



# Economic Impact of Minnesota Diversified Industries

*Providing employment for people with disabilities since 1964*

**J U N E 2 0 1 6**

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# Summary

Minnesota Diversified Industries (MDI) provides employment to more than 280 people with disabilities in Minnesota. The economic benefits associated with MDI's initiative include:

- Average annual wages of \$12,033
- Total wages paid to employees with disabilities: \$2.5 million in 2015
- Total tax paid by employees to local and state governments (income, property, and sales taxes): \$325,981
- Estimated average future earnings per employee with disabilities over their work life totaling \$151 million
- Average public assistance received by employees with disabilities: \$10,080 (Includes: medical Assistance, Food Support, Section 8 Housing, and Energy Assistance – Estimates based on income level, not on actual receipts)
- \$45 million in direct impact on Minnesota's economy plus ripple effect of this spending
- Return to society of \$4.87 per every dollar invested in MDI

Other non-quantifiable benefits include:

- Increased productivity of caregivers from reduced number of work days
- Savings to taxpayers from reduced long-term public assistance costs, health care, emergency services, and law enforcement
- Savings from increased years of life
- Improved quality of life from higher and stable source of income and other indirect benefits
- Placement service provided at MDI helps people with disabilities not hired by MDI to find employment and create career development plans

# Introduction

Minnesota Diversified Industries (MDI) has provided employment to people with disabilities for more than 50 years. These workers have been able to become productive members of the community, reducing their dependency on economic support from taxpayers and their family. MDI employees with disabilities earn competitive wages and receive substantial benefits. MDI's activities also impact the local economy when its employees spend their salaries locally and pay taxes. For many of these individuals, MDI is their only chance of having a job. The contribution to the local economy derived from these jobs may have never occurred without MDI's existence. In addition, caregivers may realize gains in productivity from the time they don't spend attending to their family members with disabilities. Taxpayers not only gain additional taxes paid by employees, but also can save in future expenses related to public assistance, health care costs, and long-term caring that are reduced when individuals with disabilities are able to increase and maintain steady incomes.

*“All members of society have the responsibility, and therefore the inherit right, to live contributing and participating roles in society. People with mental or physical disabilities all need and deserve an opportunity to fully participate in the betterment of society”*

*—John DuRand*

In this report we summarize some of the economic benefits individuals with disabilities and the whole society accrue from MDI's existence. We focus the analysis on the personal benefits derived from earned salaries, as well as show some of the economic impacts on taxpayers. We use historic employees' records for demographic information and earned salaries, and combine it with Census data to produce estimates of future earnings and tax revenues. We also estimate savings to taxpayers from reduced public assistance and transfers that would have occurred if the individual did not have a job.

Finally, we report an estimate of the return to society from investing in MDI (ROI). That is, we compare the benefits to society (not the financial profits from regular business activity) to the costs associated with MDI's work with people with disabilities. The resulting ROI shows the dollars society obtains for every dollar invested in MDI.

# Benefits

## Earnings and tax revenues

Approximately 11 percent of Minnesota residents from age 18 through 65 have a disability. In a survey for the 2014 U.S. Census, 29 percent of disabled individuals in Minnesota reported having worked during the previous week.<sup>1</sup> MDI's employees are part of this fraction of individuals with disabilities who have jobs and are less dependent on government assistance and support from family and society.

Salaries and benefits received by MDI employees with disabilities are in line with the labor market for Minnesota's disabled population. MDI employees with disabilities earn an average of \$12,033 per year plus some benefits.<sup>1</sup> Furthermore, employees retain their jobs at MDI for relatively long periods. For example, the majority of MDI's employees retain their jobs between 2 and 6 years, some have tenures over 30 years. Given the low employment rate of people with disabilities, it is likely that many of these individuals would have not found and retained similar jobs in the local labor market.

MDI employees earn an average of \$9.51 per hour. There are about 30 full-time employees who earn an average salary of \$19,788 per year, while the majority of employees work less than 30 hours a week and earn an average salary of \$9,894 per year.

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### 1. Annual earnings per employee

<u>Hours worked per week</u>	<u>Employees</u>	<u>%</u>	<u>Annual earnings per employee</u>
40	30	14%	\$19,788
30-39	22	10%	\$16,820
< 30 (Average 20hrs/week)	158	75%	\$9,894

The total amount of salaries paid to employees per year is approximately \$2.5 million. About 13 percent of this amount goes to local and state taxes, which means that revenues paid by MDI employees with disabilities is approximately \$325,000 every year.

For MDI's employees who keep their jobs for long periods, the long-term earnings and associated tax revenues can range from approximately \$60,000 to \$542,000 per individual, depending on their age and number of hours worked per week.

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<sup>1</sup> According to the U.S. Census Bureau, 2010-2014 American Community Survey 5-Year estimates all employed Minnesotans with disabilities the average wage is \$11,900 per year.

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## 2. Lifetime earnings of MDI employees

Hours worked per week	Average lifetime earnings per employee	Range (by age)*	
40	\$248,286	\$118,208	\$542,067
30-39	\$211,043	\$100,477	\$460,757
< 30 (Average 20hrs/week)	\$124,143	\$59,104	\$271,034

\* Younger employees are expected to accumulate more earnings over their work life.

The average lifetime gross earnings of a MDI employee is \$151,000, with approximately \$19,000 going toward taxes.

## Public assistance

Most MDI employees with disabilities receive some form of public assistance. Approximately a third of the 210 MDI employees receive Medical Assistance, while 13 percent receive transportation vouchers, and 13 percent receive Supplemental Social Security.

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## 3. Public Assistance recipients

	Employees (Duplicated cases)	Percent
Medical Assistance	64	30%
Transportation	27	13%
Supplemental Security Income (SSI)	27	13%
Medicare	24	11%
Food Assistance	22	10%
Retirement, Survivors, and Disability Insurance (RSDI)	20	10%
Social Security Disability Insurance (SSDI)	17	8%
Energy Assistance	12	6%
Housing	9	4%
Cash Assistance	5	2%
Daycare	2	1%
N=210		100%



The total estimated value of public assistance received by MDI employees in 2015 was \$2589,002. This estimate accounts for the different levels of income of the employees and assumes most employees are single adults with no children.<sup>2</sup>

Medical Assistance is the largest segment of public assistance received by MDI employees, with approximately \$101,000 in payments to 64 individuals. The second largest amount is paid via Housing (Section 8), with approximately 53,500 paid to 9 individuals, followed by Food Assistance, with \$48,449 per year given to 22 employees.

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#### 4. Value of public assistance received

	Employees	Percent	Estimated assistance (dollars)
Medical Assistance	64	30%	\$101,376
Housing	9	4%	\$53,503
Food Assistance	22	10%	\$48,449
Medicare	24	11%	\$38,016
Daycare	2	1%	\$16,658
N=210		100%	\$258,002

The average amount of annual public assistance received by MDI employees is \$10,080, while the average amount of public assistance that an unemployed person (zero earnings) receives is approximately \$12,043<sup>3</sup>. The difference of almost \$2,000 per person represents a relative reduction of 16 percent in public assistance payments that can be associated with MDI employment.

#### Other economic benefits not included

This report does not include other indirect economic benefits of providing employment to individuals with disabilities. For instance, as individuals with disabilities become more economically independent and more autonomous with respect to their daily activities, their caregivers and families are less likely to lose work days or need to use paid or unpaid leave in order to provide care. These gains in productivity may be significant and increase as individuals grow older and require more attention.

In addition, some individuals with disabilities may not have families or friends to support them. Individuals with weak support systems may have a higher risk of relying on welfare

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<sup>2</sup> We estimate the approximated dollar value of five types of public assistance received by MDI employees using a model originally developed by the Minnesota Association of Taxpayers. The model is not public and we only have rights to use it but not to publish it.

<sup>3</sup> Based on the Minnesota Taxpayers Association.

and public support systems. Furthermore, they may be more likely to use emergency services (emergency rooms, ambulance, or law enforcement), which represent additional expenses to taxpayers. By MDI providing employment to these individuals, taxpayers indirectly benefit from the reduced risk and potential savings derived from a more stable income.

For those for whom MDI is their first formal employment, the economic benefits to them, taxpayers, and society will continue after their tenure at MDI. By gaining work experience, developing work-related skills, and enriching their resumes, MDI employees are better equipped to find other jobs after leaving MDI. Furthermore, at MDI, employees receive support services and may be connected to other services that enhance their support systems, improving their chances of overcoming future crises.

In some cases, improved access to health care and a safe environment could lead to longer life spans or reduced mortality. Although only a small fraction of MDI employees may avoid premature death due to their employment at MDI, the economic value of each additional year of life can be very high due to lost wages and productivity.

Moreover, MDI spending and payments to employees is associated with direct and indirect economic impacts on the local economy associated. The direct economic impact on the local economy is the amount MDI spends every year. This totaled \$37 million during 2015. Most of this spending was made locally in Minnesota, and thus it enhances the economy of the region. The indirect impact of this spending relates to the ripple effect that occurs when other businesses and individuals receive payments from MDI and then spend this money on other goods and services. This multiplicative effect implies that the initial spending of \$37 million will turn into a larger amount as it moves around the economy, as the demand for other goods and services increases and the local economic activity expands.

MDI also produces non-economic benefits associated with stable employment and enhanced support systems for people with disabilities that we can't quantify or value in economic terms. MDI employees are expected to have more contact with peers and other members of society, decreasing the risk of alienation. Also, a friendly and safe environment may be crucial for the development of these individuals. These benefits are difficult to monetize, but we believe that they are important and should be included (if not quantified) in the assessment of MDI's value.

# Social return on investment

## Economic benefits included in the social return on investment

Although employees with disabilities accrue the benefits from all their earnings, for the purpose of computing the SROI, we should exclude the portion of earnings that the worker would have earned even in the case of not having a job at MDI. Since we lack a suitable comparison group to determine the earnings of non-MDI workers, we use the estimated employment rate of people with disabilities in Minnesota as a comparison rate. We use individual micro-data from the U.S. Census Bureau's 2010-2014 American Community Survey 5-Year Estimates to compute the employment rate of Minnesotans from age 18 through 65 with a disability. This rate is 29 percent; thus a MDI employee would have a 29 percent chance to be hired by another employer. Consequently, the 'net' impact on the employment chance added by MDI is 71 percent (100% employed at MDI minus 29% of being employed anywhere else). We discount the total earnings paid to employees with disabilities of \$2.5 million by multiplying this amount by the 71 percent rate. We also add the net public assistance not paid to MDI employees with disabilities to the total benefits. The result, \$1.8 million, is the net earnings that can be attributed to MDI.

## Investments

MDI total costs were \$37 million in 2015. Most of this went to pay for manufacturing and business operation costs. However, the main feature of MDI's initiative is to provide employment to people with disabilities. This implies an additional cost that a regular for-profit business in the same industry as MDI wouldn't need to pay. The disability-related expenses include individual support to employees with disabilities, training for managers, and supervisory time to coach and guide employees with disabilities. These costs were approximately \$368,965 during 2015.<sup>4</sup> These costs are mostly financed by donations, grants from other third party individuals and agencies.<sup>5</sup>

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<sup>4</sup> There may be other economic costs associated with having employees with disabilities that are difficult to assess. For instance, there may be losses in productivity, opportunity costs of shorter career path of employees with disabilities, or higher recruiting and initial hiring costs. We do not include these costs in the ROI estimation; however, the amount of revenues not related to the revenue-generating business of MDI may be used as a proxy for these costs.

<sup>5</sup> This amount is the total value of donations and grants. The actual costs of training and services associated with employees with disabilities totals \$318,551. However, for the purpose of the ROI we must include the total investment made by society, which is represented by the total donations. The positive variance from donations (Difference between donations and costs) is assumed to indirectly finance MDI's mission.

## Return on investment

The economic benefits derived from MDI's initiative include the personal earnings paid to employees with disabilities who may have not be working without the help of MDI, the tax revenues associated with these earnings, and the reduced public assistance costs of employees. These benefits totaled approximately \$1.8 million during 2015. As noted, the cost of providing employment to people with disabilities was \$368,965 during that year. The social return on investment (ROI) is therefore \$4.87 for every dollar invested in MDI.

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### 6. Social return on investment

<b>ROI</b>	
Benefits	\$1,796,122
Costs	\$368,965
<b>SROI</b>	<b>\$4.87</b>

# Conclusions

MDI generates economic benefits to individuals with disabilities, taxpayers, and society in the order of \$1.8 million annually. The total societal investment required to produce these benefits generates returns of \$4.87 for every dollar contributed to MDI's mission. In addition, MDI contributes to the local economy directly by spending \$37 million every year and indirectly as the effect of the initial spending multiplies. Furthermore, many of the economic benefits associated with providing employment to people with disabilities are difficult to assess and are not included in the \$1.8 million. Caregivers and government agencies will benefit from MDI's work in the near future and in the long run beyond the amounts estimated in this study.

The MDI model relies on two pillars: the sustainability of the revenue-generating business and its effectiveness in achieving its mission. The results summarized in this report show that MDI is effectively generating value to society. The \$4.87 return per dollar spent indicates that investing in MDI makes economic sense from the perspective of society.

# Who are MDI's employees?

For this analysis we include 210 employees with a disability. Most employees are male (65%) and 89 percent are white.

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## 7. Gender

	Employees	Percent
Female	73	34%
Male	137	65%
Total	210	100%

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## 8. Race

Race	Employees	Percent
Caucasian	187	89%
African-American	7	3%
Asian	6	3%
Native American	6	3%
Hispanic	2	1%
Bi-Racial	1	0.5%
Other	1	0.5%
Total	210	100%

About a third of the employees are 26 to 40 years old, while another third are 51 or older.

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## 9. Age

	Employees	Percent
19-25	45	21%
26-40	67	32%
41-50	37	18%
51 and over	61	29%
Total	210	100%