NCCP National Center for Children in Poverty
Columbia University
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Low-Income Families in Illinois: Results from the Family Resource Simulator

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About 85 percent of low-income children have parents who work, and most have at least one parent working full-time, year-round. Nonetheless, many of these parents are unable to afford basic necessities for their families, such as food, housing, and stable child care. Even a full-time job is not always enough to make ends meet, and many parents cannot get ahead simply by working more. As earnings increase—particularly as they rise above the official poverty level—families begin to lose eligibility for work supports. At the same time, work-related expenses, such as child care and transportation, increase. This means that parents may earn more without a family experiencing more financial security.[1] In some cases, earning more actually leaves a family with fewer resources after the bills are paid.

The Family Resource Simulator, developed by the National Center for Children in Poverty, illustrates how this happens. This web-based tool calculates resources and expenses for a hypothetical family that the user "creates" by selecting city and state, family characteristics, income sources, and assets. The user also selects which public benefits the family receives when eligible and makes choices about what happens when the family loses benefits (e.g., does the family seek cheaper child care after losing a subsidy?).

The result is a series of charts that show the hypothetical family's total income from various sources as earnings rise, as well as the cost of basic family expenses. Using the Simulator, this report describes the experiences of two hypothetical families in the workforce.

Low Income in Illinois: The Lawsons

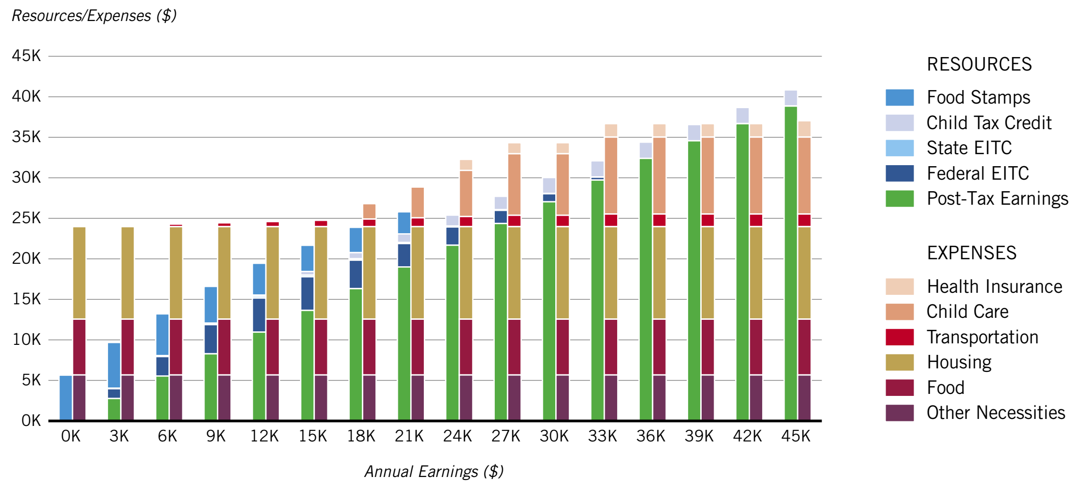
The Lawsons live in Chicago with two children, ages 3 and 6. The federal poverty level for such a family is $18,850 per year.[2] For simplicity, the Simulator assumes that the Lawsons begin with no income; then one parent enters the workforce and steadily increases hours to full-time employment. After that, the second parent begins part-time work and gradually moves into full-time employment. When the Lawsons' employment requires outside child care, both children go to child care centers (the 6-year-old goes after school). The Lawsons pay taxes on their earnings, and when they qualify, they receive earned income tax credits—including Illinois' refundable state credit—and the federal Child Tax Credit. In addition, the Lawsons receive food stamps and public health insurance.

As the Lawsons' earnings increase, their child care and transportation expenses increase, and they begin to lose eligibility for the benefits that support work (see Figure 1). At $24,000 in annual earnings, the family has lost food stamps and the parents have lost public health insurance coverage.[3] This simulation assumes that the Lawsons have insurance through an employer;[4] without this benefit, the Lawsons would have to pay substantially more or go without health insurance. By the time both parents are working full-time, together earning

Figure 1: Lawson Family

Family Resources and Basic Expenses

NCCP Family Resource Simulator: Illinois 2003



about $32,000 per year, the state and federal earned income tax credits have nearly phased out—the value of the Illinois state credit alone has fallen from a high of $210 per year to just $28. And further increases in the Lawsons' earnings lead to rising health insurance costs: at $33,000, the family begins paying premiums for the children's public health insurance coverage, and at $43,000, the children lose public coverage altogether.

Increased earnings initially yield a steadily shrinking gap between family resources and basic expenses. However, as the family's earnings double from $15,000 to $30,000, the combination of increased child care and transportation costs and reduced work supports means that the family actually ends up farther from its goal of making ends meet. The Lawsons' resources, even with tax credits, food stamps, and public health insurance, don't exceed expenses until their earnings reach $40,000— more than twice the federal poverty level.

Thousands of families in Illinois have resources and expenses similar to the Lawsons. There are 498,000 low-income families living in the state, and 181,000 of them have a preschool-aged child (under age 6). Among low-income families in Illinois, 83 percent have at least one parent who works, and 52 percent have a parent who works full-time, year-round. Thirty-nine percent are two-parent families.

Low Income in Illinois: The Smiths

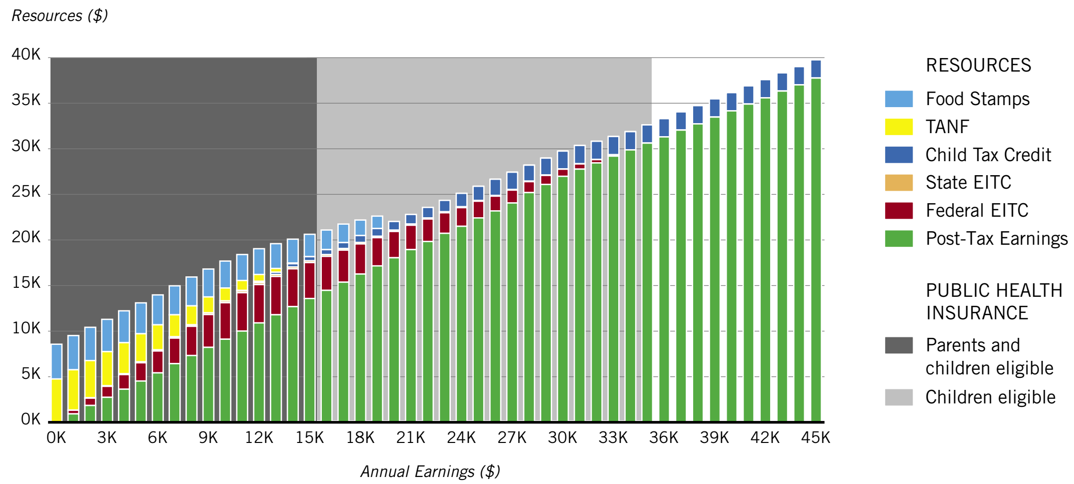
For a single-parent family in Illinois, providing for a family's basic needs is even more challenging. Ms. Smith is a single mother who also has two children, ages 3 and 6. The federal poverty level for this family is $15,670.[5] Ms. Smith lives in Aurora City, just outside Chicago, making her transportation costs somewhat higher than the Lawsons because she needs a car to commute to work, while the Lawsons use public transportation.

In this simulation, Ms. Smith initially receives Temporary Assistance for Needy Families (TANF) cash assistance, along with child care subsidies to offset the cost of care while she works. In addition, like the Lawsons, the Smiths receive state and federal income tax credits, food stamps, and public health insurance (see Figure 2).

Figure 2: Smith Family

Family Resources

NCCP Family Resource Simulator: Illinois 2003



As with the Lawsons, Ms. Smith's work-related expenses increase as she moves from part-time to full-time employment, and key benefits are lost long before Ms. Smith is earning enough to afford basic family necessities. Illinois' TANF cash assistance program disregards two-thirds of recipients' earnings. As a result, the earnings limit for families enrolled in TANF is higher in Illinois than in most other states, although the applicant eligibility limit is significantly lower, and benefit levels are about average (the maximum benefit for a family of three in the Chicago area is $396 per month).

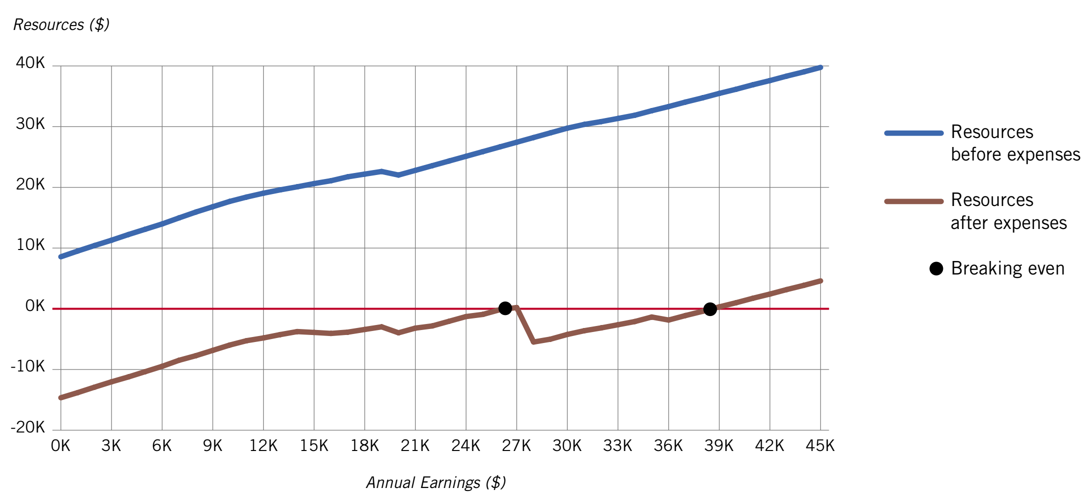
Still, even with the generous earnings disregard, Ms. Smith loses TANF support just before reaching full-time employment. Moreover, at nearly the same time, Ms. Smith loses public health insurance coverage[6] (although the children remain covered), and the state and federal earned income tax credits begin to phase out. Thus, with work supports and a full-time job paying roughly $9 per hour[7]—more than $3 per hour above Illinois' minimum wage—Ms. Smith does not have enough money to provide for her family.

The Smiths' resources do not exceed the cost of basic expenses until Ms. Smith's earnings increase to $26,000 (see Figure 3). This means that Ms. Smith is not able to make ends meet until she earns more than $14 per hour. Even at this wage, she is unable to afford anything beyond her family's basic necessities, but earning more does not necessarily help her get ahead.

Figure 3: Smith Family

Resources Before and After Basic Expenses

NCCP Family Resource Simulator: Illinois 2003



When Ms. Smith's earnings reach $28,000 per year, the family ceases to be eligible for child care subsidies, and Ms. Smith can no longer afford a licensed care provider for her children. Figure 3 shows the impact of this benefit loss, assuming that the children are in center-based care. To avoid falling below the "break-even" level, Ms. Smith would have to move the children into license-exempt care. The Smiths then suffer another hit when earnings increase to $36,000, and the children lose public health insurance coverage.

Challenges for Policymakers

Federal and state budget woes threaten existing work supports for low-income families. Illinois was one of a few states to raise income limits for parents' and children's public health insurance coverage and child care subsidies in 2003. The majority of states have proposed or approved steps that reduce low-income children and/or parents' access to public health insurance, and nearly half the states have reduced access to child care subsidies by lowering income eligibility limits and/or increasing family co-payments. Many of these changes hit families just above the poverty level the hardest. At the same time, job creation has been slow. As policymakers respond to the difficult choices they face, understanding the impact of public policies on the resources and work incentives of low-income working families is critical.

Endnotes

1. Cauthen, N. K. & Lu, H. (2003). *Employment alone is not enough for America's low-income children and families* (Living at the Edge Research Brief 1). New York, NY: National Center for Children in Poverty, Columbia University Mailman School of Public Health <www.nccp.org/media/lat03a-text.pdf>.

2. The analysis in this report is based on tax and benefit policies in effect in December 2003; the 2003 poverty level for a family of four was $18,400. See <aspe.hhs.gov/poverty/index.shtml> for more information about federal poverty measures.

3. The Family Resource Simulator results are based on rules in effect in Illinois in December 2003. In September 2004, Illinois significantly increased the income eligibility limit for parents' public health insurance coverage.

4. The percentage of employees that receive health benefits at work has steadily declined in recent years. According to the March 2003 National Compensation Survey, among employees in the private sector, only about half receive medical care benefits through their employers, and the rate is lower among employees with wages of less than $15 per hour. See: U.S. Bureau of Labor Statistics. (2003). *Employee benefits in private industry*, Table 1: Percent of workers participating in health care and retirement benefits, by selected characteristics, private industry <www.bls.gov/news.release/ebs2.t01.htm>.

5. The 2003 federal poverty level for a family of three was $15,260. See note 2.

6. See note 3.

7. Given research indicating that persons leaving TANF cash assistance for employment typically earn more than the minimum wage, the Simulator assumes that parents earn the 20th percentile wage when they enter the workforce. In Illinois, the 20th percentile wage is $8.77 per hour. See: Mishel, L.; Bernstein, J.; & Allegretto, S. (2004). *The state of working America, 2004/2005* (An Economic Policy Institute Book). Ithaca, NY: Cornell University Press.

To learn more about the impact of public policies on low-income families in Illinois, go to NCCP's Family Resource Simulator at **www.nccp.org**.