction. At the same time, production costs are driven up by seed and chemical companies and absentee landlords.

There are many consequences that spring from the chronic problem of low farm income. For the farmer, it means farming more acres or tending more livestock. In addition, more farmers are also working off the farm. In 1997, a majority of Minnesota farmers worked off the farm, and 40% of Minnesota farmers did not list farming as their principal occupation for census purposes that year. The off-farm employment rate among farm spouses is also high and growing, in part to add needed income but also to obtain health insurance. The inevitable result of the strain is a continuing trend of fewer and fewer farmers. There were 73,367 Minnesota farmers in 1997, down from 85,079 ten years earlier.[29]

Growing Income Inequality

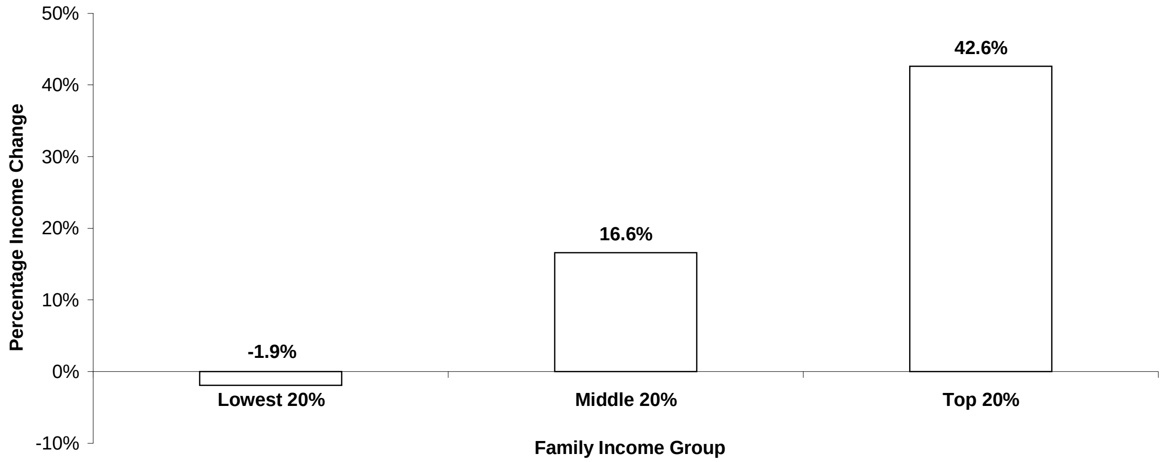
In Minnesota, the richest 20% of families have reaped the greatest benefits from the economy. From the late 1970s to the late 1990s, the incomes of the poorest 20% of families stagnated while the wealthiest 20% experienced rapid income growth. Families in the middle 20% experienced income growth, but not as dramatically as did the top 20%.[30]

- The average incomes of the poorest 20% of Minnesota families showed no growth since the late 1970s — making a statistically insignificant drop from $16,781 to $16,464.
- The average income of the middle 20% of Minnesota families increased 16.6%, growing from $46,843 to $54,634.
- The average income of the richest 20% of Minnesota families increased 42.6%, from $101,638 to $144,919.

In the late 1970s, the wealthiest 20% of Minnesota families had average incomes 6.1 times greater than the lowest 20%; by the end of the 1990s, that income had become 8.8 times as large. A similar though less dramatic gap separates the richest 20% of families and the middle 20%. In the late 1970s, the average family income in the top 20% was 2.2 times as large as the average family income in the middle 20%. By 1996-1998, upper income families had incomes 2.7 times the income of families in the middle.

[29] National Agricultural Statistics Service, *Census of Agriculture*, 1997.
[30] All data in this section comes from Jared Bernstein, Elizabeth McNichol, Lawrence Mishel, and Zahradnik, *Pulling Apart: A State-by-State Analysis of Income Trends*, Center on Budget and Policy Priorities and the Economic Policy Institute, 2000. Dollar amounts are adjusted for inflation and reflect the value of a dollar in 1997.

Graph 6: Income Growth, Minnesota, 1978 - 1980 to 1996 - 1998



Source: EPI and Center on Budget and Policy Priorities analysis of Census data

Also revealing is the share of total income held by different income groups. From the late 1970s to late 1990s, Minnesota families in the top 20% have experienced a significant increase in their share of total family income while both the middle and bottom groups saw their shares decrease.

Table 2: Shares of Income by Family Income Group

	Share of income held by lowest 20%		Share of income held by middle 20%		Share of income held by top 20%	
	1978 – 1980	1996 – 1998	1978 – 1980	1996 – 1998	1978 – 1980	1996 – 1998
Minnesota	8.4%	5.7%	18.3%	17.6%	35.7%	41.3%
Total U.S.	6.5%	4.9%	18.1%	16.2%	38.4%	45.4%

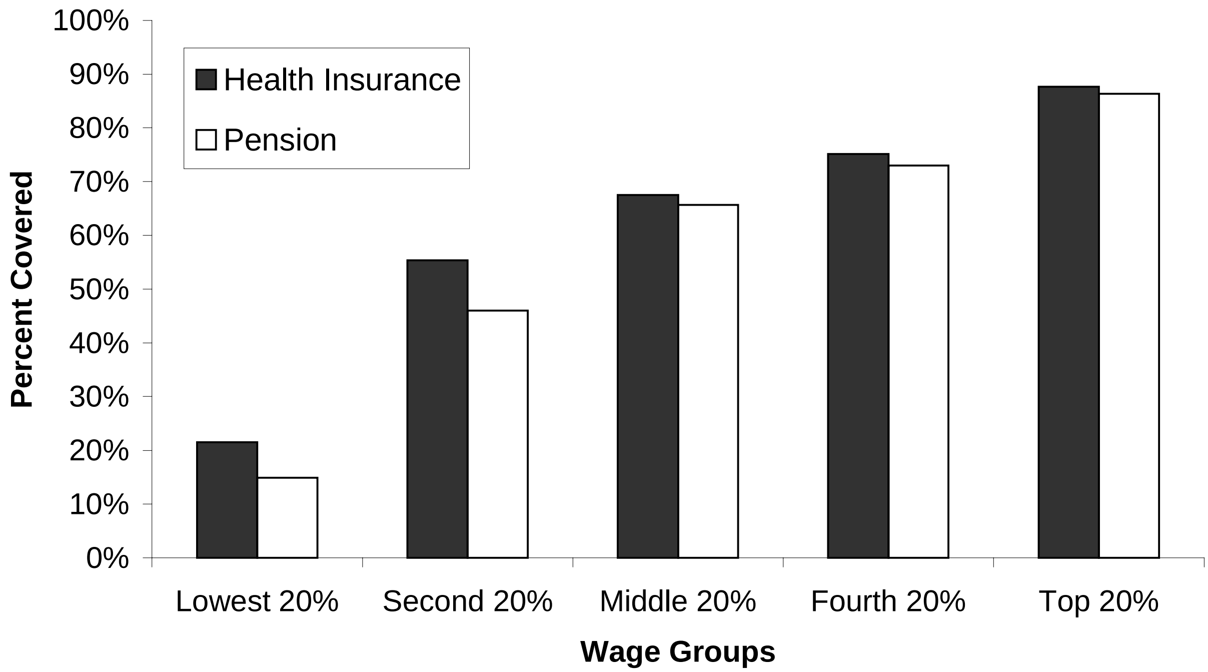
Source: EPI and Center on Budget and Policy Priorities analysis of Census data

Inequality in Benefits

Whether or not a Minnesota worker receives employer-based health insurance or pension benefits depends largely on where that worker is on the income scale. Among private sector workers who worked at least 20 hours per week, 61.7% had health insurance and 57.4% had pension benefits provided by their employer in the late 1990s. Only 21.5% of low wage workers, however, had employer-based health insurance, compared to 87.7% of high wage workers.[31] Pension benefits follow a similar pattern. It is also true that women and those with lower educational attainment are less likely to have coverage.[32]

[31] In this analysis, a low wage worker earns a lower hourly wage than 80% of all workers and a high wage worker makes a higher hourly wage than 80% of all workers.
[32] EPI analysis.

Graph 7: Employer-based Health Insurance and Pension Benefits, Minnesota, 1996-1998



Source: EPI analysis of Census Bureau data. Includes workers age 18 to 64.

Union members are more likely to have employer-provided benefits than are their non-union counterparts. Comparing full-time workers in the same the industry, occupation, sector (public or private), region, and establishment size, Economic Policy Institute found that union workers were 16% more likely to have health insurance and 27% more likely to have pension benefits. In addition, employers' investments in these benefits were higher than for non-union workers. Compared to their non-union counterparts, union workers' health insurance was worth 44% more and their employers' contributions to pensions were 16% higher.[33]

In general, health care coverage increases as wages increase, a consequence of the fact that high wage employees are more likely to work at a company that offers health insurance and are better able to afford the cost of health care premiums. However, some people are left behind — in the late-1990s, 10% of Minnesotans were uninsured.[34]

Not all employees at businesses offering health insurance are eligible to enroll, as employers may have a waiting period or may require that employees work a certain number of hours per week to be eligible. In Minnesota, only 83% of employees in businesses offering health insurance are eligible to enroll.[35] Those least likely to be eligible are nonstandard workers — only 5% of employers offer health insurance to temporary or seasonal employees. About 88%

[33] EPI analysis of data from Bureau of Labor Statistics and Brooks Pierce, "Compensation Inequality," U.S. Department of Labor, 1998.
[34] U.S. Census Bureau, *Health Insurance Coverage: 1998 – State Uninsured Rates*.
[35] All data in this section is from Minnesota Department of Health, *Employer-Based Health Insurance in Minnesota*, 2000.

of eligible employees actually enroll in employer-based health insurance, although only 74% of eligible employees in low-wage establishments enroll, most likely because of the cost.[36]

On average, employers pay a substantial portion of their employees' health care premiums. In 1997, Minnesota employers paid approximately 82% of premiums for single coverage and 70% for family coverage. The remainder paid by the employee averaged $28 per month for single coverage and $124 per month for family coverage. Since 1997, premiums have been rising rapidly. It is unclear whether employers will react by reducing health care coverage, or if the tight labor market will make them reluctant to reduce benefits for fear of losing valuable employees.

[36] A low-wage establishment is one where the majority of workers make less than $7.00 per hour.

Basic Costs Outpace Income Gains

While data on family income and wages are revealing, they are meaningless unless compared to the cost of necessary goods and services. The Minimum Family Budget prepared by the JOBS NOW Coalition measures the income required to maintain a "no frills" standard of living. According to this standard, the Minimum Family Budget for a two-parent family of four was $38,540 in 1997. In 1996-1997, 35.8% of Minnesota's workers made less than $9.27 an hour, the wage needed to cover this minimum family budget with two parents working full-time.[37]

The typical American family accumulated little increase in wealth in the 1990s and took on added debt despite income and wage gains. This should not be surprising since less than half of U.S. households own stock of any type, including mutual funds and 401(k) plans. Households in the middle 20% of the wealth distribution realized only 2.8% of total stock market gains between 1989 and 1998. During the same years, however, they were responsible for 38.8% of the overall rise in household debt. About 14% of middle-income households have debt-service obligations equaling over 40% of their income.[38]

The most important asset for most families is their home. Across Minnesota, the price of a home is increasingly out of reach for even middle-income families. From January 1995 to July 2000, the median price of a home in the Twin Cities rose 61%.[39] Graph 8 shows the amount an average family in each income group can afford to pay for a home and compares that figure to the median home price in the Twin Cities. The rapid increase in prices has made purchasing a home nearly impossible for the average family in the first, second, *and* third income groups.

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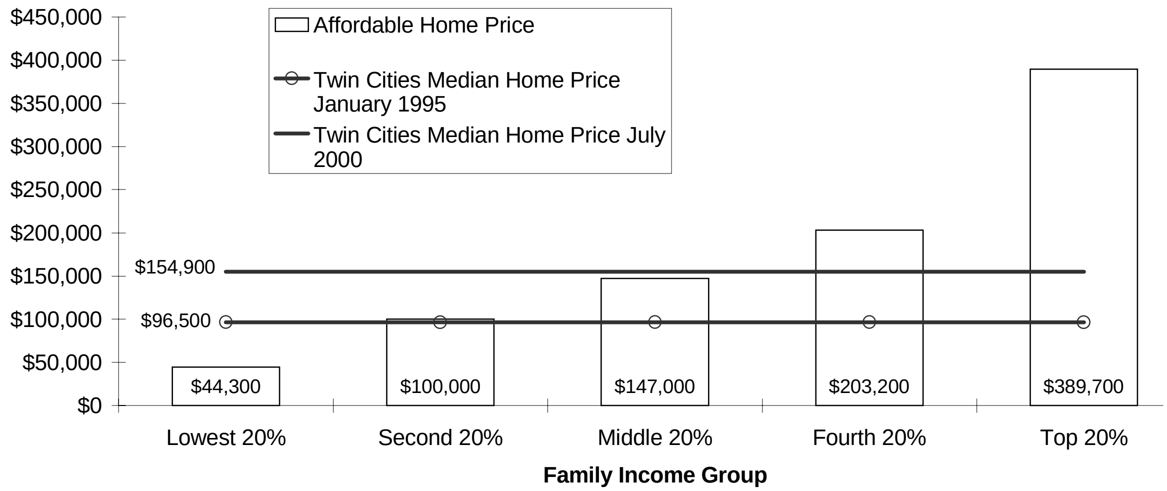
[37] Bruce Steuernagel and Kevin Ristau, *The Cost of Living in Minnesota*, JOBS NOW Coalition, 1999. The Minimum Family Budget assumes the family receives no government assistance or child support, but does receive the Earned Income Credit and Minnesota Working Family Credit to which they are entitled

[38] A family's debt-service obligation is the total of minimum payments on outstanding debt. *The State of Working America*.

[39] Minnesota Budget Project calculation from home prices reported in Neal Gendler, "Home sale prices hit record high," *Star Tribune*, June 13, 2000, and Neal Gendler, "Home-sale market slows, but median price sets new record," *Star Tribune*, August 18, 2000.

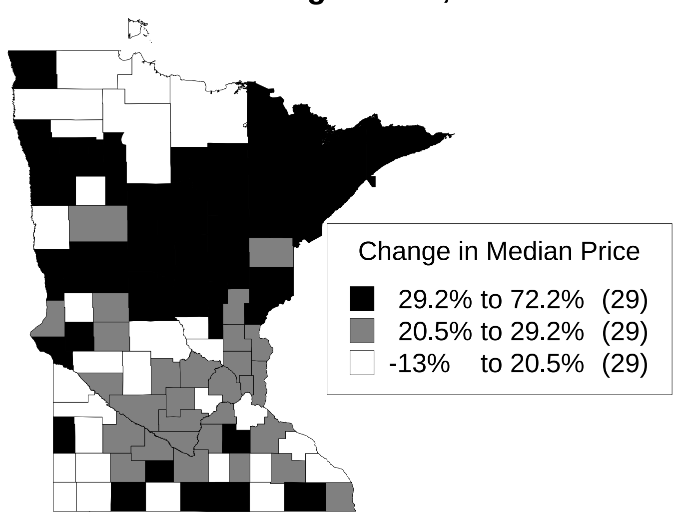
Graph 8: Affordable Home Costs and Median Twin Cities Home Prices



Source: Affordable home calculations by the Family Housing Fund, based on a formula recommended by the Minnesota Housing Finance Agency using the following financing assumptions: 3% down, 8.14% interest fixed over 30 years, annual taxes and insurance estimated at 2.5% of home price, house payments do not exceed 30% of income. Home price data reported in *Star Tribune*.

Rising housing costs are not simply a Twin Cities problem. The median sale price of existing homes in Cook County increased 169% from the mid-1980s to late 1990s; Hubbard County's median sale price grew 152%. Cook, Crow Wing, Cass, and Douglas counties are now among the state's top 25 counties for median housing price. Also showing strong increases are counties along the southern border and in western Minnesota. In the mid- to late-1990s, Kittson County saw a 72% increase, Lincoln County 66%, and Faribault County 50%.[40]

Map 2: Change in Median Sale Price of Existing Homes, 1995-1996 to 1998-1999

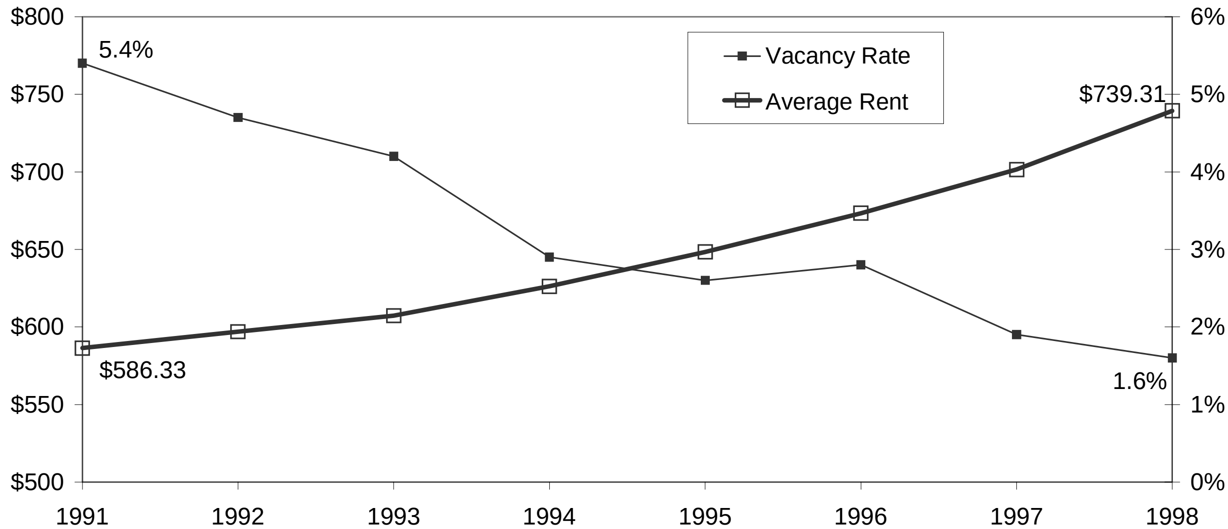


Source: State Demographic Center.

[40] State Demographic Center, *Housing prices are rising rapidly in Minnesota*, June 2000.

Renters also feel the housing pinch. During 1999, average rents in the Twin Cities increased nearly 11%. In the same year, metro area vacancy rates dropped to 1.7% — well below the 5% level that is considered healthy.[41] In the spring of 2000, average monthly rent for a two-bedroom apartment in the Twin Cities hit $822, an unaffordable amount for families earning less than $32,880 per year, or $15.81 an hour for full-time, year-round work.[42] With low vacancy rates compounding the problem, even those families who could afford an apartment have a very difficult time locating one.

Graph 9: Average Rent and Vacancy Rates, 2-bedroom Apartments, Twin Cities



Source: Apartment Search PROFILES. This graph shows rent and vacancy figures for March.

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[41] Neal Gendler and Jim Buchta, "Rental prices rise as vacancies fall to just over 1.7 percent by year's end," *Star Tribune*, January 22, 2000.
[42] Minnesota Budget Project calculation of earnings using the U.S. Department of Housing and Urban Development's definition of affordable housing as housing that consumes no more than 30% of family income. The average monthly rent figure is from Apartment Search PROFILES.

Balancing Work and Family: The Struggle Intensifies

During the last two decades, families have managed to maintain their incomes by increasing the number of hours that they worked. This added income is valuable but it has come at a high price: working parents are finding it increasingly difficult to balance work and family responsibilities.

Child Care Challenges

Child care costs can take up a considerable portion of family income. In Hennepin County, a family with one school-age child and one preschooler pays an average of $204 *per week* for family-based child care, and $285 for a child care center.[43] The table below shows what portion of total income an average family in each income group would have to pay for such child care.

Table 3: Average Child Care Costs as a Percentage of Income, Hennepin County Family with One Preschool and One School-Age Child, 2000

	Family Child Care as percentage of income	**Center Care as percentage of income**
Lowest 20%	60%	83%
Second 20%	27%	37%
Middle 20%	18%	25%
Fourth 20%	13%	18%
Top 20%	7%	9%

Source: Minnesota Budget Project analysis of Department of Children, Families, and Learning data

Clearly, child care costs can make it impossible for some families to afford other basic needs. For this reason, the state of Minnesota and some employers help workers cover their child care costs. There are three programs that directly compensate child care providers for serving low- and moderate-income families: Minnesota Family Investment Program (MFIP) Child Care, Transition Year Child Care, and the Basic Sliding Fee (BSF) program. MFIP and Transition Year Child Care cover current welfare recipients and those in their first year off MFIP, and Basic Sliding Fee covers families with incomes below 75% of the state's median income.[44]

Families receiving child care assistance from any of these three programs are required to pay a copayment that increases with family income; for example, the copayment for a family of three ranges from $5 to $705 per month per family. The structure of the copayment schedule means that eligible families with larger incomes not only pay larger copayments in terms of dollar amounts, but also that copayments take up a larger percentage of family income. The amount

[43] Minnesota Department of Children, Families & Learning.
[44] Currently, a family of three would be eligible for BSF until their income reached $42,304 and a family of four up to $50,362. (Minnesota Department of Children, Families & Learning, *CFL Issues State Fiscal Year 2001 Copayment Schedules and Announces Calendar Year 2001 Child Care Allocations*, 2000.)

of copayment rises very rapidly for incomes above approximately $25,000 for a family of three, leaving families increasingly responsible for the bulk of their child care costs.

Not all families eligible for direct child care assistance actually receive help. As of June 30, 2000, there were 1,373 families on waiting lists for Basic Sliding Fee (BSF) child care assistance.[45] The actual number of eligible families not being helped is probably much higher.

Some employers participate in a federal program that allows employees to put wages into a pre-tax account for child care purposes. Both the employer and employee save the social security tax on the portion of income put into the account, and the employee will save the state and federal income taxes on that income as well. Because upper-income employees pay a larger share of every dollar earned in income tax, they save more on each dollar set aside. In 1996, among Minnesota families with child care costs, slightly over half of those with incomes over $75,000 used pretax accounts, but only 20% of those with incomes between $30,000 and $50,000 took advantage of these accounts.[46]

Parental Leave

Another challenge to working parents is the issue of parental leave.[47] Federal law requires employers with 50 or more employees to provide up to twelve weeks of unpaid leave to parents of newborn or newly adopted children who have worked for them at least one year and worked a minimum of 1,250 hours per year (a little over part-time).[48] Minnesota law requires employers of 21 or more workers to provide six weeks of unpaid leave for employees who have worked at least half-time for one year. The Minnesota Department of Economic Security (DES) estimates that 48% of firms with full-time employees fall under the state law, while only 45% fall under the federal law.

Employers are not obligated to pay employees on leave, although many employers allow their employees to apply accrued sick or vacation time, and some employees are covered by temporary disability insurance.

Children's Defense Fund of Minnesota (CDF-MN) conducted a statewide survey of 185 employers in the fall of 1999. In that survey, only 4% of employers reported that they offered paid leave specifically to new parents. At all companies where a collective bargaining agreement defined parental leave policies, employees received some form of parental leave, including paid leave, use of sick time, and/or temporary disability insurance coverage.

Few new parents take off more time than the law requires their employers to offer. The results of the CDF-MN survey described in the table show that most mothers who took leave (88%) took twelve weeks or less and over half of fathers who took leave took less than one week.

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[45] Minnesota Department of Children, Families & Learning.

[46] Paul Wilson, *Tax Implications of Welfare Reform: The Minnesota Experience*, paper presented at NTA Spring Symposium, 2000.

[47] This section from Children's Defense Fund of Minnesota, *Parental Leave in Minnesota: A Survey of Employers*, 2000.

[48] Federal law also allows family leave for illness, state law for school-related events.

The amount of time parents take most likely relates to their employers' practices: DES found that only 15% of employers offer more than the required leave length to mothers and 8% offer more than the required length to fathers.

Table 4: New Parents' Leave Lengths Among Those Taking Leave, Minnesota

	Less than one week	1 to 6 weeks	7 to 12 weeks	More than 12 weeks
Amount of Leave Taken by Women	0%	25%	63%	12%
Amount of Leave Taken by Men	56%	41%	3%	0%

Source: Children's Defense Fund of Minnesota

A national study found that employees with lower incomes, less education, or who are paid hourly are less likely to be able to replace their wages while on leave. Employees without sufficient benefits end up using a variety of methods to compensate for lost wages while on leave. According to the Commission on Leave, they cut their leaves short, dip into savings, borrow money, and limit extras. One-fifth of low wage workers go onto public assistance.

Table 5: Rates of Paid and Unpaid Leave Among Those Taking Leave, U.S., 1995

	Fully Paid	Partially Paid	Unpaid
Annual Family Income			
Less than $20,000	27.8%	22.8%	49.4%
$20,000 - $30,000	43.5%	17.6%	38.9%
$30,000 - $50,000	53.1%	22.1%	24.8%
$50,000 - $75,000	58.1%	18.3%	23.6%
$75,000 or more	64.1%	15.1%	20.8%
Union	56.5%	25.2%	18.3%
Non-union	44.6%	18.3%	37.1%

Source: Commission on Leave. Note that Paid leave includes using vacation or sick time.

A Comparison to Other States

Minnesota consistently measures above the national average on income, employment, wage, and poverty indicators. In recent years, Minnesota has seen significant improvement and has moved up in the rankings.[49]

Wages[50]

- Wages of low wage workers: 4th highest
- Median wages: 6th highest (tie with Massachusetts)
- Wages of high wage workers: 9th highest
- Percentage of workers earning poverty level wages: 3rd lowest

Employment

- Unemployment rate: Lowest (3-way tie with Nebraska and South Dakota)
- Employment growth rate, 1989 to 1999: 17th highest
- Percentage of women in the workforce: 1st highest
- Percentage of workers with more than one job: 5th highest

Family Income

- 1998 median income of four person families: 5th highest
- Growth rate in median income, 1989 to 1998: 1st highest

Income Inequality

- Ratio of incomes between top 20% and bottom 20% of families: 35th lowest
- Ratio of incomes between top 20% and middle 20% of families: 39th lowest
- Change in ratio between top 20% and bottom 20%, late 1970s to late 1990s: 20th largest
- Change in ratio between top 20% and middle 20%, late 1970s to late 1990s: 28th largest

[49] Rankings are compared to the other 49 states and the District of Columbia.
[50] In this analysis, a low wage worker earns a lower hourly wage than 80% of all workers and a high wage worker makes a higher hourly wage than 80% of all workers.

Conclusion

Continued low unemployment has brought about significant improvements in the labor market, including higher wages and employment opportunities for those with looser ties to the workforce.

However, this report demonstrates that statewide figures are not representative of the experiences of all workers. We must look closer to see what variations are hidden behind the trends and averages. Although it is reasonable to expect some workers to fare better than others in any society, extreme disparities are neither inevitable nor desirable. We also must recognize that the current good times cannot last forever, and we must think of what the consequences will be for those only recently attached to the workforce and for the large number of families whose budgets are stretched to the limit.

Minnesota has a high standard of living not only because of entrepreneurship and hard work, but also because of our traditions of working together and making commitments to meet our social needs. Employers, workers, and government all have a role to play in ensuring that disparities in wealth do not become too great and create divisions in our society. This report has described just a few of the ways that Minnesotans work together to improve their own conditions and those of others: unions use their bargaining power to provide better and more equal wages and benefits for workers, government provides assistance in meeting child care needs for those who otherwise would be unable to afford it, and employers help cover the cost of health insurance for many of their workers. Working together, we can ensure that all Minnesotans benefit from the strong economy and can be prepared for future downturns.

Appendix 1: Income Ranges in Minnesota

Income Ranges for Each Fifth of Minnesota Families: 1996-1998

	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Fifth 20%
Income Range	Less than $27,249	$27,250 - $45,499	$45,500 - $64,961	$64,962 - $89,699	$89,700 and over
Average Income	$16,464	$36,772	$54,634	$75,541	$144,919

Source: Economic Policy Institute and Center on Budget and Policy Priorities, analysis of Census Bureau data. All dollar figures are adjusted for inflation and reflect the value of the dollar in 1997.

Appendix 2: Glossary

Family income as defined by the Census Bureau includes unearned and earned income of all family members. Wages and salaries, income from farm employment, and income from self-employment are included in earned income. Cash income from public assistance, Social Security benefits, investment income, rental income, and retirement income are included in unearned income. This measurement of income does not take into account the value of in-kind benefits, such as food stamps, or the effect of taxes or tax credits.

Family is defined as two or more people living together and related by birth, marriage, or adoption.

High wage workers in this analysis make a higher hourly wage than 80% of all workers.

Low wage workers in this analysis earn a lower hourly wage than 80% of all workers.

Median means in the middle. The median family income is the income of a family in the middle of the income scale — half of families have higher incomes and half lower.

Participation in the workforce: The Bureau of Labor Statistics defines individuals as participating in the workforce if they 1) did at least 1 hour of work as a paid employee, 2) worked in their own business, profession, or on their own farm, or 3) worked 15 hours or more as unpaid workers in an enterprise operated by a member of the family. Persons are also considered participating in the workforce if they were not working but had jobs or businesses from which they were temporarily absent because of vacation, illness, bad weather, child care problems, parental leave, labor-management dispute, job training, or family or personal reasons.

Part-time work is defined by the Bureau of Labor Statistics as working less than 35 hours in a week (excluded are persons who normally work full-time but worked less than 35 hours in the reference week). Also excluded are persons who combine more than one job in order to work more than 35 hours a week.

Poverty level wages are those that on a full-time, year-round basis are insufficient to raise a family of four to the poverty line. In 1999, poverty level wages were those below $8.19 an hour.

Underemployment rate: The underemployment rate not only counts the unemployed (those actively seeking work), but also persons who have given up looking for work or who are involuntarily working less than full-time.