Over 26 million American children live in low-income families. Nearly 60 percent of these children are not officially poor but live in families with incomes between one and two times the federal poverty level. Research suggests that most families need income of at least double the poverty level—nearly $38,000 a year for a family of four—to make ends meet.

About 85 percent of children in low-income families have at least one working parent, and the majority has a parent working full-time, year-round (see Figure 1). However, low wages, taxes, and work-related expenses mean that many of these families cannot get ahead simply by earning more—in part because they quickly lose eligibility for public benefits.

If policymakers want to ensure that work provides a route to family economic self-sufficiency, they need to get serious about making work pay. Refundable earned income tax credits to boost low wages and work supports such as child care and health care benefits can help.

Refundable Earned Income Tax Credits

In the absence of higher wages, refundable earned income tax credits can increase the value of low-wage employment. The federal Earned Income Tax Credit (EITC) reduces the amount of income tax low-income working families are required to pay and provides a wage supplement to some families. It is available to families with annual incomes of roughly $35,000 and below (190 percent of the federal poverty level for a family of four).

The federal EITC lifts about 5 million people—half of whom are children—out of poverty each year, and refundable state credits can significantly strengthen its impact. Twelve states offer a refundable earned income tax credit structured as a percent of the federal EITC, although the percent varies significantly (see Figure 2).
Child Care Assistance

To maintain employment, working parents need stable, affordable care arrangements for their children. The largest source of child care assistance for low-income families is provided through federal-state Child Care and Development Fund (CCDF) programs that subsidize the cost of care for participating families.

But funds for CCDF programs are limited, and only a small percent of families with eligible children are served. Nearly half of the states keep waiting lists for subsidies, and more than 500,000 children were on these lists in 2003. Additional families are turned away by states that do not keep such lists.

In the majority of states, income limits for CCDF programs are below 200 percent of the poverty level. If families that receive subsidies increase their earnings, they lose eligibility for child care assistance before achieving a minimally adequate income (see Figure 3).

States also can use income tax credits to assist families with child care costs. Thirteen states offer refundable child and dependent care tax credits, with widely varying eligibility limits and benefit levels. For a two-parent family with two children in care, the maximum benefit ranges from $420 a year to more than $2,000, but few low-income families qualify for the maximum.
Public Health Insurance

The majority of low-income working parents do not receive employer-based health insurance coverage. In most states, children in these families are eligible for public coverage:

- 39 states have Medicaid and/or State Children’s Health Insurance Program (SCHIP) plans for children with income eligibility limits at or above 200 percent of the federal poverty level.

Income eligibility limits for parents are typically much lower (see Figure 4):

- 35 states have limits below the poverty level.
- Only three states offer health insurance to parents with incomes at or above 200 percent of poverty.

Figure 4: Low-Income Parents’ Access to Public Health Insurance

For more information, see NCCP’s Policy Wizard (nccp.org/wizard/wizard.cgi?action=X).
Endnotes

This fact sheet was prepared by Kinsey Alden Dinan, Sarah Fass, and Nancy K. Cauthen of the National Center for Children in Poverty (NCCP).

1. Low income is defined as less than 200 percent of the federal poverty level, which is currently $37,700 for a family of four.


3. Nonrefundable credits provide no benefit to families whose incomes are so low that they don't owe income taxes.


5. An estimated 14 percent of children potentially eligible for CCDF subsidies (based on maximum income eligibility limits allowed under federal law) were served in FY 2000. And according to FY 2003 estimates released by the U.S. Department of Health and Human Services, only about 30 percent of children who meet the more limited eligibility criteria applied by states receive benefits. Many states provide additional child care subsidies outside of CCDF, through, for example, direct TANF child care spending, Social Service Block Grant (SSBG) child care spending, and state funds.

