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Economic Insecurity

Implications of Federal Budget Proposals for Low-Income Working Families

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Economic Insecurity: Implications of Federal Budget Proposals for Low-Income Working Families

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Introduction

Federal budget proposals put forth by President Bush and the U.S. Congress call for dramatic cuts to programs that assist low-income families and their children. Nearly 40 percent of the nation's children live in families with low incomes, i.e., below 200 percent of the poverty level, which is $32,180 for a family of three and $38,700 for a family of four.[1] A full 83 percent of low-income children have parents who work—and most of these parents work full time, year round.[2]

But a full-time job at low wages is not enough to make ends meet, and many parents cannot get ahead simply by earning more. As earnings increase—particularly as they rise above official poverty—families begin to lose eligibility for the benefits that support work. It is these families, with parents who are working for low wages, who are likely to be hardest hit by current budget proposals.

Medicaid, food stamps, housing assistance, and child care subsidies face significant cuts. All of these programs have been shown to support work. Funding for both Medicaid and child care was increased substantially in the 1990s to facilitate transitions from welfare to work. Despite these increases, funding for public work supports does not begin to meet current need. Families who are eligible for housing and child care assistance are regularly turned away or placed on waiting lists; millions of parents and children lack health insurance. Yet current proposals would force thousands of additional families to go without these benefits.

What happens when a family loses one or more vital work supports? This brief uses the Family Resource Simulator, developed by the National Center for Children in Poverty, to illustrate the impact of the loss of benefits on working families. The Simulator is a web-based tool that calculates a family's resources and basic expenses in the context of federal and state policies as family earnings increase. Calculations are based on hypothetical families, created by selecting family characteristics and making choices about which public benefits the family receives when eligible.

The simulations used in the following analyses are based on hypothetical families, each with two children (one preschool-aged and one school-aged), living in four major U.S. cities. These examples illustrate the kinds of effects on low-income working families that we can expect nationwide if proposed benefit cuts are implemented. All simulations assume that the family receives applicable federal and state income tax credits, since the majority of eligible families take advantage of these benefits.

Health Insurance

Medicaid provides health insurance coverage to millions of Americans, including one out of four children. For low-income children, Medicaid and the State Children's Health Insurance Program (SCHIP) are the primary sources of health insurance.[3] President Bush's budget calls for a net reduction of $45 billion in federal funding for Medicaid and SCHIP over the next 10 years.[4] The response so far from Congress has been mixed. While the U.S. House of Representative's budget resolution calls for even deeper cuts than those proposed by the President over the next five years, the U.S. Senate has rejected cuts to Medicaid entirely.[5]

The plans proposed by the Administration and the House leave unclear many of the details about how cuts would be made. However, any cuts in federal funding would likely force states to eliminate health insurance coverage for some groups and to cut back on services.

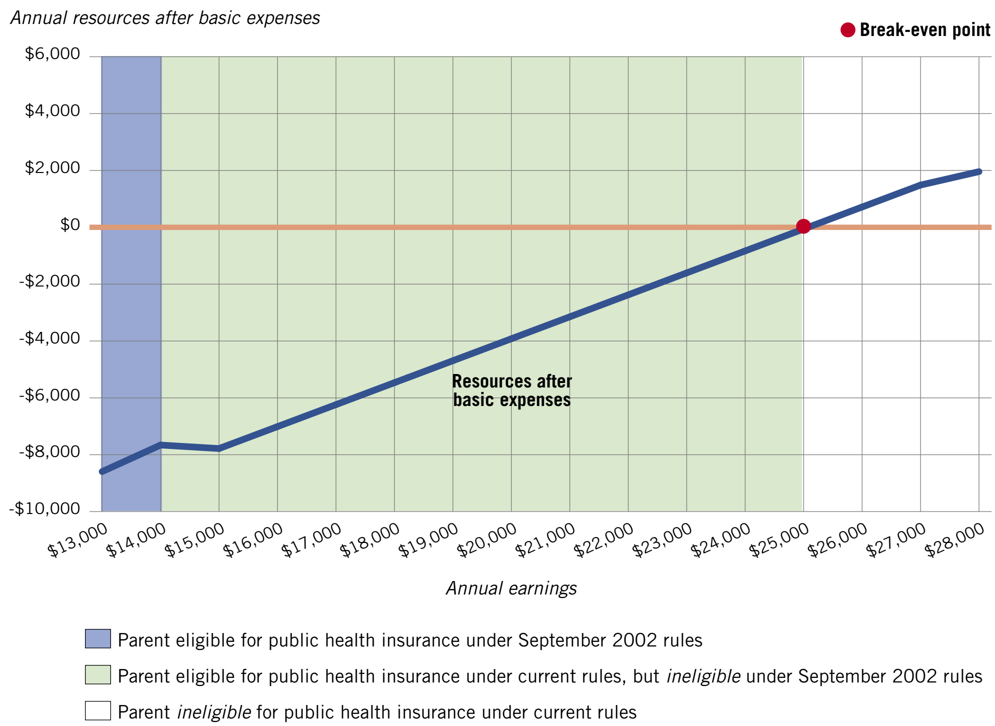
Already, most low-income parents are ineligible for public health insurance. States generally cover children in families with income up to (and in some cases above) twice the federal poverty level. But income limits for parents are typically much lower. Only about a dozen states offer public health insurance to parents whose income is above the official poverty level; only two states and the District of Columbia extend coverage to parents with incomes up to 200 percent of poverty. In 14 states, parents face an income eligibility limit of less than 50 percent of poverty.[6]

Still, over the past several years, there have been some gains in low-income parents' access to public health insurance. Illinois, for example, gradually increased the net income eligibility limit for parents from 40 percent of the federal poverty level in September 2002 to 133 percent of poverty today (actual income eligibility limits are somewhat higher as certain deductions are allowed in calculating net family income). But large cuts to federal funding would jeopardize such gains—and parents' access to health insurance coverage more generally—as states struggle to cut costs. Access to health insurance is a critical first step in ensuring parents' health, which in turn affects their ability to work and to care for their children. Children are more likely to be enrolled in health insurance programs and to access services when their parents also are eligible for coverage.

Results from the Family Resource Simulator illustrate how a hypothetical single-parent family of three living in Chicago would be affected if Illinois cut its eligibility level for insuring parents back to the 2002 level. Figure 1 shows the family's annual resources after subtracting basic expenses, including housing, food, child care, transportation, and, where applicable, public health insurance premiums for the family's children. The simulation assumes that the family receives federal and state earned income tax credits and the federal Child Tax Credit when eligible.[7] The red horizontal line represents the "break-even" point, where the family's resources are sufficient to cover basic expenses.

Under current policy in Illinois, the parent loses public health insurance coverage at about $25,000 in annual earnings, just as the family is finally able to make ends meet. At that

Figure 1: Impact of parent's Medicaid loss on a single-parent family of three in Chicago



Source: National Center for Children in Poverty's Family Resource Simulator (www.nccp.org/modeler/modeler.cgi). Results assume: children are ages 3 and 6; the family receives the federal Child Tax Credit, the federal Earned Income Tax Credit, and the Illinois earned income tax credit; the children have public health insurance coverage. For more on the Simulator's methodology for calculating family resources and expenses, see the Family Resource Simulator User Guide <www.nccp.org/modeler_user_guide.html>.

point, the parent has a couple of options. If her employer offers health insurance coverage, she could buy into an employer-based plan for herself, which on average costs about $615 per year. If an employer-based plan were not available, private nongroup coverage would cost about $2,500 per year.[8] Although either option would push the family below the "break-even" point, it is possible that the parent could remain insured by cutting other expenses.

If, to cut costs, Illinois reverted to the policy in place before October 2002, the same parent would lose coverage at just $14,000 per year in earnings. This is long before the family is able to afford basic necessities, even without taking into account the cost of health insurance for the parent. Employer-based health coverage is typically not available to persons working for very low wages, and those who have the option to purchase coverage often cannot afford the premiums.[9] The cost of private nongroup health insurance would be prohibitive, and the parent would likely be forced to join the ranks of the uninsured.

Although this example is only one of a myriad of possible ways to reduce Medicaid spending, the inevitable result of large cuts will be an increase in the number of people who are uninsured or underinsured.

Food Stamps

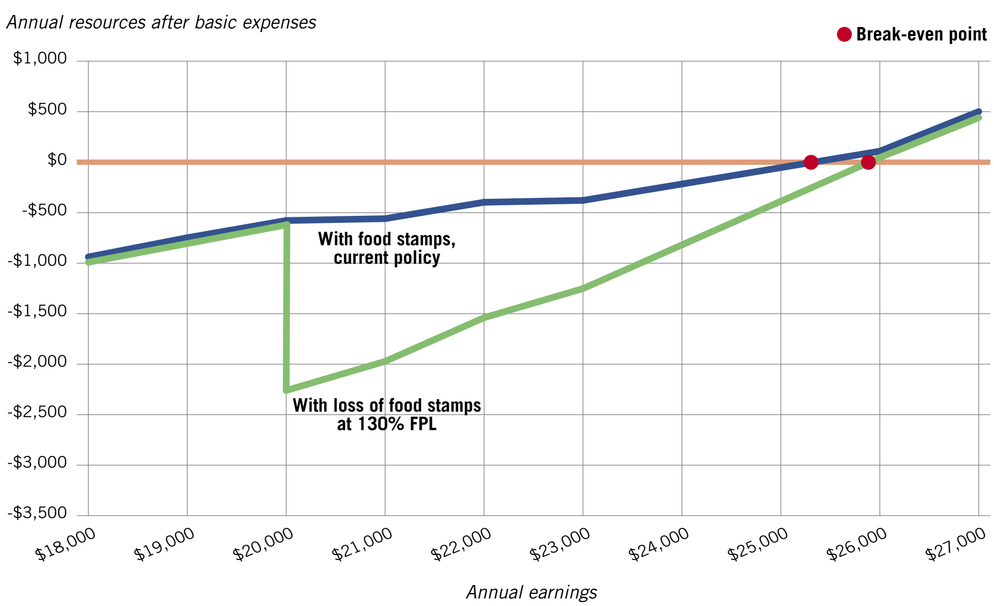
The federal Food Stamp Program provides very low-income families with resources for buying groceries. The program serves more than 20 million people, including more than 10 million children.

Food stamps are available to families whose "gross" income is below 130 percent of the federal poverty level if their "net" income (i.e., after subtracting deductions for certain necessities, such as housing and child care) is below poverty. States have some flexibility to modify federal rules, including the ability to waive the gross income limit under certain circumstances. This allows states to extend benefits to all low-income working families with net income below the poverty level.

The President's budget proposes to save $1.1 billion over the next 10 years by rescinding this limited state flexibility. As a result, approximately 300,000 people would be cut from the Food Stamp Program in an average month. These cuts would occur primarily in 11 states that have essentially waived the gross income and asset tests for all (or a substantial share of) food stamp households.[10] The cuts would fall primarily on low-income working families whose net income is below the poverty level, although their gross income is just above 130 percent of poverty. (Cuts proposed in the House of Representatives' budget plan would likely be significantly deeper.[11])

Results from the Family Resource Simulator illustrate the impact of the President's proposal on a hypothetical single-parent family of three living in Boston; Massachusetts is one of the 11 states that would be most affected by the cuts. Figure 2 shows changes in annual family

Figure 2: Impact of cutting food stamps on a single-parent family of three in Boston



Source: National Center for Children in Poverty's Family Resource Simulator (www.nccp.org/modeler/modeler.cgi). Results assume: children are ages 3 and 6; the family receives the federal Child Tax Credit, the federal Earned Income Tax Credit, and the Massachusetts earned income tax credit; the children have public health insurance coverage and the parent has employer-based coverage. Results also assume that housing costs equal 30 percent of earnings. For more on the Simulator's methodology for calculating family resources and expenses, see the Family Resource Simulator User Guide <www.nccp.org/modeler_user_guide.html>.

resources after basic expenses—including housing, food, child care, health insurance, and transportation—with the family receiving food stamps under current policy as well as receiving food stamps under the proposed change.[12]

The top line shows that even with full-time employment, food stamps, income tax credits, and children's public health insurance coverage, the family is struggling to make ends meet. The family's resources are insufficient to cover a basic family budget until the parent's earnings exceed $25,000 per year. (Note that this simulation assumes that housing costs are only 30 percent of earnings; many families pay more.)

The policy change proposed in the President's budget would significantly exacerbate the family's vulnerability to food insecurity and other hardships. Under his proposal, the family would lose food stamps at 130 percent of poverty, greatly expanding the gap between the family's resources and the cost of basic expenses. A substantial increase in earnings would be needed to make up for the loss. At $24,000 in annual earnings, the family would still be farther from the goal of making ends meet than they were at $19,000.

Housing Assistance

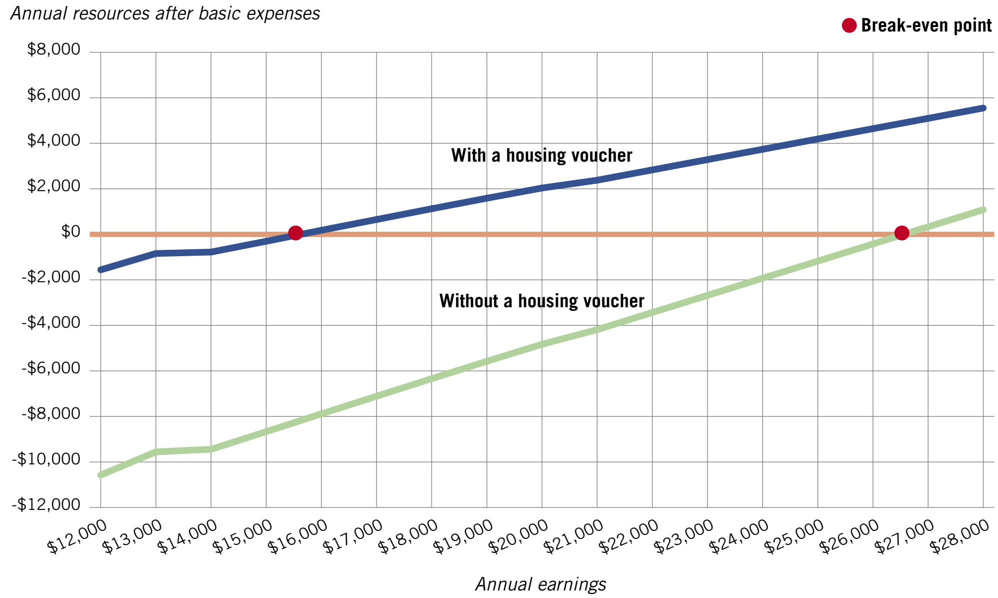
Adequate housing is increasingly unaffordable for growing numbers of families. Federal housing vouchers subsidize rent in the private market for families with very low incomes. Close to 2 million households receive Section 8 Housing Choice Vouchers; most are households with children. But eligibility for housing vouchers far outstrips their availability, and most eligible applicants are either placed on a long waiting list or turned away. The waiting list in Atlanta, for example, is currently closed.[13]

Due to funding cuts the Administration secured last year, 83,000 families will lose housing vouchers this year.[14] Now, the President is proposing further cuts. While his 2006 budget would temporarily restore about half of the vouchers lost this year, over time it would force much deeper cuts. By 2010, an additional 374,000 vouchers would be lost—a total loss of 25 percent of all vouchers since 2004.[15]

Figure 3 illustrates the difference that a housing voucher makes on the financial resources of a hypothetical single-parent family of three living in Atlanta. The figure shows family resources after basic family expenses with and without a housing voucher. The simulation assumes that the family receives the federal Earned Income Tax Credit and Child Tax Credit as well as children's public health insurance coverage.[16]

Even with housing assistance and other benefits, the family is not able to afford basic necessities until earnings reach $16,000 per year—the equivalent of a full-time job at roughly $8 per hour. Without housing assistance, it would take an annual income of about $27,000 to make ends meet, which translates into a full-time, year-round job at a wage of $13 an hour. In short, without a housing voucher, this family would be at risk for unsafe and overcrowded living conditions, housing instability, and homelessness.

Figure 3: Impact of losing housing assistance on a single-parent family of three in Atlanta



Source: National Center for Children in Poverty's Family Resource Simulator (www.nccp.org/modeler/modeler.cgi). Results assume: children are ages 3 and 6; the family receives the federal Child Tax Credit and the federal Earned Income Tax Credit; the children have public health insurance coverage and the parent has employer-based coverage. For more on the Simulator's methodology for calculating family resources and expenses, see the Family Resource Simulator User Guide <www.nccp.org/modeler_user_guide.html>.

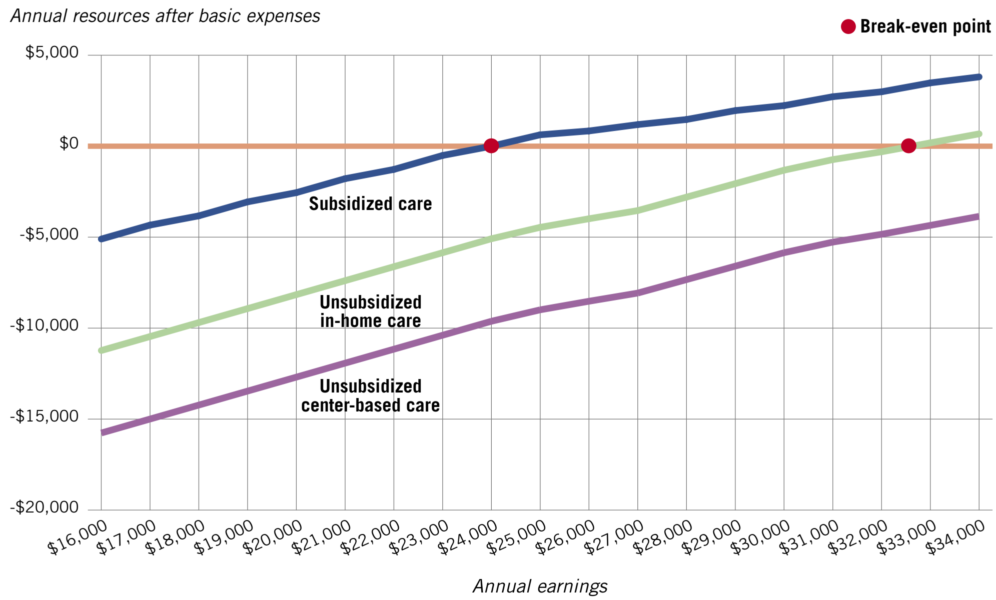
Child Care Assistance

Over the past decade, government efforts to increase employment among low-income parents have been accompanied by an expansion of child care assistance through the Child Care and Development Fund and other federal funding streams. Altogether, about 2.3 million low-income children received subsidies through these programs in 2004.[17] Still, inadequate funding has meant that many more children are placed on waiting lists or simply turned away.[18]

The President's proposed budget would eliminate child care subsidies for at least 300,000 children by the year 2010. This is on top of the 200,000 slots that already were lost between 2003 and 2004.[19] Figure 4 shows how the loss of child care assistance would impact a single-parent family with two children living in Philadelphia. This simulation assumes that the parent is working full-time, with earnings increasing from 100 to 200 percent of the poverty level, with a preschool-aged child in full-time care and an older child in after-school care.[20]

Even with a child care subsidy, public health insurance coverage for the children, and income tax credits, the family cannot afford basic necessities until the parent's earnings reach about $24,000 per year. Without child care assistance, center-based care is far out of reach. The family cannot even afford in-home care at a rate comparable to that paid by the state's subsidy program until earnings exceed $32,000 per year. As a result, the parent in this hypothetical family, like hundreds of thousands of real parents in the United States, would likely face the untenable choice of accepting unstable or unsafe care for her children or quitting her job.

Figure 4: Impact of losing child care subsidies on a single-parent family of three in Philadelphia



Source: National Center for Children in Poverty's Family Resource Simulator (www.nccp.org/modeler/modeler.cgi). Results assume: children are ages 3 and 6; the family receives the federal Child Tax Credit and the federal Earned Income Tax Credit; the children have public health insurance coverage and the parent has employer-based coverage. For more on the Simulator's methodology for calculating family resources and expenses, see the Family Resource Simulator User Guide <www.nccp.org/modeler_user_guide.html>.

Conclusion

Most families with earnings below twice the federal poverty level struggle to make ends meet. Public benefits that support work help ease the gap.[21] Losing any one of these benefits—health insurance, food stamps, housing assistance, or child care subsidies—will drive some families into deeper economic insecurity. For families who receive more than one benefit, the loss of multiple supports will be even more devastating.

Many commentators have noted the contradiction in proposing a federal budget that preserves (and expands) tax cuts for the wealthy while slashing benefits for low-income working families. The brunt of the proposed cuts will fall on families with working parents whose meager wages simply cannot keep up with the high cost of health care, housing, child care, and food. These are the families that politicians like to say are "working hard and playing by the rules," trying to do right by their children. Given current budget proposals, this, apparently, is not enough.

Endnotes

1. For more information about federal poverty measures, see <aspe.hhs.gov/poverty/05poverty.shtml>.

2. Douglas-Hall, A. & Koball, H. (2005). *Basic facts about low-income children in the United States*. New York, NY: National Center for Children in Poverty, Columbia University Mailman School of Public Health <www.nccp.org/pub_lic05.html>.

3. Kaiser Commission on Medicaid and the Uninsured. (2005). *The Medicaid program at a glance*. Washington, DC: The Henry J. Kaiser Family Foundation <www.kff.org/medicaid/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=50450>.

4. Wachino, V.; Schneider, A.; & Ku, L. (2005). *Medicaid budget proposals would shift costs to states and be likely to cause reductions in health coverage: Administration's proposal also implies cap on federal funding*. Washington, DC: Center on Budget and Policy Priorities <www.cbpp.org/2-18-05health.htm>.

5. Parrott, S.; Sherman, A.; & Hardy, B. (2005). *House budget resolution would require much deeper cuts in key low-income programs than Senate budget plan: Depth and breadth of cuts a key issue in the budget resolution conference*. Washington, DC: Center on Budget and Policy Priorities, March 30 <www.cbpp.org/3-30-05bud.htm>.

6. Use NCCP's 50-State Policies Data Wizard for more information about income eligibility limits in state public health insurance plans <www.nccp.org>.

7. These results were derived from NCCP's Family Resource Simulator <www.nccp.org/modeler/modeler.cgi>. Results are based on policy rules in effect in December 2003, except where otherwise indicated. For more on the Simulator's methodology for calculating family resources and expenses, see the Family Resource Simulator User Guide <www.nccp.org/modeler_user_guide.html>.

8. The cost of employer-based health insurance reflects the average employee contribution for single coverage in the private sector according to the 2002 Medical Expenditure Panel Survey (MEPS) conducted by the federal Agency for Healthcare Research and Quality (see: www.meps.ahrq.gov/MEPSDATA/ic/2002/Tables_II/TIIC2.pdf). The estimate for private nongroup coverage is based on a preferred provider organization (PPO) plan with a $500 deductible, 20 percent coinsurance, and $10 co-payments (see: eHealthInsurance at www.ehealthinsurance.com, accessed July 20, 2004).

9. 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>

10. An additional 30 states have taken more moderate steps in this direction, and the President's proposal would result in significant new administrative costs for all 41 states. See: Dean, S. (2005). *Administration's budget proposes to cut the food stamp program.* Washington, DC: Center on Budget and Policy Priorities <www.cbpp.org/3-4-05fa.pdf>.

11. See Parrott, Sherman, & Hardy in endnote 5.

12. See endnote 7.

13. The Atlanta Housing Authority. (2005). *Frequently asked questions (FAQs).* <www.atlantahousingauth.org/profile/index.cfm?Fuseaction=FAQ>. Accessed April 6, 2005.

14. The President's 2005 budget called for cuts that would have resulted in a loss of 250,000 vouchers, but Congress restored most of the funding. See: Sard, B.; Lawrence, P.; and Fischer, W. (2005). *Appropriations shortfall cuts funding for 80,000 housing vouchers this year: Congress rejected deeper reduction sought by Administration.* Washington, DC: Center on Budget and Policy Priorities <www.cbpp.org/2-11-05hous.htm>.

15. Center on Budget and Policy Priorities. (2005). *Estimated voucher funding shortfalls in 2005, 2006, and 2010: National summary of state totals.* Washington, DC: Center on Budget and Policy Priorities, rev. March 8 <www.cbpp.org/states/2-18-05hous-totals-summary.pdf>.

16. See endnote 7.

17. Matthews, H. & Ewen, D. (2005). *President's budget projects 300,000 low-income children to lose child care by 2010.* Washington, DC: Center for Law and Social Policy <www.clasp.org/publications/cc_2006_budget.pdf>.

18. Schulman, K. & Blank, H. (2004). *Child care assistance policies 2001-2004: Families struggling to move forward, states going backward.* Washington, DC: National Women's Law Center <www.nwlc.org/pdf/childcaresubsidyfinalreport.pdf>.

19. See Matthews & Ewen in endnote 17.

20. See endnote 7. The cost of care is based on the provider payment rates used by state's Child Care and Development Fund (CCDF) subsidy program.

21. 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/pub_lat03a.html>.