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Low-Income Families in Alabama: 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.

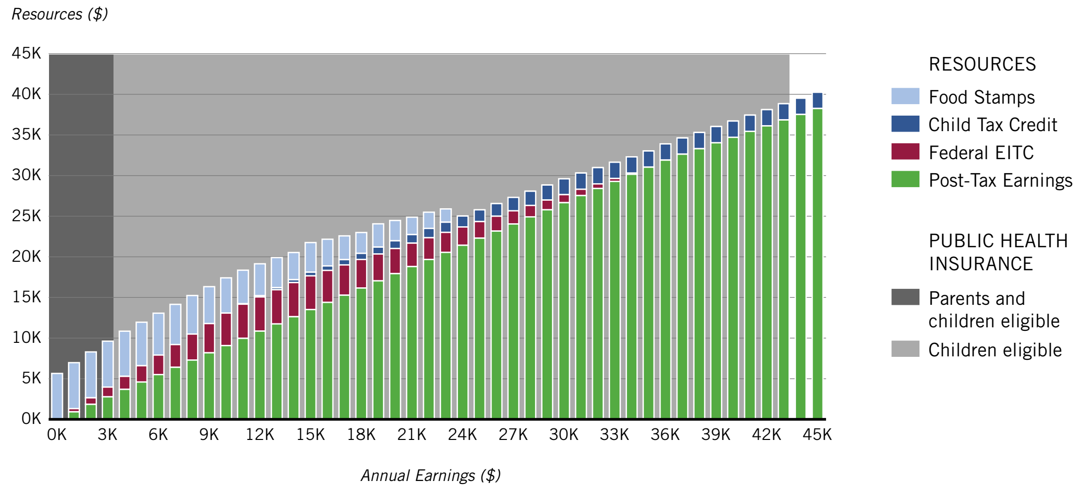
Low Income in Alabama: The Chases

The Chases live in Birmingham 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 Chases 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 Chases' employment requires outside child care, both children go to child care centers (the 6-year-old goes after school). The Chases pay payroll and income taxes on their earnings, and when they qualify, they receive the federal Earned Income Tax Credit (EITC) and Child Tax Credit. They also receive food stamps and public health insurance coverage.

As the Chases' earnings increase, they quickly begin to lose eligibility for the benefits that support work. At just $4,000 in annual household earnings, the parents no longer qualify for public health insurance. This simulation assumes that the Chases have insurance through an employer. In practice, employer-based coverage is rarely available for part-time workers—most low-wage workers do not have employer-based coverage even if they work full-time.[3]

Figure 1: Chase Family Family Resources

NCCP Family Resource Simulator: Alabama 2003

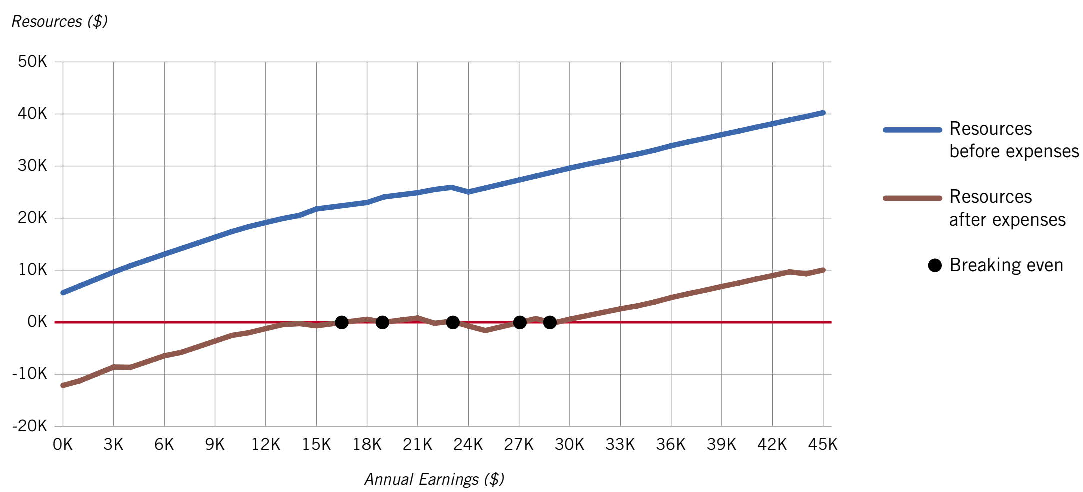


Without this benefit, the parents would have to pay substantially more or go without health insurance. By the time both parents are working full-time, together earning about $29,000 per year, the family has lost food stamps, and the EITC has nearly phased out. (See Figure 1.)

At the same time, the family faces growing transportation and child care expenses. Combined with reduced work supports, this means that additional earnings do not always improve the family's financial situation. Initially, increased earnings do bring the Chases closer to the goal of covering a basic family budget. With one parent working full-time, earning close to $15,000 per year, the Chases are nearly able to make ends meet (see Figure 2). But when the second parent enters the workforce, the family's increased earnings are offset by increased work-related expenses and declining benefits, including the loss of food stamps and the phasing out of the EITC. As a result, the family's resources continue to hover near the "break even" point—i.e., the point where resources equal the cost of basic family necessities—until earnings exceed $30,000 per year.

Figure 2: Chase Family Resources Before and After Basic Expenses

NCCP Family Resource Simulator: Alabama 2003



Thousands of families in Alabama have resources and expenses similar to the Chases. There are 239,000 low-income families living in the state, and 35 percent of them have a preschool-aged child (under age 6). Among low-income families in Alabama, 81 percent have at least one parent who works, and 51 percent have a parent who works full-time, year-round. Thirty-three percent are two-parent families.

Low Income in Alabama: The Dodges

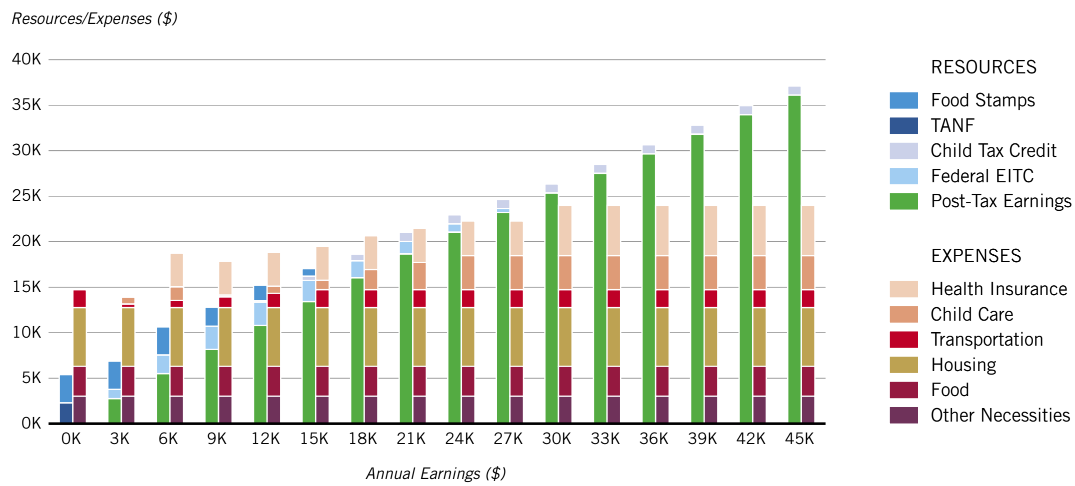
For a single-parent family in Alabama, providing for a family's basic needs is even more challenging. Ms. Dodge is a single mother living in Montgomery who has one child, age 2. The federal poverty level for this family is $12,490.[4] In this simulation, Ms. Dodge initially receives Temporary Assistance for Needy Families (TANF) cash assistance, along with child care subsidies to offset the cost of care while she works. In addition, like the Chases, the Dodges receive income tax credits, food stamps, and public health insurance.

As with the Chases, Ms. Dodge's work-related expenses increase as she moves from part-time to full-time employment, and she loses key work supports long before she earns enough to cover her family's basic needs. At $5,000 in annual earnings—or just $383 per month after deducting payroll taxes and state income taxes—the family is no longer eligible for TANF cash assistance, and Ms. Dodge has already lost public health insurance coverage (although her child remains covered). This simulation assumes that like most low-wage workers, Ms. Dodge does not have employer-based coverage, so the loss of public health insurance leads to a sharp increase in the family's basic budget (see Figure 3).

Figure 3: Dodge Family

Family Resources and Basic Expenses

NCCP Family Resource Simulator: Alabama 2003



In addition, Ms. Dodge does not qualify for child care subsidies at this earnings level. In Alabama, parents must work a minimum of 15 hours per week to be eligible for child care assistance. This simulation assumes that at $5,000 in annual earnings, Ms. Dodge is working 12 hours per week (at a wage rate of about $8 per hour[5]). Ms. Dodge saves some money by placing her child in family care, rather than in a child care center, while she works.

As Ms. Dodge continues to increase her work effort and earnings, the gap between family resources and expenses begins to shrink. However, even with work supports and a full-time, year-round job paying roughly $8 per hour—$3 per hour above the minimum wage—Ms. Dodge does not have enough money to provide for her family. The Dodges' resources do not exceed the cost of basic expenses until Ms. Dodge's earnings increase to $23,000 per year.

This means that Ms. Dodge is not able to makes ends meet until she earns almost $13 per hour. Even at this wage, she is unable to afford anything beyond her family's basic necessities, despite the fact that the family continues to receive a small EITC benefit, and the children are still covered by public health insurance. At $23,000 in annual earnings, the Dodges are also eligible for child care assistance. However, they have dropped out of the program because the required family co-payment of $314 per month is slightly more than the (unsubsidized) cost of full-time care in a family child-care home.[6]

Challenges for Policymakers

Federal and state budget woes threaten existing work supports for low-income families Since early 2003, nearly half of the states have taken steps that reduce eligible children and parents' access to public health insurance, such as raising premiums, increasing reporting and verification requirements, and/or implementing enrollment freezes. Similarly, over the past few years, most states have restricted family access to child care subsidies by lowering income eligibility limits, increasing family co-payments, and/or placing eligible applicants on waiting lists. As of early 2004, more than 14,000 children were on a waiting list for child care subsidies in Alabama.[7] 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 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>.

4. The 2003 federal poverty level for a family of two was $12,120. See endnote 2.

5. 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 Alabama, the 20th percentile wage is $8.08 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.

6. The Simulator estimates the costs of care based on the maximum provider payment rate in the state's Child Care and Development Fund (CCDF) subsidy program.

7. 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.

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