CHAPTER 2

HOW TO REDUCE CHILD POVERTY RIGHT NOW

To identify policy improvements that could reduce child poverty and alleviate its harmful impacts immediately the Children's Defense Fund started from two premises. The first is that the best anti-poverty strategy is to ensure parents and caregivers who are able to work can find jobs that pay enough to support a family. **CDF sought policy improvements that would increase employment and make work pay for adults with children**. The Earned Income Tax Credit (EITC), child care subsidies, and the Child and Dependent Care Tax Credit have all been shown to help increase employment. Increasing the reach and value of these benefits could help reduce child poverty. Similarly, increasing the availability of publicly funded jobs could reduce child poverty by providing jobs for parents who are hard to employ. However, a job does not necessarily guarantee a livable income; nearly 1 in 3 poor children lives in a family with an adult who works full-time year-round.[1] No family with a parent working full-time year-round should live in poverty. Increasing the value of the minimum wage would reduce child poverty by increasing income for families with minimum wage workers.

The second premise is that all of society benefits if children's basic needs are met when the economy contracts, disaster hits or parents lose their jobs. Children's chances of reaching successful, productive adulthood are strongly influenced by their experiences growing up. If children go hungry, suffer homelessness or experience prolonged stress from economic hardships, their opportunities in life will be diminished. **CDF identified policy improvements that would ensure children's basic needs are met when families fall on hard times.** In 2013 our nation's safety net programs and refundable tax credits lifted 8.2 million children from poverty,[2] but many children in need did not benefit. Housing subsidies only reach 1 in 4 needy families with children.[3] While the Supplemental Nutrition Assistance Program (SNAP) reaches a large percent of poor families, millions of children are hungry because benefits are not enough to ensure adequate nutrition. The Child Tax Credit is a valuable benefit for many families with children, but the poorest families benefit the least. Finally, child support payments collected by states don't always reach the children for whom they were intended. Increasing the reach and impact of these crucial programs would help reduce child poverty.

In seeking to strengthen the economic circumstances of poor children, CDF focused on improving existing policies and programs that work, rather than creating new programs. CDF sought to assist poor children but did not limit improvements to families below 100 percent of poverty for two reasons. First, CDF recognizes that families living a few thousand dollars above the poverty line still struggle to meet their children's needs. Second, many of the programs included in the analysis phase out benefits to families above poverty gradually to avoid disincentives to increase earnings.

After identifying policy improvements that could reduce child poverty, CDF contracted with the Urban Institute to model the effects of these changes on child poverty using the Supplemental Poverty Measure (SPM) and 2010 Census and administrative data, the most recent available when this project began (for more information see "How the Urban Institute Assessed Impacts of Policy Improvements" on p. 26). This chapter describes the policy improvements and the impact each would have had on child poverty in 2010 had it been in place for that year. The combined impact of implementing all the policy improvements at the same time is presented in Chapter 3.

It is important to note that the Urban Institute's analysis only assessed the changes to families' resources in 2010 if the policy changes had been in place for that one year. The analysis did not capture any of the longer term impacts of increased economic resources on children's educational and life outcomes and on child poverty in future generations.

Increasing employment and making work pay for adults with children

Earned Income Tax Credit increase

Why this Policy — The Earned Income Tax Credit (EITC) is one of the nation's most effective tools for reducing child poverty among working families. This refundable tax credit kept 3.2 million children out of poverty in 2013.[4] It is only available to those with earnings and it increases with higher earnings up to a maximum, providing an incentive to work and to work more hours. Expansion of the EITC has been shown to be the most important reason why employment among single mothers increased in the 1990s, more than the booming economy or welfare reform.[5]

Improvements — CDF asked the Urban Institute to model improving the EITC by increasing its value for the lowest-income families with children (see Appendix 1 for details). The analysis assumed a higher EITC made working worthwhile for some single parents who previously did not work.[6]

Child Poverty Impact — The Urban Institute's analysis found that these EITC improvements would reduce child poverty nearly 9 percent and lift 1 million children above poverty. Nearly half of the anti-poverty impact would come from 463,000 single parents starting to work, earning on average $11,761 more annually and receiving an EITC worth on average $4,699. The rest of the child poverty drop would come from 7.6 million families receiving a credit that was on average $990 larger.[7] The anti-poverty effect of the EITC expansion may even have been underestimated because the Urban Institute's model underestimated the number of families receiving the EITC by 26 percent compared to IRS data.[8]

Cost — The cost of these EITC improvements and associated secondary changes in other benefits and taxes in 2010 would be $8.2 billion.[9]

Expansions of SNAP and Refundable Tax Credits Kept 1.55 Million Children Out of Poverty

During the recession, Congress, as part of the American Recovery and Reinvestment Act (ARRA), increased the value of the maximum SNAP benefit 13.6 percent, and expanded the reach of the Child Tax Credit (CTC) and the Earned Income Tax Credit (EITC) by lowering the CTC's refundability income limit from over $12,000 to $3,000, reducing the EITC marriage penalty, and increasing the EITC for families with three or more children.

The Urban Institute found these changes substantially decreased child poverty in 2010. Without the SNAP benefit boost, child SPM poverty would have been 7.6 percent higher, with 831,000 more children in poverty. Without the SNAP increase and the CTC and EITC changes, child poverty would have been 14.2 percent higher, and 1.55 million additional children would have been poor. Despite the fact that child poverty in 2013 was 11 percent higher than before the recession, Congress terminated the SNAP benefit increase in November 2013. **Unless Congress takes action, the changes to the CTC and the EITC will expire at the end of 2017.**

Dying on Minimum Wage

Maria Fernandes struggled to survive, working three minimum-wage jobs at three different Dunkin' Donuts shops. Five days a week she worked the afternoon shift in Newark, the overnight shift in Linden, and then weekends shifts in Harrison. She earned just over $8.25 an hour, New Jersey's minimum wage, but sometimes fell behind on the $550 monthly rent for her garden apartment. She dreamed of moving to Pennsylvania and sharing a life with her boyfriend Glen Carter. According to The New York Times, since her death from gas fumes while sleeping in her car between shifts in August 2014, Fernandes has become a symbol of the hardships facing the nation's army of low-wage workers.

Minimum wage increase

Why this Policy — A parent with two children working full time at the federal minimum wage of $7.25 an hour currently earns $4,700 below the poverty level. Nearly 70 percent of the 14.7 million poor children in America, according to the official poverty measure, live with an adult who works, and 30 percent live with an adult who works full-time year-round.[10] The current federal minimum wage is worth 24 percent less in inflation-adjusted terms than at its peak in 1968.[11] If it had grown at the same rate as productivity, the minimum wage would be $18.42 today.[12] The Congressional Budget Office (CBO) estimated in February 2014 that increasing the minimum wage to $10.10 by 2016 would lift 900,000 people above the official poverty threshold.[13]

Improvements — CDF asked the Urban Institute to model an increase in the federal minimum wage from $7.25 an hour to $10.10 for workers and an increase to 70 percent of that level ($7.07) for tipped workers, as proposed in the Harkin-Miller Fair Minimum Wage Act of 2013. The Urban Institute's model assumed employers would also raise wages for non-covered workers earning just under the original minimum wage and for workers just above the new minimum wage to maintain relative wages — so-called "spillover effects."[14] The Urban Institute conservatively assumed an increase in the minimum wage would lead to small job losses of the same magnitude assumed by the CBO.[15] Since the Urban Institute used 2010 data for the analysis, the new minimum wages were deflated from 2014 dollars to 2010 dollars, resulting in a wage of $9.30 for most workers and $6.51 for tipped workers.[16]

Child Poverty Impact — This minimum wage increase would reduce child poverty by 4 percent and move 400,000 children out of poverty. Children living with a full-time year-round worker would see an 8.1 percent poverty reduction. An estimated 11.4 million workers in families with children would see an average increase in earnings of $1,557, while 89,000 people would lose their jobs.[17] The impacts of the minimum wage on poverty were limited by the fact that 82 percent of the 27.6 million affected workers (with and without children) would be above the SPM poverty threshold and increased earnings would be partially offset by increased taxes and to a lesser extent by decreased benefits.[18]

Cost — The minimum wage increase was projected to *generate* revenue rather than cost governments, because families with higher wages owed more in taxes and were eligible for fewer benefits.[19] The total increase in new tax revenue and savings from decreased benefits would equal $15.2 billion.

Subsidized jobs program

Why this Policy — Publicly funded (or subsidized) jobs are effective for providing income and building skills among the unemployed and underemployed.[20] Subsidized jobs programs were most recently deployed during the 2008-2009 Great Recession through funding from the Temporary Assistance for Needy Families Emergency Fund. These programs were shown to benefit the long-term unemployed the most and increase employment and income even after participation ended.[21]

Improvements — CDF asked the Urban Institute to model a subsidized jobs program that would provide minimum-wage jobs to unemployed or underemployed individuals ages 16-64 in families with children for 30 weeks at a time, with a possibility of renewal after four weeks searching for unsubsidized employment.[22] Since not everyone offered a subsidized job would take one, we assumed that at most 25 percent of those who were unemployed would sign up.[23] Take-up rates were assumed to be lower for individuals at higher income levels, working in part-time jobs, and for students, early retirees, and people with disabilities. Funds were assumed to be available to provide child care subsidies to families who became eligible because of a subsidized job.

Child Poverty Impact — This subsidized jobs program would reduce child poverty by nearly 11 percent and lift 1.2 million children out of poverty. A total of 2.5 million people in families with children would work through the program and each would earn on average an additional $10,630 for the year, although some of the additional income would be offset by increased taxes and decreased government benefits.

One Step Forward, Two Steps Back

In Cincinnati, Ohio, Christopher Rogers, 13, sometimes used the $3 an hour he earned cutting grass and working on a candy truck to pay the phone and electric bills when money ran short. He and his mother, Ana Cohen, were occasional welfare recipients, with Ana going off welfare when she finds work and then back on again when the jobs end or the hours and pay don't add up to a livable income. "The way they have it now, the system is based on work but when there isn't any work, it doesn't work," Ana said.

For more than a year, she worked close to full time doing security at a CVS store. She was paid $11 an hour. When she was laid off, she received unemployment insurance. That lasted through March 2011. At that point, she had no income — just food stamps and subsidized housing — and was not able to find another job. This was when Christopher's earnings paid some of the bills. In 2011, Ana said that she had never "made enough money not to be on food stamps, and I've had to use welfare as a fall back. There's just not enough jobs that pay enough for me to get over that hump."

Cost — Providing 2.5 million new subsidized jobs would cost $22.9 billion after taking into account associated changes in benefits and taxes.

Child care subsidy expansion

Why this Policy — To work, parents need access to affordable high-quality child care. Center-based care for infants in 2013 cost more than in-state college tuition in 31 states and the District of Columbia.[24] To assist low-income families with child care costs, the federal government and states provide child care subsidies to some families with children under 13 through the Child Care and Development Fund (CCDF) and related government funding streams.[25] But because of limited funding, demand for subsidies far exceeds supply. In fiscal year 2009 only 18 percent of federally eligible children benefited from child care subsidies in an average month.[26]

Fewer than 1 in 5 eligible children benefited from child care subsidies in an average month in fiscal year 2009 due to funding restrictions.

Improvements — CDF asked the Urban Institute to model expanding the CCDF child care subsidy program to provide assistance to all needy poor and near-poor families. Although eligibility varies by state, to simplify the analysis CDF selected a uniform income limit of 150 percent of poverty. The use of 150 percent of poverty acknowledged that 100 percent of poverty, $23,850 for a family of four, is often far below what families and children need. Income limits in the 35 states with limits higher than 150 percent of poverty were assumed unchanged. In addition to expanding the availability of subsidies, the analysis assumed a small fraction of adults with children would start working because of increased availability of subsidies.[27] Not all eligible families would choose to use assistance, so only families paying child care expenses in 2010 were selected to begin receiving a subsidy.[28]

Child Poverty Impact — The child care subsidy expansion would reduce child poverty by 3 percent or 300,000 children. Three-quarters of that reduction would come from affordable child care helping 358,000 adults gain employment; child poverty in those families would be reduced by 11 percent. Overall, the number of families receiving the subsidy would nearly double from an average of 989,000 a month to 1,948,000.

Of note, the child poverty impact of this change was likely underestimated compared to the impact of housing and nutrition assistance because the Supplemental Poverty Measure only captures changes in families' out-of-pocket child care costs instead of the value of the subsidy. In addition, by limiting the subsidy expansion to families previously paying for care, the simulation may have underestimated the families who would use this subsidy if available.

Cost — This expansion and associated secondary changes in benefits and taxes would cost a total of $5.3 billion.

Child and Dependent Care Tax Credit expansion

Why this Policy — The Child and Dependent Care Tax Credit (CDCTC) is a nonrefundable tax credit that reimburses families for a portion of their child or dependent care expenses, thereby increasing families' economic resources and helping them work. In 2010, 6.7 million taxpayers received a total of $3.55 billion through the CDCTC.[29] Because the CDCTC is a nonrefundable credit, families with no tax liability — usually families with low earnings — cannot benefit from it. Furthermore, the credit only reimburses a maximum of 35 percent of child or dependent care costs. As a result, in 2010, families who made $20,000 or less received less than 1 percent of CDCTC benefits.[30]

Improvements — To increase the impact of this credit, CDF asked the Urban Institute to model two changes:

- Making the credit fully refundable to enable all families, regardless of tax liability, to benefit from it.
- Increasing the maximum percent of costs reimbursed from 35 to 50 percent for lower-income families (see Appendix 1 for details).

As with the child care subsidy expansion, the Urban Institute simulated that a small fraction of those who received a larger CDCTC would start working due to lower child care costs.[31]

Child Poverty Impact — These improvements would reduce child poverty by 1 percent, lifting 146,500 children out of poverty. More than half of the impact would result from 101,000 parents who would begin to work because of lower child care costs. The average credit would increase by $124. The anti-poverty impact of the CDCTC is likely limited by the fact that many poor families cannot afford to spend large amounts on child care.

Cost — These changes to the CDCTC and associated secondary changes in benefits and taxes would cost a total of $1.6 billion.

Ensuring children's basic needs are met when families fall on hard times

SNAP benefit increase

Why this Policy — The Supplemental Nutrition Assistance Program (SNAP) is a crucial safety net program for children. SNAP helped combat hunger among 20.5 million children in fiscal year 2012, over a quarter of all children in the nation, and kept 2.1 million children from poverty in 2013.[32] However, SNAP benefits average less than $1.40 per person per meal, which is inadequate for low-income families who often lack access to affordable nutritious food.[33] In 2013, 54 percent of families receiving SNAP were still food insecure, clear evidence that current SNAP benefits are insufficient to meet families' food needs.[34] During the recession, Congress recognized that SNAP benefits were too low for many and increased the value of the maximum benefit by 13.6 percent.[35] The impact was powerful: 831,000 children were kept out of poverty in 2010 as a result of this change (see box on p. 18). Congress terminated that increase in November 2013.

SNAP benefits average less than $1.40 per person per meal — not enough for low-income families who often lack access to affordable nutritious food.

Improvements — To increase the anti-poverty and anti-hunger impact of SNAP for families with children, CDF asked the Urban Institute to model SNAP benefits based on the U.S. Department of Agriculture's Low-Cost Food Plan, which is approximately 30 percent higher in value than the Thrifty Food Plan, on which benefits are currently based.[36]

Child Poverty Impact — Basing the SNAP benefit on the Low-Cost Food Plan would reduce child poverty by 16 percent, lifting 1.8 million children out of poverty. This change would affect the largest number of people: all of the existing 11.1 million SNAP families with children and an additional 1.5 million families with children who would begin participating because of the benefit increase, for a total of 12.6 million families. On average, households would receive an additional $722 each year.

Cost — The SNAP expansion would cost $23.2 billion.

Shoes Say It All

Shoes tell the story of the McKee family's descent into poverty. Those of Skyler, 10, and Zachery, 12, were falling apart in 2011. Their sister, then 14 years old, wore the varsity coach's shoes when she played on her school's volleyball team. Less visible was hunger. The children and their parents, Tonya and Ed McKee, of Dowagiac, Michigan, sometimes went without food after Ed lost his job in 2009 and the unemployment insurance ran out, before the family started receiving Supplemental Nutrition Assistance Program benefits. Skyler said he gave the birthday money he got at church to his mom for groceries "and I told her she didn't have to pay me back." Skyler confided that sometimes his stomach growled. "It's hard, not easy like it was before where we had money and could do stuff. Now we don't go anywhere … Sometimes we don't have food and we just don't eat."

Child Tax Credit expansion

Why this Policy — The partially refundable Child Tax Credit (CTC) provides families a $1,000 credit for each child under 17 to help families offset the costs of raising a child. It is an important tool for reducing child poverty, keeping 1.7 million children out of poverty in 2013.[37] However, the poorest families cannot receive the full amount of the credit because families have to earn more than $3,000 per year to qualify for a refund that is limited to only 15 percent of what they earn above $3,000. For example, a family with two children has to earn at least $16,333 to be eligible for the full $2,000 credit.[38] As a result, only 13 percent of the funds spent on the credit go to the lowest 20 percent of earners.[39]

Improvements — To increase the anti-poverty impact of the CTC, CDF asked the Urban Institute to model a fully refundable CTC so the poorest families could benefit from the full $1,000 credit for each qualifying child regardless of earned income.

Child Poverty Impact — Making the CTC fully refundable would reduce child poverty by nearly 12 percent and lift 1.3 million children out of poverty. A total of 4.4 million would start receiving a refund from the CTC. In all 8.2 million families would each receive on average $1,497 more for their CTC.

Cost — Making the Child Tax Credit fully refundable would cost $12.4 billion.

Housing subsidies expansion

Why this Policy — Housing is the single largest expense for most families and is growing increasingly out of reach. The number of homeless public school students was 85 percent higher in 2012-2013 than before the recession.[40] The number of families with worst-case housing needs increased from 6 million in 2007 to 8.5 million in 2011, including 3.2 million families with children.[41] Homelessness and housing instability can have detrimental consequences on children's emotional, cognitive and physical development, academic achievement and success as adults.[42] Federal rental assistance, including public housing and vouchers for private rentals, help approximately 5 million of the neediest low-income households afford a place to live.[43] Because of funding limitations only about 1 in 4 needy families with children receives assistance.[44]

Because of funding limitations only 1 in 4 eligible families with children receives housing assistance.

Improvements — CDF asked the Urban Institute to model an expansion of the housing voucher program to better meet the need among poor and near-poor families with children. The expansion was limited to families below 150 percent of the official poverty guidelines who were not already receiving housing assistance and for whom the fair market rent exceeded 50 percent of their income.[45] The analysis assumed 70 percent of eligible families would be able to use the vouchers based on challenges families face in finding housing within program time limits.[46]

Child Poverty Impact — This housing subsidy expansion would have the largest impact among the nine policy improvements, reducing child poverty by 20.8 percent and lifting 2.3 million children out of poverty. The number of households receiving a subsidy, worth an average of $9,435, would increase by 2.6 million, a 53 percent increase.

Cost — The cost of this expansion and associated secondary changes in other benefits would be $23.5 billion.

Child support pass-through increase and disregard

Why this Policy — Child support payments represent on average 40 percent of income for poor custodial families who receive them, and kept 740,000 children out of poverty in 2013.[47] For families who receive Temporary Assistance for Needy Families (TANF), the state collects child support from non-custodial parents and keeps most of the payments received to reimburse the cost of assistance. States have the option to pass through child support payments to the custodial parent and child and to disregard the child support payment when determining eligibility for TANF benefits and benefit value. A pass-through does not financially benefit a family unless it is also disregarded. As of July 2013, 22 states passed through and disregarded at least some of the child support collected.[48] The SNAP program does not include a disregard for child support income.

Improvements — CDF asked the Urban Institute to model a full pass-through of all child support collected on behalf of TANF families, along with a disregard of the child support income in the calculation of TANF benefits. In addition, up to $100 of child support collected per month per child was disregarded for SNAP eligibility and benefit calculations.

Child Poverty Impact — These changes would have the smallest impact of the nine policy changes because of the small number of families affected, reducing child poverty by less than 1 percent, or approximately 89,300 children. In aggregate TANF families would receive $477 million more in passed-through child support, $97 million more in TANF benefits from the TANF disregard, and $608 million more in SNAP benefits from the SNAP disregard.

Cost — The child support pass-through improvements and associated secondary changes in benefits would cost $1.1 billion.

Poverty 2.0

The Barrett girls, Anjerrica, 15, Daryanna, 10, and Jaeda, 7, would have gone hungry without food stamps, free school lunches, and a local food pantry in 2012. The Barretts' hard times resulted from the double whammy of disability and recession. Darryl and Jeanna Barrett are both college graduates who together earned about $60,000 a year. Having survived Hurricane Katrina, they bought a home in New Orleans, eager to help rebuild their city. According to Darryl, they were "on the road to the American dream."

Then he became disabled and Jeanna lost her job. Their income in 2012 — Darryl's Social Security disability and Jeanna's unemployment insurance — placed them just barely above the official poverty level for a family of five. In October 2011, Jeanna got what she called a "part-time part-time" job — working at a cell phone company two days a week, three hours a day at $8 an hour. And this she says was after filling out hundreds of applications, "Of all my applications, this was the only place that wanted to hire me."

How the Urban Institute Assessed Impacts of Policy Improvements

Child Poverty Measurement

Child poverty impacts were measured using the Supplemental Poverty Measure (SPM), an alternative poverty measure developed by the U.S. Census Bureau and the Bureau of Labor Statistics based on a broader range of income sources and costs than the official poverty measure. While the official poverty measure counts only earnings and *cash* benefits (such as social security and unemployment benefits), the SPM also counts *in-kind* benefits such as food, housing and energy assistance, and tax credits like the Earned Income Tax Credit (EITC) and the Child Tax Credit. It also deducts expenses such as taxes and child care, commuting and health care costs, and it takes into account variations in housing costs in different parts of the country.[49] As a result the SPM is a more comprehensive measure of poverty that accounts for the impact of the government anti-poverty programs and policies CDF wanted to measure (see Appendix 2 for details).

The only policy change not fully captured by the SPM is increased availability of child care subsidies. In contrast to housing subsidies and SNAP benefits, the SPM does not count the value of child care subsidies, but instead deducts families' out-of-pocket costs. Child poverty impacts measured by the SPM will therefore only be based on changes to families' out-of-pocket child care costs and will appear lower, relative to costs, than the impacts of housing subsidies and SNAP benefits.

Simulation Model

The Urban Institute modeled the impact of the nine policy changes using TRIM3, a validated microsimulation model of the tax and benefits programs affecting U.S. households. TRIM3, which models the U.S. non-institutionalized population based on U.S. Census and federal program and tax data, is a well-respected tool used for over 40 years to assess the operation of the U.S. safety net and to estimate the potential impacts of changes to safety net programs and policies.[50]

The analysis was based on data representing the U.S. in 2010, the most recent year available at the time the project began. While the economy has improved since 2010, the number of children below 100 percent of the official poverty threshold has decreased only 10 percent from 16.2 million in 2010 to 14.7 million in 2013.[51] All policies in place in 2010 were assumed to be in effect in the simulation, including the ARRA SNAP benefit increase and the improvements to the EITC and the CTC. The only provision that was excluded from the baseline was the temporary Making Work Pay tax credit, which was in place only in 2009 and 2010.[52]

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Child SPM Poverty in 2010

Prior to the policy changes there were 10.9 million poor children in 2010 according to the Urban Institute's SPM calculations, resulting in a child poverty rate of 14.6 percent. This child SPM estimate is lower than the Census' SPM estimate of 18.2 percent because TRIM3 corrects for under-reporting of certain survey-reported resources, including receipt of SNAP, subsidized housing, Supplemental Security Income and TANF, and because TRIM3 uses a different methodology to impute taxes paid. Characteristics of poor children based on Urban Institute's model are presented in Appendix 2.

For more details about the Urban Institute's methods please refer to the Urban Institute's technical report on CDF's website.[53]