The federal poverty level, the standard by which the United States determines economic need, was developed 40 years ago. Data collected in the 1950s indicated that, on average, families spent one-third of their income on food. The original poverty level used the costs of the U.S. Department of Agriculture’s “economy food plan” and multiplied those costs by three. Today, food comprises far less than one-third of a family’s expenses, while housing, transportation, and child care costs have grown disproportionately. Yet we still measure poverty by the original standard developed in the early 1960s.

The federal poverty level for a family of four is currently $18,400. There are 12 million children who live in such families in this country. However, the numbers are far worse. Double the income that is considered “poverty” is needed for most families to provide their children with basic necessities like adequate food, stable housing, and health care. Families who live in this gray area between official poverty and minimum economic security have many of the material hardships and financial pressures that officially poor families face. As their income grows, they rapidly lose eligibility for public benefits, making it harder for them to reach economic self-sufficiency. As a nation, we must make a commitment to provide low-income families with the tools they need to create better lives for themselves.

There are 27 million children living in low-income families in the United States—nearly 40 percent of all children—a figure that is not officially acknowledged. This series examines who these families are, their challenges, and the policy solutions. Policies that do not address the complexity of the problem are not enough. True economic security includes: (1) stable, predictable income, (2) savings and assets that can help families survive crises and plan for the future, and (3) human and social capital (e.g., education, skills, and support systems) that help families improve their financial status.

The first report in the series, Employment Alone is Not Enough for America’s Low-Income Children and Families, focuses on the important role that public policies play in supporting low-wage employment. But it also highlights the limits of low-wage employment, which by itself is insufficient to move families from poverty to economic self-sufficiency.

The National Center for Children in Poverty identifies and promotes strategies that prevent child poverty in the United States and that improve the lives of low-income children and families.

LIVING AT THE EDGE RESEARCH BRIEF 1
Employment Alone Is Not Enough for America’s Low-Income Children and Families

SERIES INTRODUCTION

The first report in the series, Employment Alone is Not Enough for America’s Low-Income Children and Families, focuses on the important role that public policies play in supporting low-wage employment. But it also highlights the limits of low-wage employment, which by itself is insufficient to move families from poverty to economic self-sufficiency.

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* For more information about the federal poverty level, see the web site of the U.S. Department of Health and Human Services: <aspe.hhs.gov/poverty/03poverty.htm>.
Nearly 40 percent of American children live in families with incomes below 200 percent of the federal poverty level—the amount that research suggests is needed for most families to be economically self-sufficient.2 Currently, 200 percent of the federal poverty level is $36,800 a year for a family of four.3 Most families with income below 200 percent of the poverty level—low-income families—have at least one working parent.

Although families with incomes between 100 and 200 percent of the poverty level are not classified officially as poor, many face material hardships and financial pressures similar to those faced by families who are officially poor. Missed rent payments, utility shut offs, inadequate access to health care, unstable child care arrangements, and running out of food are not uncommon for families with income below 200 percent of the poverty level.4

Even though 85 percent of children in low-income families have at least one working parent, many of these families cannot get ahead simply by working more. Low wages, work-related expenses, the loss of public benefits, and the bite of payroll and other taxes make it difficult for low-income working families to work their way to long-term economic security.5 Without additional supports, nearly 40 percent of American children have parents who have little chance of working their way to economic self-sufficiency anytime soon.

This report examines the progress made by low-income children and families in the 1990s, when child poverty declined substantially. It focuses on the important role that public policies have played in supporting low-wage employment. But it also highlights the limits of low-wage employment—low-wage work, by itself, is insufficient to move families from poverty to economic self-sufficiency. The economic downturn, rising unemployment, and cuts in public work supports have compounded the challenges faced by low-income families. The report concludes with suggestions for how policymakers can help low-income families make financial progress.

Progress in the 1990s

In 1993, 31 million children lived in low-income families—the highest number over the last 26 years.6 But over the course of the mid- to late-1990s, the number declined, reaching about 27 million, or 37 percent of all American children, in 2000 (see Figure 1). Unfortunately, as the economy stalled, so did progress for low-income children.

Most analysts agree that both improvements in the economy and changes in policy contributed to the substantial decline in the number of low-income children and families in the 1990s. That decade brought the longest period of uninterrupted economic expansion in American history, opening new job opportunities for low-wage workers. At the same time, a series of important federal and state policy changes encouraged, supported, and rewarded low-wage employment. The major policy changes were significant expansions of the federal Earned Income Tax Credit (EITC), public health insurance coverage, and subsidized child care. In addition, new welfare legislation made cash assistance contingent on adherence to strict work requirements and made cash benefits more difficult to obtain.
Encouraging and Rewarding Employment: The Federal EITC

The federal EITC reduces the income tax liabilities of low- to moderate-income working families with annual incomes of up to about $33,000. It also serves as a wage supplement to families with very low earnings. By definition, only families with earnings are eligible.

One purpose of the EITC is to offset the federal payroll taxes that fund Social Security and Medicare, which low-wage earners pay on every dollar earned. These taxes, which are often listed as “FICA” on employees’ pay stubs, are currently 7.65 percent of earnings. Only high-wage earners have a portion of their wages exempt from federal payroll taxes; once annual income reaches $87,000, the tax rate drops to 1.45 percent.

A second purpose of the EITC is to increase the value of low-wage work. In 2002, the maximum credit for families with two or more children was just over $4,000 (benefits are lower for families with one child). The credit reaches the maximum level once families with two or more children have about $10,000 in earnings. Additional earnings do not increase the size of the credit, and at about $13,500 in earnings (for single-parent families, $14,500 for two-parent families), additional earnings gradually decrease the benefit level.

The EITC was enacted in 1975, but major expansions in the early 1990s made the credit more generous, especially for families with two or more children. Research shows that expansions of the EITC contributed to substantial increases in employment among single mothers, before the 1996 changes in welfare made cash benefits contingent on adherence to strict work requirements.7 Research also shows that the federal EITC lifts more children out of poverty—about two and a half million annually—than any other government program.8
Supporting Employment: Health Insurance and Child Care

Most low-income workers lack access to employer-subsidized health coverage and cannot afford private insurance. Prior to the 1996 changes in welfare, families that received welfare benefits were automatically eligible for Medicaid, while other families with equally low incomes did not qualify. Realizing that linking cash assistance and health insurance provided a disincentive for families to leave welfare for work, federal policymakers required states to base eligibility on income rather than on receipt of cash assistance.

Low-income children’s access to public health insurance already had been expanded through a series of incremental Medicaid expansions beginning in the 1980s. In 1997, a new program, the State Children’s Health Insurance Program (SCHIP), provided federal incentives for states to extend health insurance coverage to children living in families with earnings above Medicaid eligibility limits. In most states, children in families with incomes up to 200 percent of the federal poverty level are eligible. However, the majority of low-income working parents still do not qualify for public health benefits; in most states, eligibility is restricted to the very poorest parents and those with exorbitant medical costs.

In addition to expansions of public health insurance benefits, the 1990s also brought significant new federal and state investments in child care. Spending on subsidized child care for low-income families increased substantially as part of the 1996 changes in welfare. Both the federal and state governments increased child care funds, and states used savings from declining welfare use to finance additional child care subsidies.

Research on health insurance and child care show that these benefits support work. Regardless of income, health insurance serves as a work incentive for women who need health care for themselves or for family members. Child care cost, quality, and availability all affect whether and how much mothers work.

More Work, Less Welfare

The 1996 welfare law replaced the existing program with Temporary Assistance for Needy Families (TANF) and set forth stricter work requirements, sanctions for failure to meet work requirements, and time limits for cash benefits. Given the strong economy, these changes led to steep declines in the welfare rolls and contributed to increases in employment among single mothers. In 2001, fewer than 4 percent of low-income children lived in families that relied solely on public assistance, compared to 15 percent in 1993 (see Figure 2). As a result of state policies that allow TANF recipients to keep a larger share of their earnings, a much higher percentage of recipient families now combine welfare with work.

In 2001, more low-income children lived in working families than in any year since 1975. The percent of low-income children in families relying on earnings but not public assistance increased to 81 percent in 2001 from 65 percent in 1993. When working families receiving both earnings and public assistance are included, the percent of low-income children in families with earnings increased to 88 percent in 2001 from 79 percent in 1993.
Stalled Progress

In the context of unprecedented economic growth and expansion, policies that encourage, support, and reward employment brought notable progress for low-income children and families in the 1990s. Low-income parents earned more, the use of cash assistance declined, and child poverty rates went down.

But the last couple of years brought a stunning reversal. The economy stalled, and unemployment is at its highest level in nine years. With the increase in unemployment, the numbers of low-income children and families are on the rise.13

Facing huge budget deficits, the states have begun to cut programs and services, including work supports for low-income working families. By March 2003, nearly half the states had approved or proposed cuts to their Medicaid, SCHIP, or related health insurance programs.14

As of June 2003, more than half the states had approved or proposed changes in their child care subsidy programs that reduce families’ access to benefits.15 Programs designed to help welfare recipients find and maintain jobs—job search, skill improvement, transportation assistance, and cash benefits to supplement low earnings—have also been cut.16 Federal tax cuts and looming deficits further threaten the policy successes of the 1990s.
Work is Insufficient

Prior to the economic downturn, it already was becoming clear that low-wage work, by itself, is generally insufficient to move families to an income level that brings economic self-sufficiency. While the percent of children living in families with incomes below the poverty level declined substantially from 1993 to 2000 (30 percent), the percent living in families with incomes between 100 and 200 percent of the poverty level declined only 4 percent.17

Why is work generally insufficient to move low-income families to economic self-sufficiency?

The first problem is low wages. A full-time job at the federal minimum wage of $5.15 an hour pays less than $11,000 a year—well below the poverty level for a family of three or four. Research suggests that most families need income equivalent to roughly twice the official poverty standard to be economically self-sufficient,18 which is currently $36,800 for a family of four. It takes two full-time, year-round jobs at nearly $9.00 an hour to get a family to earn $36,800 a year.

Work provides less protection against inadequate income than it used to. In 2001, 57 percent of low-income children had at least one parent who worked full time, year round. A decade earlier, the figure was 45 percent. Some groups of full-time workers—for instance, young parents and parents with limited education—earn less than similar full-time workers a decade ago.19

A second problem is that work, no matter how low the wages, increases expenses. Working parents must pay for child care and for clothing that is appropriate for their workplace. They also need transportation to get to work—a cost that can be substantial given that low-cost housing and employment opportunities are often some distance apart. Then there are taxes; one of the most significant is the federal payroll tax. As mentioned earlier, low-wage workers pay federal payroll taxes of 7.65 percent on every dollar earned. And, as earnings increase, so do federal and state income tax liabilities.

Yet, families lose eligibility for public work supports long before they are economically self-sufficient. As working parents increase their earnings above $10,000 to $15,000 a year, they rapidly lose eligibility for the federal EITC, food stamps, subsidized child care, and health insurance.

In other words, as families try to move from 100 to 200 percent of the poverty level, work-related expenses, increased tax liabilities, and the loss of public benefits eat away at additional earnings.20 Sometimes working more literally does not pay. Even when the job market is strong, it is difficult for low-income working families to make headway. When the jobless rate is high, low-income families are further disadvantaged because most lack the savings or other assets necessary to weather spells of unemployment.
What Can be Done

We know that public policies matter for low-income working families. Policies that encourage, support, and reward employment can create incentives that draw nonworkers into the job market and help workers maintain their attachment to the labor force. But to move to economic self-sufficiency, low-wage working parents need higher wages and/or wage supplements, relief from the burden of work-related expenses and taxes, and a strong safety net during temporary spells of unemployment.

It is difficult to generate widespread political support for such policies even when economic times are flush. Given the deficits faced by most states, the current state of the economy, and the economic insecurity felt by middle-income families, why address the needs of low-income families now?

The Magnitude of the Problem

Nearly 40 percent of all American children live in a low-income family, and the number will increase unless the economy turns around. Low-income families experience many of the same hardships as families who are officially poor. And low-income children are far more likely than higher-income children to experience learning difficulties, social and emotional problems, and poor health—problems that are associated with difficulties later in life, such as teenage child bearing, dropping out of school, and poor employment outcomes.

The Benefits of Making Work Pay

Like all parents, low-income parents want to earn enough to provide for their children. Nearly 60 percent of children in low-income families have at least one parent who works full time, and 85 percent have at least one parent who works full or part time—the highest percentage in a decade. Yet achieving economic self-sufficiency and providing adequately for their children remain insurmountable challenges for most low-income families—challenges that low-wage work alone cannot address.

If policymakers are serious about ensuring that work provides a route to family economic self-sufficiency, they need to get serious about making work pay. Specific policy strategies include the following:

• **Protect and expand the federal EITC.** In the absence of higher wages, low-income parents need ways to increase the value of their work. The EITC increases the value of low-wage work, rewards work, and lifts millions of people out of poverty every year. Yet current proposals would make the credit more difficult to obtain.

• **Decrease the payroll tax burden on low-wage workers.** The federal payroll tax has long been recognized as a drain on earnings for low-income workers. Unlike income taxes, which typically exempt some amount of earnings from taxation, payroll taxes are paid on the very first dollar earned.

• **Raise the minimum wage.** The current federal minimum wage of $5.15 an hour has
remained unchanged for six years. Its real value is 25 percent less than it was in 1978. In response to the declining value of the federal minimum wage, 11 states plus the District of Columbia have passed a state minimum wage that is higher than the federal one—the highest of which is $7.15 an hour. In addition, more than 100 cities and counties have passed living wage ordinances, which typically mandate that businesses and contractors receiving local public funds pay workers a wage sufficient to support a family; new research shows that these ordinances have been successful at modestly reducing urban poverty.

- **Provide working parents with health insurance.** Policy changes over the last decade or so greatly expanded access to health insurance for low-income children, but their working parents often remain uninsured. In 2001, working parents with incomes above the poverty level were not eligible for public health insurance in 60 percent of the states. In a quarter of the states, eligibility was below half the poverty level. At the same time, fewer employers are offering affordable health coverage, even to full-time workers.

- **Help low-income working parents with child care costs.** Despite the expansion of child care subsidies in the 1990s, coverage rates remain low, especially for families with incomes above the poverty level. To maintain employment, working parents need affordable, stable arrangements for their children.

- **Strengthen unemployment insurance for unemployed low-wage workers.** The current structure of unemployment insurance programs disadvantages low-wage workers, especially those who work part time and those who are new to the labor force (recent wages are not counted in determining eligibility in the majority of states). Some states have started to expand access to unemployment insurance to make it easier for these groups to qualify, but many others have not.

All of these policy strategies cost money, but not addressing these issues also comes with a price. Besides, the nation is not without the means to pay for policies that would promote economic self-sufficiency for low-income working families, even in tough economic times. For instance, increasing the earnings ceiling at which the federal payroll tax drops from 7.65 to 1.45 percent (the current ceiling is $87,000) could provide the revenue needed to exempt low-wage workers from some portion of the tax. State unemployment trust funds could be strengthened by states rolling back cuts in unemployment taxes that were enacted when unemployment rates were low.

Supporting work and ensuring the stability of the nation's low-wage workforce benefits workers, their children, employers, and the nation as a whole. To provide low-income families with the assistance they need to create better lives for themselves, we must provide the kinds of supports that allow people to find and keep jobs.

Our public policies must acknowledge the real problems, beginning with the fact that families whose incomes are double the federal poverty level still can't provide basic necessities for their children. However, employment alone is not enough. Other reports in this series will look at the need for savings and assets that can help families survive crises and plan for the future, as well as the human and social capital (including education, skills, and support systems) that help families improve their financial status.
Endnotes

1. The demographic findings in this report are drawn from: Lu, H.; Palmer, J.; Song, Y.; Lennon, M. C.; & Aber; J. L. (Forthcoming). *Living at the edge: America’s low-income children and families* (ISERP Working Paper 03-04). New York, NY: Institute for Social and Economic Research and Policy, Columbia University <http://www.iserp.columbia.edu/initiatives/working_papers/papers/2003/03-04_full_text.pdf>. The paper analyzes data from the Current Population Survey, March supplements, from 1976 to 2002; the data represent information from calendar years 1975 to 2001. For some of the findings, the authors averaged three years of data because of the small sample sizes in some population subgroups. Three out of five years of data were selected to avoid duplication of cases because many respondents are interviewed two years in a row. For more information about the analysis, please contact Dr. Hsien-Hen Lu, HL641@columbia.edu.


3. This number is from the federal poverty guidelines issued by the U.S. Department of Health and Human Services. The demographic findings in the report were calculated using a more complex version of the federal poverty measure—the thresholds issued by the U.S. Census Bureau. For more information about federal poverty measures, see <aspe.hhs.gov/poverty/03poverty.htm>.


5. Another barrier to economic security is the difficulties that low-income families have accumulating assets such as a car to get to work, a home in a safe neighborhood, or savings to weather a spell of unemployment. See Nelson, D. W. (2003). The high cost of being poor: Another perspective on helping low-income families get by and get ahead. In 2003 Kids Count data book: State profiles of child well-being. Baltimore, MD: Annie E. Casey Foundation, pp. 11-33.


10. In these figures, public assistance refers to cash benefits provided through TANF and Supplemental Security Income (SSI), which provides benefits to disabled children. The 1996 welfare law placed new restrictions on eligibility for SSI.

11. The increase in the number of low-income children with working parents and the decrease in the number of children living in families receiving cash assistance was accompanied by an increase in the number of low-income children in families with neither earnings nor cash assistance. Nearly 9 percent of low-income children lived in such families in 2001 compared to 6 percent in 1993. See Lu et al. in endnote 1.

12. The increase in the number of low-income children with working parents and the decrease in the number of children living in families receiving cash assistance was accompanied by an increase in the number of low-income children in families with neither earnings nor cash assistance. Nearly 9 percent of low-income children lived in such families in 2001 compared to 6 percent in 1993. See Lu et al. in endnote 1.


17. Lu et al. in endnote 1.

18. See Bernstein, Brocht, & Spade-Aguilar in endnote 2.


20. Lu et al. in endnote 1.


22. Lu et al. in endnote 1.


27. See lift.nccp.org/policy_index_24.html.

28. See lift.nccp.org/policy_index_11.html.