



Chapter One

Family Income & Jobs

Raising Children *Out of Poverty*

Almost 37 million people living in America were poor in 2004, 13 million of them children. Real incomes are falling and poverty in the United States is more prevalent now than in the late 1960s and early 1970s, having escalated rapidly since 2000.

For every five children who have fallen into poverty since 2000, more than three fell into “extreme poverty,” a term describing families living at less than one-half of the poverty level. This means that these families had to get by on less than \$7,412 a year, or \$20 a day.

More than seven out of every ten poor children in 2004 lived in a family with at least one employed relative. Working hard and playing by the rules is not enough to lift families out of poverty. For example, even if a parent with one child works full-time at the federal minimum wage, which has not been raised since 1997, the family still lives in poverty.





"The future promise of any nation can be directly measured by the present prospects of its youth."

—President John F. Kennedy, February 14, 1963

"We haven't reduced economic risks. We've simply redistributed them from the economy as a whole to individual households."¹

—Harvard economist Martin L. Weitzman

Poverty kills. It also maims and stunts the growth and eclipses the dreams of hundreds of millions of children around the world. Yet the fact that more than 20,000 people worldwide will die in extreme poverty today will not make tomorrow's headlines.² Similarly disregarded is the irony that America's poorest residents continue to be worse off than those of almost any other country in the developed world.³

Poverty in America is a political problem, caused less by a lack of resources than by a failure to come to terms with reality. It is universally understood that food, shelter, health care, and other basics are crucial to the well-being of children and families. What is largely ignored by our leaders, the news media, and the public, however, is the fact that millions of families do not have adequate incomes to provide these basic necessities.

A childhood spent in poverty can have negative impacts on an individual's entire life. Children living in families that are poor are more likely than

children living in other families to be exposed to inadequate education, inadequate or absent health-care, hazardous housing, and poor nutrition. These multiple barriers associated with poverty build upon one another and unjustly deprive children of the opportunity to reach their full potential as parents, employees, and citizens. Children who grow up in poverty are more likely to become teen parents and, as adults, to earn less, to be unemployed more frequently, and to raise their own children in poverty.

Parents with low levels of education and skills continue to lag behind in employment and wages. Many government benefits for low-income families have dwindled, and current federal and state budget shortfalls will likely make even fewer resources available in the future. The typical household's income has fallen or remained stagnant for five consecutive years, and certain groups—most notably minorities, young and single parents, and people with disabilities—face particular difficulties trying to earn enough to support their families.

Poverty Affects All Americans

A majority of Americans will experience poverty at some point during their adult lifetime.

- At age 20, more than one in 10 Americans live in poverty.
- By age 40, more than one in three Americans have experienced at least one year of poverty during their early adulthood.
- By the time Americans have reached age 75, almost three in five have passed a year in poverty.
- One in three will experience a year of extreme poverty (below 50 percent of poverty) by the time they are 75 years of age, and more than three out of four will experience a year below 150 percent of poverty by the time they're 75.
- Between age 20 and age 65, more than two out of three Americans participate in some public assistance program and two in five receive some type of public assistance for a total of five years or more.

Source: Mark Robert Rank, *One Nation, Underprivileged* (Oxford University Press, 2004).



The Poor Get Poorer—and More Numerous

The failure to implement sound economic policies and maintain an adequate safety net at a time when the market has failed to provide enough job opportunities is evident in the poverty data released by the U.S. Census Bureau.

After falling for seven consecutive years during the 1990s, child poverty rose for four years in a row to 13 million in 2004; in all, 37 million Americans live below the poverty line.⁴ Child poverty has increased by over 1.4 million children since 2000, accounting for more than a quarter of the 5.4 million people overall who have fallen into poverty. More than one out of every six American children were poor in 2004. By race and ethnicity, one in three Black children, almost three out of 10 Latino children, one in 10 Asian children, and more than one in 10 White, non-Latino children were poor.⁵

Even more disturbing than the continued rise in child poverty and the growing portion of the poor who are children is the striking increase in the number of children living in extreme poverty. Extreme poverty means families are living below one-half of the poverty level. That translates into a family of three having to support itself on less than \$7,610 a year, or about \$20 a day. From 2000 to 2004, the number of children in extreme poverty grew almost twice as fast as the number of children in poverty overall, 20 percent compared to 12.4 percent.⁶ For every five children who have fallen into poverty since 2000, more than three fell into extreme poverty.

Poverty rates for children in female-headed households continue to be alarmingly high. More than two in five children in female-headed households are poor; more than half of those live in extreme poverty. Black and Latino children in single female households face particularly high rates

Family Income - Table 1

In the first four years of this century, the number of children living in extreme poverty increased by 20 percent.



Poverty and Extreme Poverty Among Children, 2000-2004 (Numbers in thousands)

	2000	2004	Percent Increase
<i>Children in Poverty</i>			
All Children	11,587	13,027	12.4%
Black Children	3,581	3,780	5.6
Latino Children*	3,522	4,102	16.5
White, Non-Hispanic Children	4,018	4,507	12.2
<i>Children in Extreme Poverty</i>			
All Children	4,634	5,561	20.0
Black Children	1,581	1,908	20.7
Latino Children*	1,168	1,459	24.9
White, Non-Hispanic Children	1,650	1,923	16.5

* The total number of Latino children in poverty grew very rapidly between 2000 and 2004; the number of Black children increased less dramatically. The growth in poverty among Black children was entirely due to the increase in poverty and extreme poverty rates, whereas the increase in the number of poor Latino children was due primarily to the growth in the size of the total group, while their poverty rates stayed the same.

Source: U.S. Department of Commerce, Bureau of the Census, March 2001 and March 2005 Current Population Survey. Poverty figures come from Historical Poverty Tables - People, Table 3, at <<http://www.census.gov/hhes/www/poverty/histpov/hstpov3.html>>. Extreme poverty figures come from Detailed Poverty Table POV01 for 2004 <http://pubdb3.census.gov/macro/032005/pov/new01_050.htm> and Table 2 for 2000 <http://pubdb3.census.gov/macro/032001/pov/new02_000.htm>. Calculations by Children's Defense Fund.

Note: The Census Bureau revised the weights used for its 2000 estimates, but has not revised its Detailed Poverty tables that are the source of the 2000 extreme poverty estimates. Estimates contained in the Historical Poverty Tables have been revised with the new weights.

of poverty; over half of Latino children and nearly half of Black children, compared to the still high rate of more than three in 10 White children, are poor.

This worsening reality not only hurts children and families; it dims our prospects as a nation. Impressive progress was made between 1992 and 2000, when close to 4 million children were lifted out of poverty. Since 2000 this positive trend has sharply reversed, and more than 1.4 million additional children have fallen into poverty.⁷ If poverty had continued to decline between 2000 and 2004 at the same annual rate as it did between 1992 and 2000, the likelihood of a child being poor in America would have been reduced by an additional 13.7 percent. That means that, instead of seeing nearly one and a half million children fall into poverty over four years, 1.9 million more children would have escaped it.

Relative Losses: Families Face Declining Incomes and Rising Costs

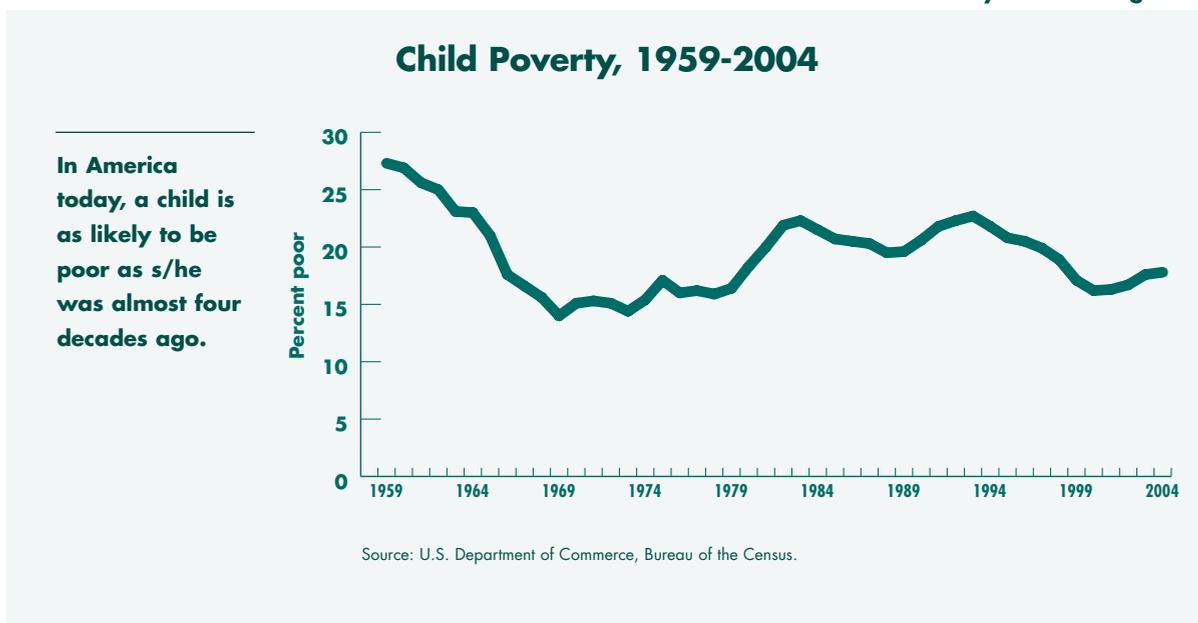
Inequality Is Intensifying

There are more children living in poverty today than there were 38 years ago even though the current value of the national wealth available per person is more than twice what it was at that time.⁸ The continued growth of our society's material

resources has provided a tremendous opportunity to alleviate childhood poverty, promote economic justice, and ensure that the basic needs of all Americans are met. Sadly, our nation's growing bounty is not being justly shared by all. America has failed to take full advantage of its growing wealth by making the necessary public investments to protect low-income families and children from economic insecurity and material deprivation.

Over the past three decades, inequality in the United States has intensified dramatically. Much of the nation's new wealth has gone to those with the highest incomes, erasing the equity gains of the post-World War II years.⁹ The richest 5 percent of households received more than \$1 out of every \$5 in total income in 2004.¹⁰ On average, the income of the top 20 percent of households was about 15 times greater than that of the households in the bottom 20 percent—the widest gap on record based on an analysis of U.S. Census Bureau figures.¹¹ What is more, the average after-tax income of the richest 1 percent of households was 50 times that of the bottom 20 percent of households.¹² These wealthy households have seen their after-tax income increase by 140 percent since 1979—65 times more than the gains seen by the typical household and 370 times the average income gain for the 22.2 million American households with the lowest incomes.¹³

Family Income – Figure 1



Black and Hispanic children are about three times as likely to be poor as non-Hispanic White children.



**Poor Children in America, 2004, 2003, and 1973
Persons Younger than 18**

	Number Poor (in thousands) 2004	Percent Poor 2004	Percent Poor 2003	1973
<i>All persons younger than 18</i>	13,027	17.8%	17.6%	14.4%
White ¹	8,685	14.9	14.4	n/a
Black ¹	4,049	33.2	33.6	n/a
Asian and Pacific Islander ¹	334	9.8	12.7	n/a
Hispanic (may be any race) ²	4,102	28.9	29.7	n/a
Non-Hispanic White ²	4,507	10.5	9.8	n/a
South	5,202	19.6	20.3	19.7
All other regions	7,825	16.8	16.1	11.6
Central city ³	n/a	n/a	26.1	20.4
Suburb ³	n/a	n/a	12.3	7.8
Rural (nonmetropolitan) ³	n/a	n/a	20.1	16.6
<i>Related to head of household</i>	12,504	17.3	17.2	14.2
White ¹	8,254	14.4	14.0	9.7
Black ¹	3,959	32.9	33.2	40.6
Asian and Pacific Islander ¹	329	9.7	12.4	n/a
Hispanic (may be any race) ²	4,000	28.6	29.4	27.8
Non-Hispanic White ²	4,193	9.9	9.3	n/a
In female-headed family	7,146	41.8	41.7	52.1
All other family types	5,358	9.7	9.6	7.6
Any family member works	8,907	13.1	12.8	n/a
Full-time year-round	4,289	7.5	6.8	n/a
Head of family works	7,027	11.9	12.1	8.7
Full-time year-round	3,008	7.0	6.6	4.1
Under age 6	4,737	19.9	19.8	15.7
Ages 6-17	7,723	16.0	15.9	13.6
<i>Comparison: Adults 18-64</i>	20,514	11.3	10.8	8.3
Seniors 65+	3,457	9.8	10.2	16.3

¹Starting with poverty data for 2002, the Census Bureau permits persons to choose more than one race; racial groups shown here may overlap.

²Persons of Hispanic origin may be of any race. White non-Hispanic means White alone (no other race) and not of Hispanic origin.

³Data by metropolitan area status are not available for 2004.

n/a — Not available.

Source: U.S. Department of Commerce, Bureau of the Census, *Current Population Reports*, Series P-60, Nos. 98, 226, and 229, and Historical Poverty Tables – People, Table 20 <<http://www.census.gov/hhes/www/poverty/histpov/hstpov20.html>>. Calculations by Children’s Defense Fund.

The trend in inequality is further exemplified by the explosion in the average compensation of chief executive officers (CEOs). The Economic Policy Institute (EPI) reports that the average CEO compensation in 2003 was 185 times that of the typical worker, compared to 24 times as much in 1965.¹⁴ According to a study by Pearl Meyer & Partners, in

2004, the CEOs of major companies received an average of \$9.97 million in total compensation, or more than \$38,000 for each day of work.¹⁵

In addition to this growing income inequality, an increasing share of total national income has been going to corporate profits while a shrinking portion is going to incomes and wages. This means

that workers at the bottom of the income distribution are receiving a smaller share of the shrinking portion of national income that goes to employees' wages. The share of national income going to the wages and salaries of employees is lower than it has been in any year since the data started being collected in 1929. At the same time, the share of income going to after-tax corporate profits is now higher than it has been for the past 75 years.¹⁶ This trend has intensified recently as corporate profits have seen a strong rebound following the 2001 recession. By the end of 2004, the *Financial Times* reports, profits of U.S. companies had soared to a record \$1.27 trillion, or 10.6 percent of GDP—a level only surpassed once since 1968.¹⁷

Family Incomes Are Declining and Wage Growth Is Weak

It is not only the *share* of national income that goes to those at the middle and bottom of the income ladder that is declining, but also its real value. After peaking in 1999, median household incomes fell for five years in a row. Incomes have been falling or stagnant among all groups, and minority households are seeing the equity gains of the 1990s slip away. Median incomes have fallen to about \$34,000 for Latino families and \$30,000 for Black families—70 and 62 percent of White family income, respectively.¹⁸ The median earnings of those who worked full-time, year-round also lost ground across the board over the last year. The slight gain in earnings equity for women since 2003 that the data reveal is entirely attributable to the fact that the earnings of men declined more rapidly than those of women, hardly a sign of progress. A typical woman who works full-time, year round still makes less than 77 cents for every dollar earned by a man with similar work effort.¹⁹ For households in the bottom 20 percent, average incomes have fallen for five years in a row while those in the top 20 percent have seen their incomes rise for the past two years. Since 2000, incomes fell by 10 percent for younger households headed by someone 15 to 24 years old and by 7 percent among households headed by someone aged 25 to 34.²⁰

These persistently negative trends in incomes, particularly for the households that already have

the least, only tell one part of the story. According to an analysis by the Joint Economic Committee, in 2000 there was a notable shift in the distribution of total earnings growth for those workers fortunate enough to retain full-time, year-round employment. From 1994 to 2000, the bottom 10 percent of workers saw their real earnings grow at an average annual rate of 1.6 percent.²¹ This rate was higher than that of the typical workers' earnings at 1.2 percent and only somewhat slower than the rate of increase for the richest 10 percent of workers, whose earnings grew at an average annual rate of 1.9 percent. By contrast, from 2000 to 2004, the bottom 10 percent of workers saw their wages shrink at an annual rate of 0.3 percent a year, while the wages of the highest earning individuals increased at an annual rate of 0.9 percent.

In the meantime, prices for goods and services have continued to increase at an accelerated pace since 2003.²² The general effect is that families cannot afford the same living standard as before on their current wages. A close look reveals a decline in wages in 2004 that was more severe among those at the bottom of the earnings scale, falling by 1.3 percent for the bottom 10 percent of workers and actually increasing by 1 percent for the richest 5 percent.²³ By education level, all workers except those with advanced degrees saw their hourly wages fall in 2004. A bulk of the loss was concentrated among women with a high school education, or less than a high school education; a decrease of 1.1 percent and 1.4 percent, respectively.²⁴

Wages and Benefits: Missed Opportunities to Support Working Families

Eight years have passed with no action by Congress to raise the minimum wage and help low-wage workers better support themselves and their families. As a result of the stagnating minimum wage, a full-time minimum wage paycheck—which would have kept a family of three above the poverty threshold until the mid 1980s—provides an annual income that is not even three-quarters of the poverty line in 2004. If the minimum wage had increased as quickly as CEO pay since 1990, today it would be \$23.03 per hour, more than four times

State Median Income for a Four-Person Family, FY 2006

Alabama	\$ 55,448	Montana	\$ 49,124
Alaska	72,110	Nebraska	63,625
Arizona	58,206	Nevada	63,005
Arkansas	48,353	New Hampshire	79,339
California	67,814	New Jersey	87,412
Colorado	71,559	New Mexico	45,867
Connecticut	86,001	New York	69,354
Delaware	72,680	North Carolina	56,712
District of Columbia	56,067	North Dakota	57,092
Florida	58,605	Ohio	66,066
Georgia	62,294	Oklahoma	50,216
Hawaii	71,320	Oregon	61,570
Idaho	53,376	Pennsylvania	68,578
Illinois	72,368	Rhode Island	71,098
Indiana	65,009	South Carolina	56,433
Iowa	64,341	South Dakota	59,272
Kansas	64,215	Tennessee	55,401
Kentucky	53,198	Texas	54,554
Louisiana	50,529	Utah	62,032
Maine	59,596	Vermont	65,876
Maryland	82,363	Virginia	71,697
Massachusetts	82,561	Washington	69,130
Michigan	68,602	West Virginia	46,169
Minnesota	76,733	Wisconsin	69,010
Mississippi	46,570	Wyoming	56,065
Missouri	64,128		

Source: U.S. Department of Health and Human Services, Administration for Children and Families, "State Median Income Estimate for a Four-Person Family (FFY 2006)," *Federal Register*, Vol. 70, No. 32 (Thursday, February 17, 2005), pp. 8102-8104.

STORIES FROM THE STATES

Two Incomes and Still Too Little

Tabitha and her husband are raising three sons, ages 8, 6, and 20 months, near Columbus, Ohio. They are both employed; Tabitha works at check-out at Value City, while her husband works at Subway. Both earn the federal minimum wage, \$5.15 an hour, for monthly earnings of \$1,785. Still, their annual earnings of \$21,424 leave them below the poverty line of \$22,543 for a family with two parents and three children.



the current minimum wage of \$5.15 an hour.²⁵ The annual income of an individual working full-time, with two children, at the \$5.15 an hour minimum wage leaves them \$4,500 below the 2004 poverty threshold.

Some 9.7 million children live in a household where at least one worker earns between the current minimum wage and \$7.25 per hour, the minimum wage advocated by some Members of Congress in 2005.²⁶ Furthermore, 1.2 million of these children live in households where two or more workers earned less than the proposed minimum wage.²⁷ Many of the 13 million American children living below the poverty line would benefit from such an increase.

The current earnings of a single parent working full-time at minimum wage covers only 40 percent of the estimated cost of raising two children. This is down from 48 percent in 1997 when the minimum wage was last raised. If the minimum wage were raised to \$7.25 per hour, it would cover

56 percent of the costs of raising two children, a significant improvement for working families. One out of three minimum wage earners is the sole income earner in families with children that would be affected by such a change.²⁸ This increase would help our neediest citizens most, as the lowest paid 40 percent of households would receive 60 percent of the increase in earnings.²⁹

Families Struggle to Pay the Bills

Adequate incomes are necessary to cover the rising costs of raising a family. When incomes fail to keep pace with rising health care, housing, transportation, and energy costs, parents are forced to make impossible choices that can be detrimental to children and weaken families. For example, research has shown that families who cannot pay their home energy bills not only struggle to keep family members warm, but also have agonizing problems keeping them fed and healthy.³⁰ The

Family Income – Figure 2

Minimum Wage¹ vs. Poverty Level², 1967-2005

A parent of two children who works full-time, year-round at the federal minimum wage does not earn enough to lift his/her family out of poverty.



¹ Minimum wage is calculated for full-time, year-round employment (2080 hours per year). The federal minimum wage (\$5.15 per hour) is used; some states have a higher minimum wage.

² Poverty level for a three-person family

Source: U.S. Department of Labor and U.S. Department of Health and Human Services. Calculations by Children's Defense Fund.

Family Income and Jobs

National Energy Assistance Directors' Association reported that the unaffordability of energy bills has a serious long-term impact on families: 22 percent of Low-Income Home Energy Assistance Program recipients³¹ went without food for at least one day, 38 percent went without medical or dental care, 30 percent went without filling a prescription or taking the full dose of a prescription medicine, and 21 percent became sick because their home was too hot.³² As energy prices continue to climb, low-income families are seeing their home energy and transportation costs take up a larger share of their budgets, limiting expenditures on other necessities.

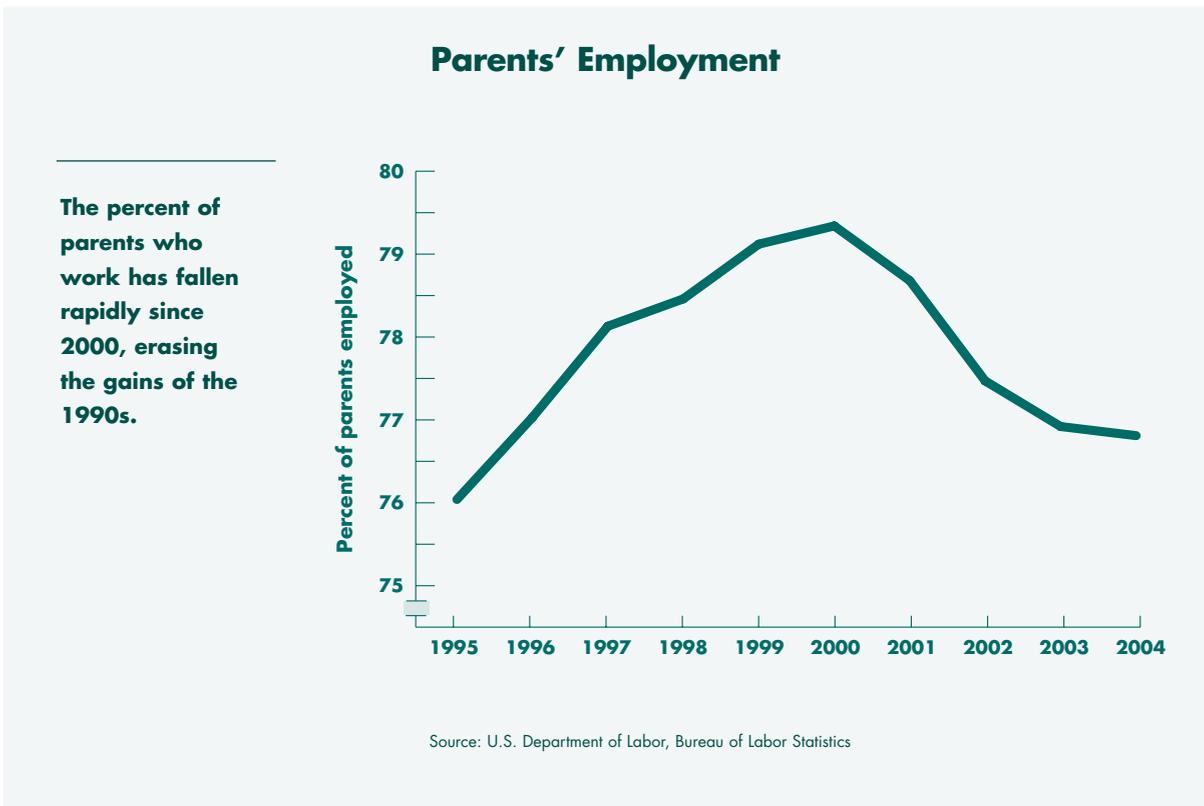
When earnings fail to keep pace, families become more and more indebted as they struggle to meet these rising costs. According to a recent study, between 1989 and 2001, the credit card debt of very low-income families (earning less than \$10,000 per year) increased at a staggering rate of 184 percent.³³ The study attributes this dramatic rise in debt to structural economic factors, including stagnant growth in real income among low- and

moderate-income families in the face of escalating housing and health care costs.³⁴

Anemic Jobs Recovery Leaves Many Families Behind

In addition to falling wages and salaries, a fundamental and related cause of the decline in family incomes and the growth in poverty since 2000 is joblessness. Unemployed workers and their families are the most directly impacted when the economy loses jobs or fails to generate sufficient new jobs for an expanding population. The portion of unemployed parents with children younger than 18 who were out of work for six months or longer almost doubled from 2000 to 2004—rising from 11.9 percent to 21.6 percent.³⁵ The more than half a million parents who are currently experiencing long-term unemployment—those who have been unemployed for more than six months—care for about one million children.³⁶

Family Income – Figure 3



Much of the recent fall in the unemployment rate can be attributed to a falling percentage of the working aged population that is participating in the labor force, as opposed to expanding job opportunities. As a result, even though the unemployment rate is relatively low by historical standards, the portion of the working aged population that is employed has consistently declined since 2000.³⁷ Also, the unusually long period of job losses and weak employment gains characterized by the three years following the 2001 recession saw an unprecedented number of workers who stopped actively looking for jobs and, hence, are not accounted for in the unemployment rate.³⁸ The Bureau of Labor Statistics (BLS) reports that in 2004, 22.9 percent of parents with children under 18 did not work, significantly up from the most recent trough in 2000 of 20.6 percent.³⁹ A 2005 study shows that there are up to 5.1 million jobless men and women who would work if a job were available, but that are not counted as officially unemployed.⁴⁰

In addition to the high number of workers who have dropped out of the labor force due to the lack of adequate employment opportunities, many workers are compelled to work fewer hours per week or fewer weeks per year than they would if there were sufficient opportunities. Rates of underemployment are higher than they have been in nearly a decade.⁴¹ Twenty-eight percent of children in low-income families have a parent who either works full-time for part of the year or part-time. Over 40 percent of these low-income working parents reported that they could not find full-time and/or full-year work.⁴² Hence, despite the overall recovery of the U.S. economy, and steady employment growth throughout 2004, many families continue to struggle to find work with the hours, stability, and wage rates necessary to adequately support their families.

Jobs Don't Always Lift Families Out of Poverty and Provide Economic Security

Low-wage work erodes our basic values of personal responsibility, hard work, and perseverance and sends the message that work does not pay.⁴³ About one in every four workers in the U.S. earned poverty-level hourly wages in 2004.⁴⁴ The result of

so many low-paying jobs is that nearly 39 million Americans, including 20 million children, are members of low-income working families—with barely enough money to cover basic needs like housing, groceries, and child care.⁴⁵

In an economic downturn, low-skilled, low-wage workers who are new to the labor force are particularly vulnerable to layoffs, reduced work hours, and periods of unemployment. Workers are much more likely to be classified as working poor if they have not achieved higher levels of education. According to the BLS, a worker with less than a high school education is more than eight times more likely to be classified as working poor than a worker with a college education.⁴⁶ Furthermore, it is projected that job growth between 2000 and 2010 will continue to be fastest for occupations that require a postsecondary credential (a vocational certificate or an associate's degree or higher), and the income gap is expected to continue to grow between those who have postsecondary education and those who do not. This means that low-skilled workers will likely continue to struggle to make ends meet in the future.⁴⁷

Weekly earnings for full-time working women continue to lag behind those of men.⁴⁸ While employed women work only an hour less on average than men, according to the BLS, they spend an hour more per day doing household activities and caring for household members, and spend twice as much time providing child care than do their male counterparts. To best fight poverty, we must recognize that the majority of our nation's poor—including the working poor—are women, and adapt solutions to fit their needs. According to the BLS, women who maintain families were more than twice as likely to be among the ranks of the working poor as their male counterparts.⁴⁹ If women had higher paying jobs and equal pay for equal work, they could lift their children out of poverty and bring economic stability to their families. The broad and persistent disparities between Blacks and Latinos and their White counterparts hold true where working poverty is concerned as well. Although about seven in 10 workers in poverty were White in 2003, Black and Latino workers remained more than two times as likely to be counted as working poor.⁵⁰

Low-Wage Jobs Lack What a Family Needs to Succeed

Low earners are most likely to advance in the labor market when they have access to higher-wage employers who also provide on-the-job training and career ladders. Unfortunately, low-income and especially minority workers living in poor neighborhoods often have limited access to such firms in their local labor markets due to few transportation options and limited information about or contacts in that market. Many parents who leave welfare for work do so for jobs that pay low wages and do not offer health and other benefits. Nor do they tend to move up the job ladder much over time. Thus, most former welfare recipients continue to be poor or near poor, even after entering the labor market, and their prospects for escaping poverty or near-poverty in the foreseeable future seem low.⁵¹ Furthermore, a recent Brookings Institution report found that Black workers were more likely to be isolated from potential employment opportunities than their White counterparts in metropolitan areas with greater decentralization of employment or job sprawl.⁵²

In order to remain competitive or secure higher profits, many employers have chosen the low road of freezing wages, reducing benefits, downsizing, using temporary workers, or outsourcing jobs to another part of the country or abroad. Individuals with jobs that provide few benefits such as health insurance and paid leave are more apt to miss work and to have reduced earnings or to lose their job due to family emergencies, disruptions in child care, and transportation problems. Workers in jobs with benefits such as health care and paid vacation are more likely to stay employed. One report found that workers in full-time jobs that provide health insurance have an 80 percent chance of working 18 consecutive months; workers without insurance have a 52 percent chance of staying employed that long.⁵³

Data from the BLS show that almost half (47 percent) of private sector workers do not have paid sick leave. A study by the Institute for Women's Policy Research showed that 59 million workers lack paid sick leave.⁵⁴ Inadequate paid sick leave has consequences: Workers show up at work when they are not healthy, spreading illness to other workers,

extending their own period of illness, and impairing their productivity on the job. Parents who must stay home when they are sick or to care for a sick child lose essential earnings and are at risk of being fired; children take longer to recover from illness and medical emergencies if their parents cannot spend time helping them recuperate. When paid and authorized sick leave is not available, working parents are placed at greater risk of losing earnings or even their jobs. Some of these workers will inevitably have to rely on unemployment, welfare, or other forms of public assistance.⁵⁵

Eighty-nine million workers in the U.S. currently have fewer than seven days paid sick leave. In addition, a very large share of the workforce (70 percent, or more than 85 million workers) lack paid sick leave to take time off to care for sick family members including young children.⁵⁶ While many families cannot reliably count on paid sick leave, working poor families are at highest risk. A study found that 74 percent of working poor parents *did not* consistently have paid sick leave over a five-year period compared to 43 percent of those above 200 percent of the poverty line.⁵⁷

Often, those who are lucky enough to have paid sick leave are not allowed to use it to care for a sick family member. Studies show that about half of working mothers reported they did not get paid when they stayed home to care for their sick children. Yet parental availability is critical for children's physical and mental health. Fifty-eight percent of young parents said they continued to go to work when their children were sick, and of the 42 percent who were able to stay at home with their sick children, more than half said they could do so because they received some type of paid leave. Thirty-four percent of parents reported that caring for their sick children led to difficulties at work, 12 percent said it led to lost pay, and 13 percent to loss of promotions or jobs.⁵⁸

Education and Training: A Path Out of Poverty

"Quality education and training are critical to the success of our students, communities, and the economy."

The U.S. Chamber of Commerce⁵⁹

Education and earnings are inextricably linked. Millions of Americans who work full-time find they cannot pay for their basic living expenses let alone afford to make investments in their future. The likelihood of being classified as working poor greatly diminishes as workers achieve higher levels of education. Children with full-time employed parents are increasingly likely to be low-income if their parents have not obtained a high degree of educational attainment. Eighty-two percent of children whose parents never finished high school are low-income, compared to 54 percent of children whose parents had a high school degree and only 22 percent of children whose parents had some college.⁶⁰ These percentages decrease only slightly when the number of hours worked is taken into account. Seventy-three percent of children whose parents worked full-time year-round but who did not finish high school were low-income, compared to two out of five (43 percent) children whose parents had a high school degree and just over one in seven children (15 percent) whose parents had some college.⁶¹

An adult aged 25 and older who worked full-time, year-round, typically earned \$37,542 in 2004. When working adults' earnings are disaggregated by education, gaps become evident. Workers with a high school degree had earnings of about \$31,000, compared to median earnings of more than \$50,000 for those with a bachelor's degree.⁶² Workers with low educational attainment are not only less likely to earn a livable wage, they are also less likely to find a job.

- In 2000, 87.8 percent of workers with a college degree were employed; this is 12 percent higher than the employment rate of persons whose highest degree was a high school diploma, and 40 percent higher than the employment rate of persons with less than a high school education.⁶³
- Among women, the differences were even greater—82 percent of those with a college degree were working, an increase of 15 percent compared to those with a high school education and an increase of about 67 percent from those with less than a high school education.⁶⁴

- A national study of unemployment spells between 1996 and 1999 found that those with less than a high school education were unemployed 47 percent longer than college-educated workers. Those whose highest degree was a high school diploma were unemployed 23.5 percent longer than those with at least some college.⁶⁵

Having an advanced education has become more important over the last 30 years, as earnings gaps between workers with and without a college education have grown wider. In 1975, the average male high school graduate earned 66 cents for every dollar earned by someone with a bachelor's degree.⁶⁶ In 2003, male high school graduates earned only 53 cents for every dollar made by a male with a bachelor's degree.⁶⁷

Nationally, almost 28 million adults do not have a high school degree.⁶⁸ Employers are reporting a shortage of highly qualified applicants with post high school training. From a business perspective, America's economic success depends on the business community's ability to recognize and use diverse human resources and the talents of workers. Sixty-five percent of non-college jobs require or prefer specific previous experience, 40 percent require training or skill certification, and 50 percent require the applicant complete a skills test.⁶⁹ A recent National Association of Manufacturers survey found that, even at the onset of the recent recession, over 80 percent of manufacturers reported a shortage of highly qualified applicants with specific educational backgrounds and skills.⁷⁰ Job training and education have been proven to decrease the shortage and assist low-income working families in increasing their wages. According to the National League of Cities, 87 percent of municipalities using job training to assist low-income working families find it an effective strategy.⁷¹

Income and race greatly influence one's chances of going to college. The rapid increase in college tuition costs, which have risen faster than both inflation and family income, deny many young adults the opportunity to reap the social and economic benefits of higher education. Financial barriers prevent 48 percent of college-qualified

Family Income and Jobs

high school graduates from low-income families from attending a four-year college; 22 percent of such graduates will not attend any college at all.⁷² The racial gap regarding who goes to college has also widened in the last 30 years.⁷³ Graduation rates also vary by race, with nearly double the number of White students graduating with a bachelor's degree compared to Black and Hispanic students.⁷⁴

In spite of the evidence that education and training lead to economic advancement, recent federal policies make it harder for low-income Americans to obtain the education and training they need to move forward in today's economy. In 2003, the average adult in a Workforce Investment Act funded program increased his or her total earnings by \$3,260 over the first six months after graduating from the program.⁷⁵ Unfortunately, the federal government's investments in workforce development programs over the past two decades have failed to keep pace with the increasing demand for skilled workers. The range of workforce training programs—particularly those targeting low-income

adults and youth—that have seen significant cuts in recent years have translated into significant lost opportunities both for workers and for the businesses that want to hire them.⁷⁶

Eligibility for Unemployment Assistance Is Limited

Workers whose incomes fall below the poverty threshold typically experience one or more of the three main labor market problems: unemployment, low earnings, and involuntary part-time employment.⁷⁷ Unemployment Insurance (UI) provides an essential support to workers who lose their jobs and is particularly important during times of economic downturn. It helps to prevent poverty by providing a cash payment to eligible workers almost immediately after they become unemployed, helping them to continue to make ends meet in the absence of their lost income. By providing workers the income they need to keep their homes while they find a new job, UI offers workers, their families, communities, and the econ-

WIA One-Stop Centers Do Work

Established by the Workforce Investment Act (WIA), first passed in 1998, One-Stop centers deliver employment-related training and services. One-Stop centers are an essential community institution serving families and youth throughout the country, especially those in areas suffering from high poverty and high unemployment. At Arapahoe/Douglas Works! in Aurora, Colorado, job seekers gain the skills necessary for employment in local industries, such as the healthcare industry. The organization works with local Chambers of Commerce and economic development entities to engage and serve employers, ensuring that job training and placements are relevant and appropriate for the local job market. This leads to a successful job-training program for workers while meeting the employment needs of local industry.

The commitment of Arapahoe/Douglas Works! to continuous community partnerships is a key element of its success. The center goes beyond basic job training services by raising additional funding and collaborating with other organizations to expand services. Arapahoe/Douglas Works! connects clients to basic needs and support services, including child support, food, health care, and housing. This is essential to the success of the job training and workforce development program; job seekers need to be secure in their health and human needs to be successful employees. Additional funding also provides for workforce development services specifically for at-risk students within the Youth Works! program. Youth Works! provides services to youth through academic support, work experience, the national Job Corps, mentoring, and leadership development. The program enables youth to be engaged in their local community and prepares them to become more productive adults.

omy important stability. Research shows that during previous recessions, unemployment benefits have saved an average of 131,000 jobs.

Despite the well-documented positive effects of unemployment insurance, the program suffers from structural problems that unnecessarily limit eligibility, especially among low-income workers and women. Reform of the unemployment insurance system to expand eligibility could extend greatly needed benefits to millions of unemployed workers and their children struggling to make ends meet, while providing effective stimulus to the economy. The workers most likely to be left behind by the UI system are those who are already the most economically vulnerable and in need of the most assistance in staying attached to the labor market.

- Workers with lower earnings and less stable employment are less likely to receive benefits, as they need to work more hours than higher-income workers to meet minimum earnings requirements. Low-wage workers employed at least 35 hours a week are 44 percent less likely than higher wage workers to collect unemployment insurance and women are 15 percent less likely than men to receive benefits when they become unemployed.
- Many states do not cover unemployed workers not seeking full-time work, even if they had worked part-time before becoming unemployed and meet all other eligibility requirements. Only 24 states use the same standards to determine part-time eligibility as they do with full-time workers. More than one in six workers are part-time; and this group is disproportionately low-income and female.⁷⁸
- Most states exclude unemployed workers from eligibility if they became unemployed for “personal” reasons. Some states allow good cause for specific reasons, such as lack of day care, medical causes, or domestic violence. A worker- and family-friendly unemployment system would not deny benefits to people who had become unemployed or were unable to search for work because of compelling domestic circumstances such as caring for sick children or parents, conflicts with work schedules and child care responsibilities or domestic violence.

Safeguarding Families: The Role of Government Benefits in Family Well-Being

Millions of low-income families are one crisis away from economic catastrophe. In the 1990s, significant progress was made towards ensuring families were better able to make it into the middle class. Many factors contributed to the employment growth of the 1990s, including a strong economy, state and federal welfare reforms, the large expansion of the Earned Income Tax Credit (EITC) in 1993, increased child care spending, increases in the minimum wage in 1996 and 1997, and broadened access to health care outside of welfare. However, the economy went into recession in 2001 and the recovery was very slow. States entered into a period of large budget deficits placing strains on Temporary Assistance for Needy Families (TANF) funds, forcing cutbacks in child care and other services. The pressures from the economy and state budget crises had an impact on employment, child poverty, child care, and welfare participation.⁷⁹

These factors made the role of federal government benefits increasingly important. Research has shown that they are effective in bolstering the ability of low-income workers to meet their basic needs. One study showed that those leaving TANF with housing subsidies were more likely to stay off welfare than were those without benefits.⁸⁰ An Urban Institute report clearly demonstrates that former TANF recipients who receive other forms of assistance are less likely to return to TANF than those who do not receive assistance. For example, 27.7 percent of those leaving TANF without child care help returned within three months, compared to only 19.5 percent of families who did receive child care assistance. Similarly, 21.7 percent of families with government health insurance subsequently returned to TANF, compared to 32.8 percent of families without such insurance.⁸¹

Low-wage workers account for a surprisingly large segment of the nation's workforce. In 2003, one-quarter of the labor force earned \$9.08 per hour or less. For many of these workers, publicly provided income supplements and work supports such as child care subsidies, food stamps, Medicaid/SCHIP, the Earned Income Tax Credit, and Child

STORIES FROM THE STATES

Crucial Assistance Is Only Temporary

Dreama Mollet lives in Columbus, Ohio, and is a single mother with four children. She had to quit a full-time job at the grocery store to care for her sick aunt. In order to remain eligible for the Ohio cash assistance program, she needed to stay employed at least part-time. She now works at a settlement house 30 hours per week and receives both cash and food assistance through the “Ohio Works First” work experience program. The cash assistance is limited to only three months, and Dreama worries that she will not be able to work enough hours to provide for her family once it expires. She does not have a car and can work only in locations served by public transportation.



Tax Credit help to increase job retention, reduce job turnover, and improve child and family well-being.

U.S. Census data show that government programs successfully lift millions of Americans out of poverty. In 2003, due to receipt of government benefits, poverty was reduced by almost half and child poverty was reduced by more than one-third.⁸² Moreover, research has shown that if people were able to fully access all of the benefits for which they are eligible, poverty could be reduced by 20 percent and extreme poverty would fall by 70 percent.⁸³

As extreme poverty is growing faster than poverty, the weakening of the social safety net for children at the bottom of the economic scale becomes a critical policy issue to address. It is important to maintain and provide even more assistance to families through TANF, nutrition programs, housing, the Earned Income Tax Credit, and other critical safety net programs to avoid leaving parents with even fewer resources to meet their children’s needs.

Welfare Reform: A Path to Employment or Increased Poverty?

The Temporary Assistance for Needy Families (TANF) law passed in 1996 called for a strict five-year time limit on benefits and little opportunity for training and education that leads to better jobs. It is difficult to sort out the effects of the strong economy of the late 1990s, though those who tout the success of welfare reform claim that it is directly responsible for the caseload drop and that the need for TANF is decreasing. While the 1990s saw a

decrease in welfare rolls and some families improved their circumstances, today we know that many families have moved much farther below the poverty line as a result of benefit reductions and restrictions. The increase in child poverty, poverty in female-headed households, and the striking increase in extreme child poverty in recent years indicate an increased need for TANF funding and a need to make poverty reduction the primary program goal.

Children younger than six, already the most likely to be extremely poor, were less likely than older children to be covered by TANF in 2000. Among older children in extreme poverty, coverage fell by two-fifths (from 57 percent to 33 percent) while coverage for extremely poor young children dropped by nearly three-fifths (from 61 percent to 26 percent). Prior to welfare reform, children younger than six were more likely to receive cash assistance than their school-aged counterparts. Cash assistance receipt declined by nearly one-third for poor children in single parent families, from 42 percent in 1996 to 29 percent in 2000, while during this period the proportion of children under eighteen who were quite poor and lived with single parents dropped only 8 percent.⁸⁴

Has TANF Helped People Find Jobs?

TANF imposed time limits on recipients, and in 2001 families began reaching their five-year lifetime limit for receipt of benefits. Others in states that opted for time limits of fewer than 60 months were already struggling with those limits. A study

Who Remains on Welfare?

As welfare policy has changed, so too has the welfare population. A decade ago, Whites represented the largest proportion of cases, accounting for almost 4 million recipients. However, Whites have exited the welfare rolls faster than Blacks or Latinos, and now Blacks dominate the ranks. Less than one-third of Blacks leaving welfare found a job, compared to over half of Whites.⁸⁵ In 2002, according to the Department of Health and Human Services (HHS), 38.3 percent of recipients were Black and 24.9 percent were Latino, while Whites accounted for 31.6 percent.⁸⁶

Studies predict that this trend will persist as minority populations spend longer periods on welfare than their White counterparts and as they continue to fair far worse in the job market and wage earnings.⁸⁷ Crafting of the welfare policies assumed all groups were on a level playing field, but given the persistent racial divide, minority families face significant challenges as they navigate the welfare system and the job market and remain overrepresented in low-wage jobs.

by MDRC found that nationally, as of December 2001, about 231,000 families reached either a federal or state time limit; at least 93,000 had their welfare case closed due to a time limit and another 38,000 had their benefits reduced.⁸⁸ Since the MDRC study, it is almost certain that many more families have reached their time limit, as federal time limits were only starting to kick in when this study was conducted.

Recent research shows that time limits account for one-third of those who leave TANF.⁸⁹ Further, the Department of Health and Human Services (HHS) data show that fewer than 2 percent of families are receiving assistance past 60 months—far fewer than the 20 percent allowable exceptions under the TANF law.

As welfare caseloads declined by more than half, states used the savings from the reduction in the number of families receiving assistance to provide important work support services like child care and transportation. But, as the value of the block grant declines, states are finding it necessary to eliminate many work incentives.⁹⁰ The Government Accountability Office reported that the TANF caseworkers and service providers they visited pointed to transportation difficulties, job shortages, low wages, and lack of services—especially child care—that challenged their efforts to help clients become employed and move toward self-sufficiency.⁹¹

A major study by the Public Health Institute (PHI) examining TANF welfare barriers to work

found that full-time work is three to four times more likely when a family has secure child care arrangements.⁹² According to the latest data, 550,000 children are on waiting lists for child care. This number significantly underestimates the need for care, as only one in three states actually keeps a waiting list. The others simply inform people there is no slot available for them. If all states kept a waitlist, the reported waitlist would be significantly larger.⁹³ Yet efforts to increase child care funding have been thwarted by the Administration, which has stated that it “would strongly oppose any amendment that increases funding for the Child Care and Development Fund.”⁹⁴

Forty-one percent of TANF recipients have not yet completed high school and 76 percent have low levels of literacy.⁹⁵ Even a single year of post-secondary education can have a major effect on earning capacity.⁹⁶ However, under TANF, states may count higher education as a work activity for only 20 percent of their caseload, so 80 percent of the recipients must either abandon hope of getting more education or squeeze it in on top of their other work activities and family life. As a result, colleges are seeing major declines in enrollment of welfare recipients.⁹⁷

TANF Needs a New Focus

A family can expect an average TANF benefit of \$412 per month, or an average of \$164 per per-



When Families Lose Their Benefits

In West Virginia, only one of every four former recipients whose benefits ran out because of the five-year time limit has been able to get a job, and more than half of those who are working have only been able to find part-time work. The average ex-welfare family earned \$6,120 in 2003—only one-third of the poverty level for a family of four. They were twice as likely to have been evicted from their homes, to have run out of food, or have had their utilities cut off since they were kicked out of West Virginia Works, the state's cash assistance program. They also pawned possessions, moved in with someone else, or borrowed money twice as often as before. More than half said they couldn't buy their children a birthday gift or clothes or let them participate in after-school activities because they did not have enough money.

Source: *The Associated Press*, "Former Welfare Recipients Struggling, Study Says," *The Herald Dispatch* (September 21, 2004).

son.⁹⁸ For two million families on welfare, TANF is often their last resort to sustain themselves. Yet many families eligible for assistance are not receiving it, and those attempting to leave TANF face increasing barriers.

In 2003, the proportion of welfare recipients entering jobs was 34 percent, two percentage points lower than in 2002 and a continuation of the downward trend in workforce participation rates evident over the last four years.⁹⁹ At the same time, poverty rates among families that leave TANF are very high, and half of the very poor families with children who are eligible for TANF assistance do not receive it—a number that is increasing.¹⁰⁰ Some of these families are intimidated by the complex application process or eligibility requirements,

and others have health problems that limit their ability to apply for benefits.

Despite these trends, from 2001 through 2005 the TANF debate remained focused on work requirements, participation rates, and arbitrary successes such as the drop in caseloads, rather than on programs that promote work with adequate education and training that have proven to be successful in moving many families toward greater self-sufficiency. In addition, work supports such as child care, food stamps, the Earned Income Tax Credit, and health insurance are essential to successfully getting and keeping parents in jobs. TANF policies must incorporate strategies that ultimately lead to families having the resources available to meet their needs.

Education Pays

Portland, Oregon, welfare-to-work program incorporating job training, education, job search assistance and more, outperformed other welfare-to-work programs, producing long-term significant increases in employment, earnings, job quality, and employment stability, according to a recent evaluation by the National Evaluation of Welfare-to-Work Strategies (NEWS).¹⁰¹ In three NEWS sites, those who participated in basic education and then went on to post-secondary education or training had an additional \$1,542, or 47 percent increase, in earnings in the third year of follow-up compared to those who participated only in basic education.¹⁰² A 2002 study of the Maine Parents as Scholars program that supports welfare participants while they complete a two- or four-year college degree found that graduates increased their hourly median wages by 46 percent.¹⁰³



STORIES FROM THE STATES

A Long Haul

Faye Carter is married and raising three children, ages 4, 3 and 1 in Logan, Ohio. Her husband makes the long drive to Columbus for work while Faye cares for their children. (If she were to work full-time, at a minimum wage job, her monthly earnings of \$893 would not even cover the estimated average monthly child care costs of \$1,194 for a family such as hers—not to mention transportation and other work-related costs). Despite his long hours and hard work, her husband's income of an estimated \$25,500 puts the family just slightly above the poverty line.



Cars line up for free food in Ohio.

The Carter family has a little more money to feed the children, thanks to \$126 in food stamps each month and Faye regularly visits the food pantry. She says, "They'll give you food if you need it, even at times that aren't scheduled. The pantry always has milk and formula for the kids." Lisa, Faye's mother, notes that "Last year the food pantry wasn't so packed." This year, "People are hungry. They don't have ways to support their families. Jobs are hard to find in Ohio." Lisa complains that you can't go to school and still qualify for child care assistance, yet you need a high school diploma to do cleaning or custodial work. She cites the difficulties of paying for gas and transportation in a rural area and says that doctors are leaving Logan, making it more difficult to take her children to see a pediatrician.

Food Insecurity Is Rising

The story of the Carter family provides a small window into the lives of food insecure families that must rely on services such as food pantries just to get by. A household is defined as food secure if all of its members consistently have access to enough food to allow for active and healthy living. There are 36.3 million food insecure Americans, including more than 13 million children.¹⁰⁴ Of these children, 420,000 experienced food insecurity with hunger in 2003. Moreover, in 3.9 million families, someone had to skip a meal because they were unable to purchase food.¹⁰⁵ These are the highest levels of food insecurity (both with and without hunger) since 1998. The majority of food insecure households have incomes that are near or below the poverty line.

Steadily rising rates of food insecurity among very young patients' families has pediatricians across the country alarmed. Food insecurity leads to many short-term health problems such as higher rates of infection and hospitalization, as well as lifelong developmental consequences for children.

Compared to 1999, food insecurity was 77 percent more likely to be found in low-income households with children up to three years old, according to data through June 2004 from the Children's Sentinel Nutrition Assessment Program (C-SNAP). Infants and toddlers were found to be 95 percent more likely to experience poor diet or hunger compared to 1999.¹⁰⁶

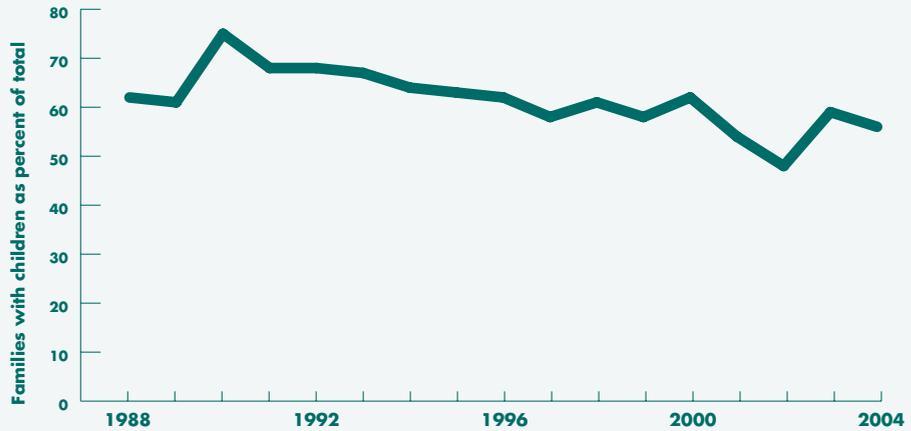
The Food Stamp program is central to alleviating hunger and poverty in the U.S. Food stamp participation closely follows the economic cycle. The number of people receiving food stamps fell by over 40 percent in the late 1990s, largely because of the strong economy. When the economy again weakened, the Food Stamp program was there to serve those in need.

Since 2000, food stamp participation has increased by over 20 percent, reaching 10.6 million children. Some of the increase can be attributed to states improving access to the Food Stamp program, but this increase also was due to continuing high rates of joblessness. Still, the program is not reaching all those who are eligible. Only about

Hunger in America

Proportion of those requesting food assistance in America's cities who are families with children

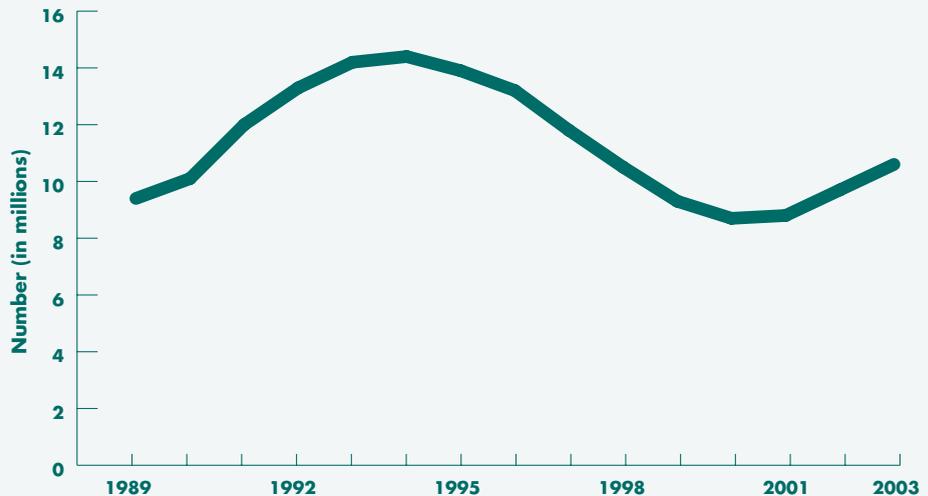
Families with children represent over half of those requesting food assistance in U.S. cities.



Source: U.S. Conference of Mayors - Sodexo, *Hunger and Homelessness Survey 2004* (December 2004), Appendix Chart, "Hunger and Homelessness in America's Cities: A Sixteen-Year Comparison of Data."

Children Receiving Food Stamps, 1989-2003

10.6 million children receive food stamps—an increase of more than 20 percent since 2000.



Source: U.S. Department of Agriculture, Food and Nutrition Service, unpublished tabulations.

STORIES FROM THE STATES

Caring for Her Children and Parents

Rosetta Jones of Jonestown, Mississippi, works two jobs in order to provide for her four sons. They live together in a trailer with her aunt who is sick with Alzheimer's. Mrs. Jones also cares for both of her parents who live next door. She works as a room attendant in a casino during the day, earning \$7.00 per hour, and at an oil mill for four hours during the evenings. However, she does not have a car and depends on friends for rides to and from work. She receives Section 8 housing right now, but dreams of owning a home for the whole family one day.



54 percent of eligible people received benefits in 2002.¹⁰⁷

Affordable Housing Is Basic to Families' Well-Being

In addition to the increase in hunger, food insecurity, and food stamp participation, there has been a continued rise in the number of families that lack adequate housing or are homeless. Housing is the largest single expense for many working families, and more and more families in our nation cannot afford housing. While median incomes have been declining since 2000, housing costs have continued to rise significantly. Due to the combination of these two factors housing has become much less affordable. This is clearly illustrated by the fact that the proportion of renter households living in unaffordable housing has increased from 41 percent in 2000 to 48 percent in 2004.¹⁰⁸

The hourly wage that a worker supporting a family needs to earn to afford a modest two-bedroom home at fair market rent is increasing.¹⁰⁹ One report shows that in 2003 the national median housing wage was \$15.37, a 38 percent increase since 1999. In 48 states and the District of Columbia the combined earnings from two full-time minimum wage workers is not enough to afford fair market rent.¹¹⁰ High housing costs make it difficult for working poor families to retain employment by leaving them with little income to

pay work-related expenses such as transportation and child care.

Women, children, and the elderly are over-represented among those with housing problems, and single-parent households are more likely to experience housing difficulties. Children are present in 37 percent of all renter and homeowner households across income levels, but are present in 93 percent of over-crowded households and in 56 percent of households with multiple housing problems such as malfunctioning heating or plumbing systems, overcrowding, and health hazards. Housing-related health hazards include lead poisoning, asthma, asbestos, radon, and mold. Almost one-quarter of households with children are in older housing units with high risks of lead dangers.¹¹¹ The high cost of housing-related health dangers includes lost learning for children, lost work days for parents caring for ill children, medical expenses, and special education costs.

Lack of affordable housing was the leading cause of homelessness. In 2004 the request for emergency shelter assistance increased by 7 percent, sometimes forcing families to separate to obtain emergency shelter. Forty percent of the homeless are families with children. Unaccompanied youth, those 18 years of age and younger who are not with a family, comprised 5 percent of the homeless in a 27-city survey.¹¹²

Homeless children face hardships that include frequent changes in schools because their families must search for cheaper places to live, and they

often struggle to catch up with school work or have difficulty forming lasting friendships. They also suffer from anxiety because their families are forced each day to choose between spending money on housing, health care, or other basic needs. Children experiencing homelessness are diagnosed with learning disabilities at twice the rate of other children; they suffer from emotional or behavioral problems that interfere with learning at almost three times the rate of other children; and 21 percent of homeless children repeat a grade because of frequent absences from school, compared to 5 percent of other children.¹¹³

Federal Housing Policy Compounds the Problem

Federal housing policy is gradually shifting away from targeted rental assistance for low-income families toward homeownership. This change in emphasis runs counter to what may be in the best economic self-interest of these families. A recent study concludes that unlike middle- and upper-income homeowners, low-income families receive no tax benefit from homeownership, are

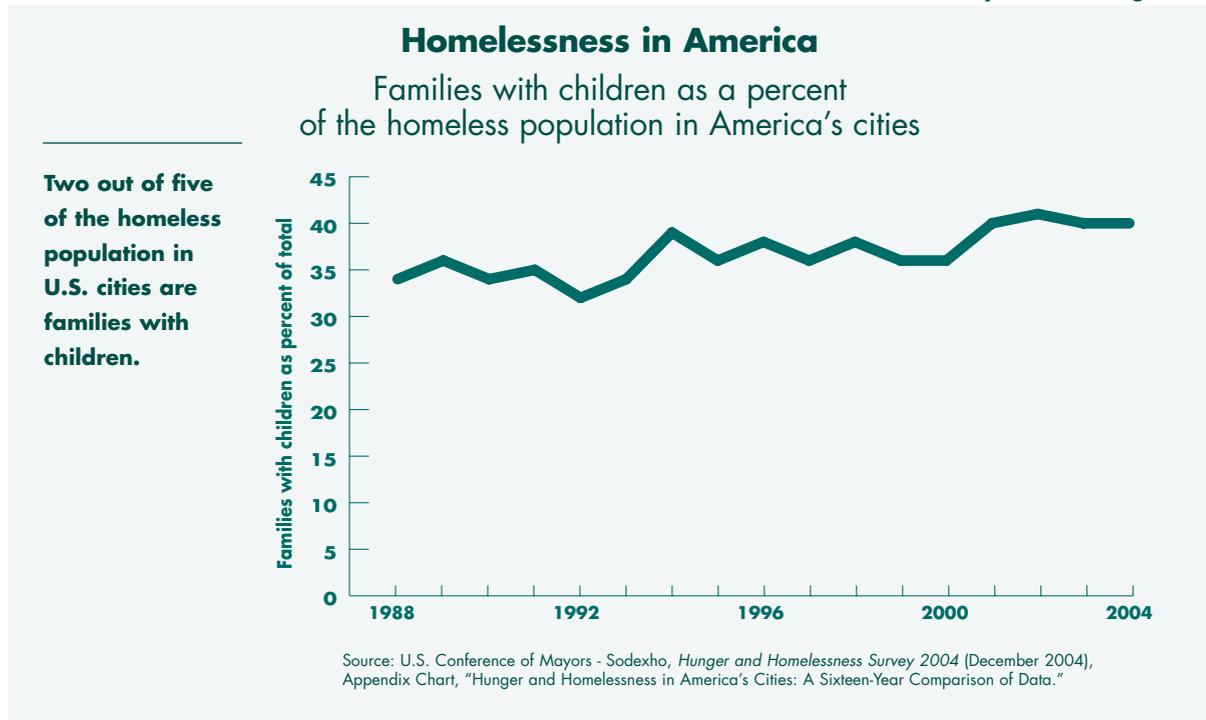
likely to live in a home they buy for a relatively short time, are unlikely to earn a capital gain on any home they buy, and could end up losing the equivalent of one year's rent as a result of their decision to buy rather than rent.¹¹⁴

Homeownership may be a desirable and achievable goal for some low-income families, but the priority given to it by the Administration has resulted in a lack of support for the Department of Housing and Urban Development's (HUD) largest and most successful rental assistance program. The Section 8 voucher system provides rental assistance to approximately two million households, 60 percent of whom are families with children. Without a reversal in this policy direction, the burden for families challenged by simply keeping a roof over their heads and meeting basic needs will continue to escalate.

Earned Income Tax Credits: A Powerful Anti-Poverty Program

Created in 1975, the Earned Income Tax Credit (EITC) has become the nation's largest anti-

Family Income – Figure 7



poverty program, exceeding spending on other programs such as food stamps and TANF. In 2003, more than 4.4 million people and 2.4 million children were lifted out of poverty due to receipt of the EITC.¹¹⁵ The EITC is a fully refundable federal tax benefit that can be applied to a person's tax liability to reduce or eliminate the amount of taxes owed and provide a refund if the credit exceeds taxes owed. The amount of the credit varies depending on the amount of income the taxpayer earned, whether he or she is married, and how many children are claimed. In 2005, low-income working

families with two or more children can receive as much as \$4,400 as their credit.

EITC refunds can help families meet current needs as well as provide money to invest in savings. One study found that 83 percent of families said that paying bills such as utilities and rent was one of the top three priorities for their EITC money, and 74 percent of families said that purchasing basic household commodities and clothing was a priority. Fifty percent of the families said they were going to save at least part of their EITC money, and 16 percent were going to pay tuition.¹¹⁶ The EITC

Place-Based Services Can Boost Earnings

The Jobs-Plus Community Revitalization Initiative for Public Housing Families (Jobs-Plus) program was a demonstration program carried out between 1998 and 2003. This initiative was fully implemented in public housing developments in Dayton, Ohio; Los Angeles; and St. Paul, Minnesota. It had three main components: employment-related services, rent-based work incentives that allowed residents to keep more of their earnings, and activities to promote neighbor-to-neighbor support for work. The program offered employment services, job search assistance, vocational training, education programs, child care, and transportation assistance in conjunction with financial incentives such as rent breaks, so that an increase in earnings was not automatically offset by an increase in rent. The program allowed for a stabilized rent for up to 36 months.

Residents' earnings were significantly boosted by combining job training, rent incentives, and word-of-mouth promotion. Working-age residents participating in the program at the three sites increased their earnings by an average of 14 percent, or \$1,141, annually over what they would have been without the program during the last four years of the study.

Source: Howard S. Bloom, James A. Riccia and Nandita Verma, "Promoting Work in Public Housing: The Effectiveness of Jobs-Plus" Final Report, MDRC, March 2005.

Free Tax Preparation Brings Results

The Children's Defense Fund Tax and Benefits Outreach effort seeks to ensure that children and working families receive tax assistance, like the Earned Income Tax Credit and the Child Tax Credit, as well as other benefits for which they are eligible. Many non-profits, like Children's Defense Fund, have stepped up efforts to help taxpayers with free tax preparation services. These services, provided at Volunteer Income Tax Assistance (VITA) sites, are helping working families obtain the full value of their tax returns to purchase necessary household items, pay off debt, buy new clothes, or put money in a savings account.

In 2005, Children's Defense Fund's national office coordinated work at six local faith- and community-based organization's VITA sites in Washington, D.C. From January through April of 2005, these VITA sites assisted more than 750 low-income taxpayers in claiming \$990,000 in tax refunds and credits. Over \$437,000 in benefits were obtained through the federal and state EITC. Nationally, more than \$105 million in tax refunds resulted from CDF's direct and indirect coalition work.

Refund Anticipation Loans: A Deceptive Practice Aimed at Low-Income Taxpayers

Two-thirds of low-income taxpayers who claim the EITC pay commercial tax preparers to complete their taxes, and many pay huge fees to receive their refund one to two weeks earlier. These low-income taxpayers lost over \$690 million in loan charges in 2003 and a total of \$2.3 billion if the cost of commercial tax preparation is included.¹¹⁷ The costs can include tax preparation, documentation preparation or application handling fees, electronic filing fees, and exorbitant charges related to Refund Anticipation Loan (RALs).



RALs are loans secured by the taxpayer's tax refund, including the EITC. Approximately 12.7 million RALs were taken out during the 2002 tax season at an average cost of \$90 per taxpayer with average annual percentage rates (APR) ranging from 70 percent to 700 percent.¹¹⁸ The most recent Internal Revenue Service figures indicate that 79 percent of RAL recipients in 2003 had adjusted gross incomes of \$35,000 or less.¹¹⁹ Minority consumers are the most frequent RAL users; 28 percent of African Americans and 21 percent of Latino taxpayers told surveyors they received RALs compared with 17 percent of White consumers.¹²⁰

Many low-income families may feel they have little choice but to take out a RAL. The main reason is that RALs enable families to immediately access the amount of money they expect from their tax refunds, rather than waiting one to two weeks for the IRS to process their returns electronically. Because many of these families are unlikely to have the money on hand to pay for all the fees associated with the loan, the commercial tax preparers make it seem easy by deducting these fees first, relieving the families from having to find alternative resources. But because the RAL is a loan, it can actually leave a family in greater financial crisis. Usually, a RAL is paid off once the IRS processes the tax return and transfers the funds. However, if the IRS denies part of the refund for any reason or even withholds it temporarily for audit purposes, interest continues to accrue and the family is responsible. Given their real financial needs, it is unlikely that EITC families budget for this possibility. There is also ample anecdotal evidence that some families, especially those with limited English proficiency, do not fully comprehend that they are taking out a loan.

In middle- and upper-income communities, consumers have access to loans and credit cards at competitive rates, and branch offices of mainstream banks and savings and loans offer a full array of banking services. By contrast, in many low-income minority communities the absence of capital can deter entrepreneurs and limit the expansion of neighborhood businesses. Low-income consumers are forced to patronize fringe financial service providers that charge exorbitant rates for personal loans and limited banking services.¹²¹ According to the Federal Reserve, one out of four families with incomes less than \$25,000 does not have either a checking or savings account.¹²² A broader population of low- to middle-income families have bank accounts but still rely on high-cost non-bank providers to conduct much of their financial business such as check cashing.

plays an important role in helping low- to moderate-income families meet their basic immediate needs and make ends meet while investing in the local economy.

A total of fifteen states and the District of

Columbia currently have a state Earned Income Tax Credit (EITC) program. Families eligible for the federal EITC are eligible for their state program as well and receive the state benefit in addition to the federal credit.

Recommendations for Moving Forward

No child should be doomed to a life of poverty and reduced opportunities and cut off from the mainstream. Our goal must be to reduce and eliminate child poverty. To do so, we must increase the income of parents raising children. Child advocates, government officials, policy makers, and service providers working together can make progress toward achieving that goal. Government must do its part by making investments in education and training that lead to good jobs and by providing the supports necessary to meet the basic needs of families as they attempt to raise their children out of poverty.

Support policies that make work pay and ensure family friendly workplaces.

- Raise the minimum wage to at least \$7.25 an hour to help ensure that workers at the bottom of the earnings scale are not left behind.
- Quality education and training are critical to the success of our communities and the economy and can be an effective tool in reducing poverty. The range of federal workforce training programs—especially those targeting low-income adults and youth—needs to be expanded to keep pace with the growing need for a skilled labor force.
- Ensure that all full-time workers have at least seven paid days off annually to take care of their own and family members' health needs, and that part-time workers have a pro-rated amount of paid leave.

Reform the Unemployment Insurance system so that it treats low-income workers and newer entrants to the labor market more fairly.

- Because of technological advances in records processing, there is no justifiable reason why the

earnings from an unemployed worker's most recent three months on a job should not be counted in determining eligibility for UI. States should be required to count all of a worker's earnings up to the time when s/he became unemployed—not doing so is unfair to workers who have less stable employment and lower incomes.

- Parents who become unemployed because of a lack of child care or to protect themselves and their children from domestic violence should not lose their eligibility for benefits.
- Unemployed workers who seek part-time employment should not lose their eligibility for benefits if they otherwise qualify.

TANF can be a potent force for enhancing child well-being in the lives of the millions of children currently living in poverty if it focuses on poverty, not caseload, reduction.

- Increase funding for child care so that all eligible families receive the child care for which they are eligible.
- Set work requirements to allow maximum flexibility to achieve the job skills and training necessary to find and maintain well-paying jobs, and differentiate work hours for families with children under six years of age.
- Allow states to use TANF funds to assist all legal immigrant families regardless of when they came into the state.
- Require states to uniformly screen for barriers to work and assess child well-being, and provide flexibility for families to address the barriers in the context of work requirements.
- Adopt sanctioning policies that acknowledge families' good faith efforts to meet requirements.
- Use the funds in the TANF block grant to meet the employment, child care, and educational needs of families, rather than for unproven family formation and marriage promotion programs.

The Food Stamp program provides assistance to vulnerable families who need help buying groceries that meet their basic nutrition needs.

- Maintain the basic structure of the program, which provides a guaranteed benefit to those who are eligible.
- Extend the Food Stamp program to include all documented adult immigrants, regardless of how long they have been in the country.
- Expand education and outreach efforts so that all who are eligible for Food Stamps are informed of their eligibility and are encouraged to apply.
- Make benefit allotments more adequate to meeting the nutrition needs of families.

Having a place to call home is not only a human right but integrally connected to children’s health, safety, and ability to learn.

- Increase the overall federal investment in affordable housing and reject further cuts to housing programs vital to families.
- Add 100,000 new Section 8 housing vouchers each year and maintain the structure of the program, which targets resources to the neediest families.
- Create a National Housing Trust Fund to expand the supply of affordable housing for families with children.

EITC is the largest anti-poverty program for families.

- Expand EITC so that families with more than two children receive a greater EITC benefit.
- Avoid creating barriers to accessing EITC through mechanisms such as IRS requiring certification prior to receiving the benefit. This can cause lengthy delays in receiving a refund.
- Prohibit usurious refund anticipation loans (RALs) so that working families are safeguarded from exploitative practices that keep them from retaining all of the EITC they have earned.
- Maintain low-income taxpayer assistance centers so that help is available to taxpayers who need it.

Expand the benefit provided to low-income families by the Child Tax Credit.

- Make the \$1,000 per child credit fully refundable to ensure that the credit benefits low-income working families who have lower income tax liabilities.
- Or at least set the minimum income threshold at which families begin to qualify for the refundable portion of the CTC at \$10,000—the level at which it was originally set in 2001—and de-index it from inflation. This would prevent 9.2 million children from losing the credit because their parents’ incomes failed to keep pace with inflation.



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