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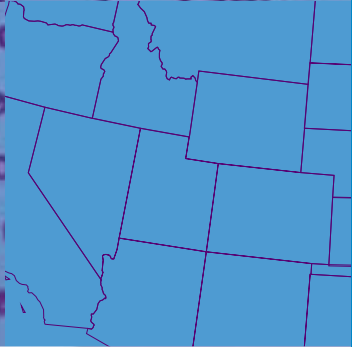
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BALANCING THE EQUATION

MAKING ECONOMIC AND FAMILY SUCCESS
POSSIBLE FOR LOW-INCOME WORKING FAMILIES

Every year, the Annie E. Casey Foundation's *KIDS COUNT Data Book* underscores the fact that kids from poor families too often lack the opportunities and assets that will help them become successful adults. They are more apt to suffer childhood illnesses, fall behind academically, become teen parents, and drop out of school than children from more affluent families—and they are more likely to be unemployed as adults. Those lousy outcomes of poverty also drive the Foundation's belief that making a difference in what happens to at-risk kids means improving their parents' chances for economic success.

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We've seen some encouraging progress on this front in recent years, in large part due to significant growth in federal and state spending to support low-income working families. Investments have almost doubled over the past decade and now stand at roughly \$200 billion annually.¹ These expenditures have supported a range of critical policy enhancements, including tax credits, cash supplements, medical care, child-care and housing subsidies, job training, and food and energy assistance. In turn, these policies have been bolstered and reinforced by low unemployment rates, a fundamental restructuring of welfare programs, and the devolution of federal resources and authority to states.

Welfare reform's impact has been particularly powerful, helping significant numbers of people leave public assistance and join the workforce.² But having a job does not ensure an escape from poverty, greater family stability, or entry into the middle class. The real prize for our nation's children is twofold—to have their parents move into the workforce and their families move toward real economic security. The current challenge is to build on the progress of the past decade and shift our national and state focus from providing strong safety nets to creating comprehensive and durable support systems for the more than 4.5 million working families that still find it hard to achieve lasting self-sufficiency. The importance of this goal is underscored by the fact that these low-income working families are struggling to raise 10.2 million children, or about 15 percent of America's kids³ (see Figure 1).

In most respects, these low-income working parents are like other working Americans.

They serve, sell, clean, sew, nurture, assemble, transport, and perform many of the jobs that fuel the general economy. Also, like other working Americans, they want to meet their children's economic, emotional, spiritual, and physical needs. Unlike other working Americans, however, it is more difficult for poor and low-income families to meet those goals. Poor parents struggle constantly to make ends meet, and a sudden crisis—job loss, illness or injury, an unexpected car repair, the inability to pay rent or utility bills—can trigger the loss of a home, a quick return to welfare dependence, and family stress.

Why do so many families continue to live on the economic edge despite full-time employment? What practical help do those families need to become stronger and more economically successful? The Casey Foundation believes that those two questions pose a critical social policy challenge in the post-welfare reform era. They are at the heart of the message in our 2002 *KIDS COUNT Data Book*.

A Closer Look at the Issues

Several factors make the road to family economic success more difficult today than for previous American generations. First, today's entry-level wages don't have as much purchasing power as they once did.⁴ Second, even though success in today's economy requires more education than ever before, millions of working parents are high school dropouts.⁵ For these parents, who often work several jobs to make ends meet, training or education opportunities are scarce and often inaccessible. And, third, as the locus of new jobs moves away from low-cost housing

How We Define Low-Income Working Families

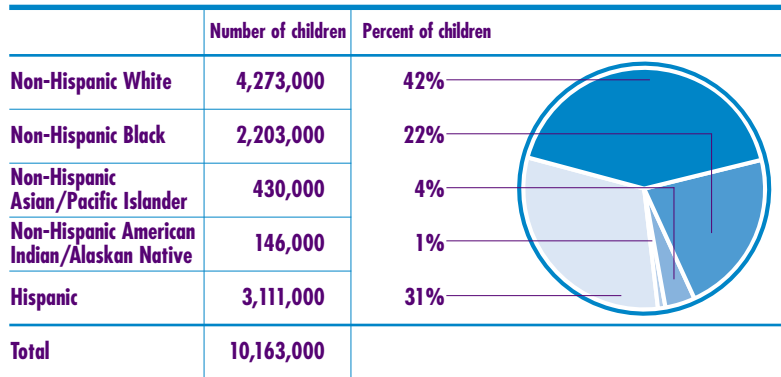
In this report we define a low-income working family as one with:

- Income less than 150 percent of the federal poverty line (about \$21,000 for a family of three)
- At least one parent working 50 or more weeks per year



FIGURE 1

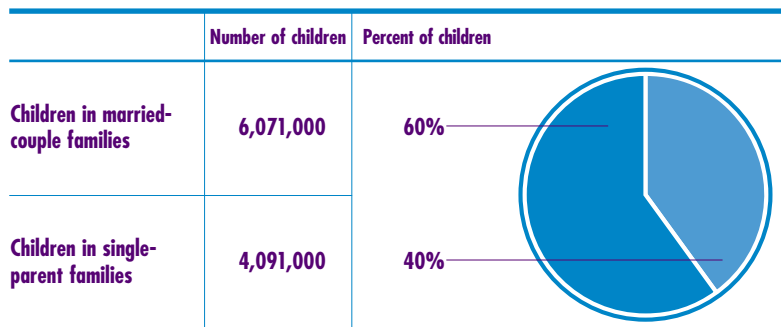
Race and Hispanic Origin of Children in Low-Income Working Families: 2000



SOURCE: Annie E. Casey Foundation tabulation of the U.S. Census Bureau's March 2001 Current Population Survey.

FIGURE 2

Family Structure of Children in Low-Income Working Families: 2000



SOURCE: Annie E. Casey Foundation tabulation of the U.S. Census Bureau's March 2001 Current Population Survey.

communities, parents' troubles are often compounded by a lack of reliable, affordable transportation to work.

On the home front, irregular work schedules, child-care needs, and lack of basic benefits further undermine an escape from poverty. One-third of employed former welfare recipients work nonstandard hours or varying schedules,⁶ and reliable, affordable, high-quality child-care arrangements are rarely available to them. These parents' absence from home during evenings, nights, and weekends can leave children unsupervised and vulnerable to unsafe activities. An estimated 8 million children between the ages of 5 and 14 regularly spend some time each week without adult supervision.⁷

Low-income working parents commonly lack other crucial benefits that would help them support their families, including health insurance and family leave benefits. In low-income working families, 22 percent of children lacked health insurance in 2000,⁸ and only about 40 percent of parents received paid sick leave.⁹ Without those benefits or flexibility in their work schedules, poor working parents are ill-prepared to respond to the day-to-day issues that confront all families. Parents must frequently choose between the demands of work and the need to take a child to the doctor, care for a child whose regular provider is ill, attend school functions, or supervise children on school holidays. And without some insurance against temporary spells of unemployment, family emergencies can quickly eliminate any economic gains, forcing parents to spend meager assets and, sometimes, return to welfare.

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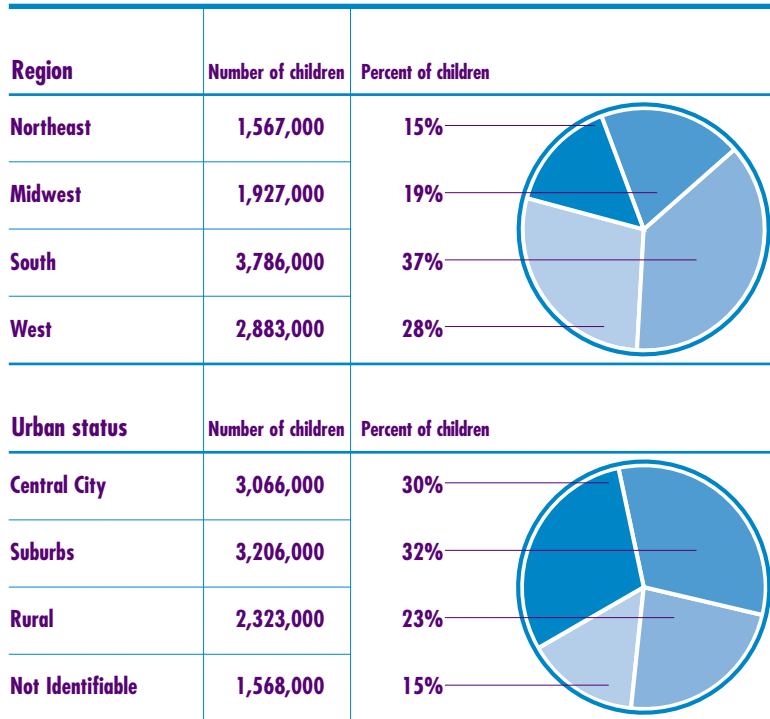
It's also hard to achieve economic stability when so much of one's income simply pays for the basics. For example, child care can consume almost one-fifth of a low-income working family's annual income,¹⁰ and food costs can take an additional 15 percent—and in some localities, far more.¹¹ Housing costs are so high in most metropolitan areas that according to one study, it takes more than two full-time, minimum-wage jobs to afford the rent on a two-bedroom apartment.¹² The slim margin between earnings and expenses makes it difficult for these families to build any kind of asset base to cushion them in tough times. Furthermore, low-income families typically have insufficient access to cost-efficient banking services such as convenient check cashing, reliable bill-paying mechanisms, and affordable credit.¹³

Two-parent families generally have an advantage when it comes to earning potential. However, some tax provisions and eligibility requirements for programs serving low-income parents still contain disincentives to marriage, despite the reforms of recent years. Some policies of the Temporary Assistance to Needy Families (TANF) program, such as those governing child support, can further undermine workers' roles as parents by sharply reducing payments to families that receive child support payments from a noncustodial parent.

Clearly, the well-being and security of our nation's children is tied to their families' economic prospects and success. At the Casey Foundation, we believe that the results of employment-focused welfare reform reinforce the importance of helping low-income working families become stronger and more financially

FIGURE 3

Where Children in Low-Income Working Families Live: 2000



NOTE: Because of rounding, percents may not sum to 100.

SOURCE: Annie E. Casey Foundation tabulation of the U.S. Census Bureau's March 2001 Current Population Survey.

TABLE 1

Children in Low-Income Working Families Participating in Selected Government Assistance Programs: 2000

Total number of children		10,163,000									
Program	Number of children	Percent of children									
Food stamps	2,339,000	23									
Free or reduced school meal	5,854,000	58									
At least one child covered by public insurance (Medicare, Medicaid, or sCHIP)	4,263,000	42									
SSI	346,000	3									
Public or subsidized housing	1,202,000	12									
Energy assistance (utilities)	788,000	8									
WIC	2,158,000	21									

SOURCE: Annie E. Casey Foundation tabulation of the U.S. Census Bureau's March 2001 Current Population Survey.

Table 1 indicates that many low-income working families participate in government means-tested benefit programs. However, few programs reach large numbers of low-income working families, and even the most successful programs don't reach all families. Overall, these data suggest that there are lots of opportunities to expand the kinds of support that low-income working families need to be successful workers and parents.

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secure. Moving in that direction will require further federal, state, and local commitments to reward work efforts, promote self-sufficiency, reinforce two-parent families, and support good parenting. It will mean building on the record of the past decade by putting in place effective policies, programs, and resources that both help low-income parents succeed as workers and help low-income workers succeed as parents.

Helping Low-Income Parents Succeed as Workers

Low-income parents need to get and retain good jobs—or employment that leads to good jobs—and acquire new skills so that they can advance in the workplace. They need to earn and keep more money from their labor so that they can provide for their families and build assets. And they need to maintain economic momentum even in the face of illness or temporary job loss.

Promoting Employment, Retention, and Advancement

To achieve family economic self-sufficiency, parents must succeed at jobs that pay good base wages and offer opportunities for advancement. The definition of an adequate wage varies by locale and by the number of parents and children in the household. A recent poll of American voters found that half believe that a family of four needs to earn at least \$45,000 a year to make ends meet.¹⁴ Other researchers and advocates have been working to define a Family Self-Sufficiency Standard that quantifies the minimum resources required to meet reasonable

family costs in different regions and markets. Findings from the Casey Foundation's national Jobs Initiative further suggest that workers need a minimum base of benefits to achieve economic self-sufficiency, including health care with low co-payments, leave time, and schedule flexibility.¹⁵

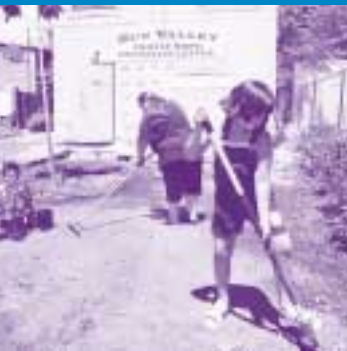
Despite a slowed economy, there are still good building blocks available to help states and cities improve access to jobs. They include the **Temporary Assistance to Needy Families (TANF)** block grant, which helps states finance creative job search and job replacement strategies for welfare recipients; the **Workforce Investment Act (WIA)**, which supports state and local job training and labor retention programs; and innovative strategies that link employers with nonprofit intermediaries to train low-income workers for good jobs.

Parents who can stay in a job while preparing for a better one build income, references, and a career path that helps them move from dependence on government welfare to self-sufficiency. Thus, key supports for low-income workers should include job searches and life skills classes; follow-up contact after placement; re-employment services that quickly link workers who lose jobs with new ones; and case management that helps workers solve problems that interfere with work. Strong models for those supports exist in several states and localities, including Baltimore, Chicago, and Rhode Island.

It's also essential to address the transportation barriers that commonly prevent residents of impoverished urban or rural neighborhoods from finding jobs in the

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outer suburbs. Organizations in Chicago, Florida, Minnesota, Oregon, suburban Pennsylvania, and Seattle are successfully tackling that challenge with subsidized bus service, carpools, and low-interest car loans for low-income workers.

Finally, to have a realistic shot at economic success, low-income parents must be able to develop the skills needed to advance in the workplace. One innovative approach is the **Lifelong Learning Account**—a voluntary, self-managed education account similar to a 401(k) savings program. States also are using TANF dollars to help low-income workers pursue their own education and training opportunities, often in partnership with community colleges. And many companies provide assistance to employees who want to acquire new skills.

The Bush administration’s recent TANF reauthorization proposal recommends allowing states to seek waivers for integrating funding and program rules across a broad range of public assistance and workforce development programs, including TANF, WIA, and post-secondary education programs. We believe that this would encourage and enable states to do even more to assure workforce training and success for poor families.

Rewarding Work and Making Earnings Go Farther

It takes time for unskilled, inexperienced workers to acquire the education and training needed to move up the economic ladder. Therefore, it’s crucial to ensure that low-wage workers can make ends meet while they pursue advancement opportunities and find time

to both acquire new job skills and care for their families. Among the most proven ways to reward families are TANF policies that supplement earnings and refundable tax credits.¹⁶ Creating entrepreneurial opportunities offers another option to enhance the incomes of low-wage workers.

Several states are leading the way by allowing low-income workers to earn money and still receive a portion of their standard welfare payment. Some, such as Connecticut and Minnesota, are increasing their “earned-income disregard” (the amount of money a person can earn without reducing welfare payments). Other states, including Illinois and New Jersey, are “stopping the clock” so that new workers can continue to receive some TANF support without having that time counted against the federally established time limit on benefit eligibility.

An even more powerful way to supplement earnings and build assets is through federal and state tax credits. The most successful is the federal **Earned Income Tax Credit (EITC)**, which alone lifted almost 2.5 million children out of poverty in 1998.¹⁷ The EITC offers a strong incentive to work by rewarding earnings with a “refundable” tax credit that can amount to as much as \$4,000 a year. The EITC’s impact will be enhanced further by recent changes that reduce the program’s “marriage penalty.” The standard deduction for couples will now be twice that for a single person. Moreover, the “phase-out level”—that is, the income level at which EITC benefits begin to decrease—will rise for married filers.

These improvements are promising, but we see a need for even greater education

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and outreach efforts to ensure that more eligible families access and use the federal EITC to their advantage. One way to accomplish this is through the IRS's **Volunteer Income Tax Assistance** program, which is helping families in cities across the country navigate the EITC application process. In addition, state versions of the EITC—sometimes supported by TANF dollars—have the potential to reward work further, particularly if more states enact *refundable* versions of the EITC. Currently, 10 states and the District of Columbia have refundable EITCs; another 4 states offer nonrefundable EITCs.¹⁸ Several cities and counties also are developing local versions of the EITC.

Other tax provisions that help low-income families retain earnings and build assets include the federal **Child and Dependent Care Credit** and **Child Tax Credit**; the latter was greatly expanded in the administration's 2001 tax package. The Child Tax Credit is now partially refundable for an estimated 9 million low-income families with annual earnings of at least \$10,000,¹⁹ and its value will double in phases over the next several years. But to make these and other tax provisions effective tools, much more needs to be done to advertise their availability, explain their complex application process, and help families take advantage of them.

Entrepreneurship can be another important source of income, but fledgling business owners in poor communities face a confusing array of legal and logistical hurdles. Efforts to extend affordable credit or other assistance to these entrepreneurs can help. The Institute for Justice at the University of Chicago Law

School, for instance, sponsors a clinic that provides legal counseling and links to business training, micro-lending, and trade association networks for community entrepreneurs and nonprofit organizations.

Helping Workers Build and Protect Their Assets

Real financial security requires more than income. It also requires a cushion of assets that families can use to meet special needs or rely on when times get tough. We believe that states and cities can promote policies and programs that give low-income workers more incentives to save and invest, that help workers strengthen their capacity as consumers and financial managers, and that provide affordable financial services. For example, Illinois, Indiana, Iowa, Maine, Minnesota, Missouri, New York, North Carolina, Pennsylvania, Tennessee, and Vermont have supported **Individual Development Accounts (IDAs)**.²⁰ IDAs are savings accounts in which deposits made by eligible low-income individuals are matched by public or private funds. Some of these have been statewide programs, and others have been local pilots. Other states sponsor quality **financial literacy training** that helps families develop budgets, avoid scams, increase savings, resolve credit problems, and invest prudently.

States, localities, and financial institutions also can protect the assets and income of low-income working households by combating predatory lending practices and other abuses that target low-income communities. Advocacy efforts include encouraging traditional lenders to make competitively priced credit available





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to low-income borrowers, refusing to purchase mortgages from lenders who engage in abusive practices, and locating victims of predatory lending practices and helping them renegotiate inflated mortgages and fees.

In addition, families need access to relevant, low-cost consumer financial services. Too many low-income workers conduct routine financial transactions with check-cashing facilities, specialty finance companies, credit card companies, rent-to-own facilities, pawnshops, or other high-interest private lenders. These businesses do not encourage consumers to save or accumulate equity, and they require families to spend resources that could be better allocated to basic needs or savings.²¹ Mainstream financial institutions in California, Chicago, Florida, and New York City are beginning to address the problem by offering asset-oriented financial products through partnerships with check-cashing facilities, community-based organizations and credit unions, housing developers, and employers or by developing products that directly help low-income customers save and invest, such as insured credit union certificates.

Helping Workers Sustain Economic Momentum

The road to steady employment and economic self-sufficiency is rarely a straight path, so any realistic policies for helping low-income families achieve financial independence must also help them stay afloat when tough times hit. Since two of the quickest and surest ways for low-wage workers to fall seriously behind are job interruption and illness, it is especially important to broaden the availability of ongoing income and medical insurance.

State unemployment insurance (UI) benefits often are unavailable to low-income workers because they hold part-time or temporary jobs and, therefore, don't accumulate sufficient hours to meet many states' eligibility rules. This is unfortunate for two reasons. First, it discourages part-time work, even though this is often the most practical way for former welfare recipients to build employment experience, accumulate earnings, and address family needs. Second, short-term entry level jobs are often the most vulnerable to interruption and termination and workers who cannot access temporary benefits may be compelled to return to welfare until they find new employment.

Innovative and practical strategies for extending UI to low-income working families are being developed in Massachusetts and Texas, where part-time workers (usually moms with very young children) no longer have to document their availability for full-time work. In addition, several states are now ensuring that workers get full credit for time worked by including the final full-calendar quarter of earnings, an option allowed under federal law. In North Carolina, a person who leaves work because of "undue family hardship" is eligible for UI.

Lack of health insurance also hits low-income workers hard. About 39 million Americans are not covered, including about 45 percent of working adults who fall below the federal poverty level.²² Many poor parents feel forced to forego certain jobs—even those that offer better pay and working conditions, advancement, or greater proximity to home—if they don't include health-care benefits.

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Workers who are on Medicaid are in a special quandary because if they earn too much, then they may no longer qualify for coverage. Furthermore, many workers who've left welfare mistakenly don't apply for coverage—even though they qualify—because they're confused by Medicaid's complex eligibility rules.

We believe that states can help by clarifying or expanding Medicaid eligibility for low-income parents. For example, 14 states are increasing coverage for families whose incomes exceed the federal poverty level or disregarding portions of workers' earned income when calculating Medicaid eligibility. We also believe that families leaving welfare would benefit significantly if eligibility rules for adults and children were better aligned and simplified and if Medicaid coverage were extended beyond current guidelines that generally limit additional eligibility to 1 year.

Helping Low-Income Workers Succeed as Parents

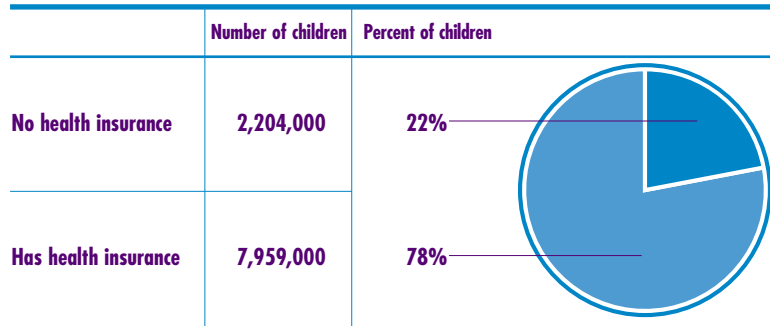
Parents in low-wage jobs often struggle to keep their families on an even keel because they lack the basic emergency and day-to-day supports that parents in better jobs take for granted. These supports include accessible child care for preschool- and school-aged kids; health care for family members; workplace policies that give employees flexibility to attend to critical child- and family-related issues; and efforts to reinforce strong, two-parent families.

Helping Parents Meet Child-Care Needs

Reliable, accessible, and affordable care for preschool- and school-aged kids helps par-

FIGURE 4

Health Insurance Status of Children in Low-Income Working Families: 2000



SOURCE: Annie E. Casey Foundation tabulation of the U.S. Census Bureau's March 2001 Current Population Survey.



ents succeed in the workplace by giving them the peace of mind that comes from knowing their children are safe and supervised. But it's often a challenge to find care that is both available during unconventional work hours and developmentally appropriate. Those factors, plus some parents' preference for family-based care, mean that many poor children lack adequate or appropriate care.

Parents of older kids are similarly stymied by the need for after-school and vacation care. Despite the recent expansion of after-school programs, fees and transportation barriers still exclude some of the country's poorest children from safe, supervised care on a regular basis. Recent research suggests that teenage children of newly working parents are at special risk of diminished supervision.²³

There are solutions. States and cities are partnering with agencies to make center-based and family day care more available. Some, such as Connecticut, Maryland, Massachusetts, and Minnesota, are financing new facility development or are recruiting, training, and supporting new family care providers. Others, including San Francisco and Lee County, Alabama, are focusing on care for young children whose parents work nontraditional schedules, or on the needs of specific ethnic or linguistic populations. A growing number of states, localities, and private philanthropies support academic, cultural, and recreational programs before and after school, on weekends, and during school vacations; exemplary initiatives and models are emerging in Baltimore, Boston, Los Angeles, and New York City and in the federal 21st Century Community Learning Centers program.

To make child care even more affordable, several states have used federal **Child-Care and Development Block Grant** funds to subsidize child-care costs for parents transitioning to the workforce. However, these funds have had limited impact because some parents are unaware of their availability, while others are overwhelmed by the complicated application process. Moreover, the funding itself has not kept up with expanding demand. We urge states to increase parents' awareness of available programs. We further recommend that states use these resources more creatively and expansively to subsidize a wider range of low-income working families, as Illinois has done with federal block grant funds and state TANF "maintenance of effort" dollars. We also urge more investment in, and support of, high-quality family-based child care as an option for low-income working families.

Ensuring Health-Care Coverage for All Kids

In 2000, 8.4 million American children did not have health insurance.²⁴ More than 2.2 million of those children were from low-income working families,²⁵ representing an uninsured rate more than double that of children generally.²⁶

This gap is noteworthy because uninsured children are less likely to receive medical care for serious injuries and recurring health conditions.²⁷ Not only do the children suffer needlessly, but their parents also miss more days of work to care for them. Again, the lack of health-care coverage also influences the job choices of low-income parents, who may feel compelled to turn down a bet-

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ter paying job if it doesn't include health-care benefits.

Several states and cities have developed promising models for extending health coverage to low-income working families. A New Orleans program effectively uses community residents to help families enroll eligible children in Medicaid or the state Child Health Insurance Program (sCHIP). Rhode Island reimburses comprehensive, commercial health plans for the cost of treating low-income families. Georgia has a Medicaid project that hires outreach staff to identify and enroll children and pregnant women during nontraditional hours, and San Antonio's Family Health Foundation recruits neighborhood residents as enrollment mentors for families eligible for Medicaid and sCHIP.

Promoting Family-Supporting Workplace Policies

Workplace policies that address family needs include sick, personal, and vacation leave; flex time; and part-time work or job-sharing options. While we do not propose any specific workplace policies across the board, we do believe that more workers need to be confident that a family crisis will not jeopardize their ability to stay employed.

Policies that allow employees to respond to unanticipated family issues can keep parents from having to choose between the need to work and the need to attend to their children, particularly in times of illness. Such policies also help employers avoid the financial and productivity costs of employee turnover.²⁸ Marriott International has a model family-supporting work policy that provides

its employees with job-sharing and work-at-home options, compressed workweeks, leave for childbirth, child- and elder-care benefits, and health insurance.²⁹

Encouraging the Development of Strong Two-Parent Families

Few factors have more influence on a child's healthy development than a strong, loving two-parent family. Both common sense and research tell us that it's easier to meet children's economic, emotional, spiritual, and physical needs when two people contribute resources and share responsibilities. While we must continue to support the success and potential of those low-income working families headed by single parents, we can do more to reduce the penalties imposed on married families, as well as reinforce the benefits that marriage brings to children.

One practical strategy is to eliminate tax provisions that produce disincentives to marriage and two-parent families. The recent revisions to the federal EITC and other provisions in the tax code are positive steps in this direction, and we urge states to consider how they might eliminate "marriage penalties" in their own tax codes. It's also important to remove marriage disincentives from welfare and social service programs, especially for low-income working couples. Extending TANF benefits, without limitations, to two-parent families, for example, or temporarily disregarding the income of a new spouse when determining benefit eligibility might encourage the formation of two-parent families while increasing family income and, potentially, family stability.



If we want the children of low-income working families to thrive, then we need more than a stronger safety net. We must build, track, and evaluate a real system of policy supports that can help their parents become more successful both as workers and as parents.

We also need to encourage active participation and involvement by noncustodial parents, who, in most cases, are fathers. It is important to note that the number of federal and state policies, programs, and resources aimed at re-engaging fathers in their children's lives is increasing. The most promising include education assistance, job training, and peer support groups for low-income fathers and counseling and mediation for their families.

In addition, we need to enhance the degree to which child support payments can be a tool for increasing family stability. For many single-parent households, these payments are a vital source of income that bolsters employment earnings and keeps families afloat. But more than two-thirds of kids in single-parent families don't receive child support payments.³⁰ And for families receiving TANF, there is, in many states, a disincentive to pay child support because it ends up reducing TANF benefits to the family, almost dollar for dollar. If child support is to truly bolster family income, then federal and state strategies need to allow larger shares of child support payments to flow directly to low-income families.

Conclusion

Although the challenges that low-income parents face are complex, the message of our 2002 *KIDS COUNT Data Book* is simple: If we want the children of low-income working families to thrive, then we need more than a stronger safety net. We must build, track, and evaluate a real *system* of policy supports that can help their parents become more successful both as workers and as parents. Solving both parts of this family-strengthening

equation means helping parents get, keep, and advance in jobs. It means helping them develop new skills, build and maintain financial assets, and sustain economic progress through tough times. It also means developing workplace policies that allow parents to meet family obligations, along with public policies that affirm two-parent families. And it means ensuring that all families have key supports such as adequate, appropriate child care and health care. We believe that the goals outlined here, and the models already in use in many states and localities, offer clear directions for addressing both sides of this equation—an equation that we must balance if all American working families are to have a real shot at achieving the economic security that they seek and providing the quality parenting that their children deserve.

**Douglas W. Nelson, President
The Annie E. Casey Foundation**