



Summary Report

Working Poor Families with Children

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Introduction

“Increasing employment and earnings of needy families . . . [and] decreasing . . . child poverty” are two explicit objectives of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA).¹ However, imposing a stringent work requirement does not guarantee that a family will escape poverty. In 1996, over 2.7 million children (19 percent of all poor children) lived in families with incomes below the official poverty threshold, although the head of the household worked full-time, full-year.

The existence of a substantial number of children who remain poor in spite of considerable work effort by their parents represents a possible scenario for what we can expect when families leave the welfare rolls. However, relatively little research has focused on children in working poor families. Indeed, no generally accepted way of even defining them exists.

The primary purpose of this project is to develop a reasonable definition of working poor families and to provide a baseline of descriptive information about them. Trends can then be tracked over time, as welfare reform proceeds. Currently, we can use this descriptive information to address four important issues:

1. How likely is it for children in working families to be poor?
2. How common is it for children in poverty to have working parents?
3. How are working poor families different from poor families not making a substantial work effort?
4. How are working poor families different from other working families?

Who are working poor families?

We have used the official definition of poverty to determine if a family unit is poor. In 1996, the poverty threshold was \$16,036 for a family of four.²

Setting the standard for counting a family as a “working” family is a judgment call. Since poverty is defined based on annual income, we measure work effort as total hours worked annually. Because our study is focused on children, we use a family-based definition of work effort. Consequently, for two-parent families, we add together the hours worked per year for both parents.

The working poor have become a focus of increasing attention due primarily to welfare reform and its focus on encouraging increased work effort. Therefore, we have based our standard on the work requirement imposed upon states by the 1996 welfare legislation. The work required of single-parent families with children under age 6 is 20 hours per week, while the work required of two-parent families is 35 hours per week. We have

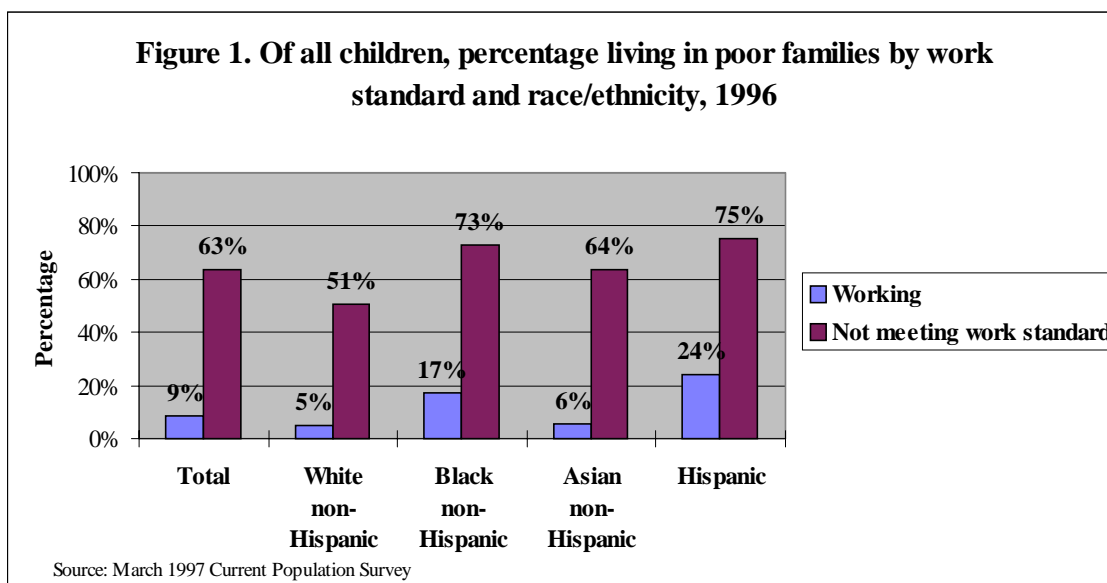
¹ U.S. Congress, Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Sec. 411.

² The official poverty standard has many deficiencies that have been carefully described elsewhere. The most important deficiencies for purposes of this study are that refunded Earned Income Tax Credit (EITC) payments and non-cash benefits (*e.g.*, Food Stamps) are not included as economic resources, income and payroll taxes are not deducted from income, and work-related expenses (especially child care) are not deducted from income.

translated this into a work standard of 1,820 hours per year for two-parent families and 1,040 hours per year for single-parent families. Thus, we have defined any family with income below the poverty line and with at least these many hours of work during a calendar year as “working poor.” Any family with income below the poverty line and not enough hours of work to meet this annual work standard is defined as “poor—not meeting work standard.”

How likely is it for children in working families to be poor?

Children are much less likely to be poor if they are living in a *working* family. According to 1996 estimates from the March 1997 Current Population Survey, 20 percent of all children (13.8 million) lived in families whose incomes were below the official poverty threshold. However, as shown in Figure 1, among children living in families that meet the work standard, only 9 percent were poor. In contrast, among children in families not



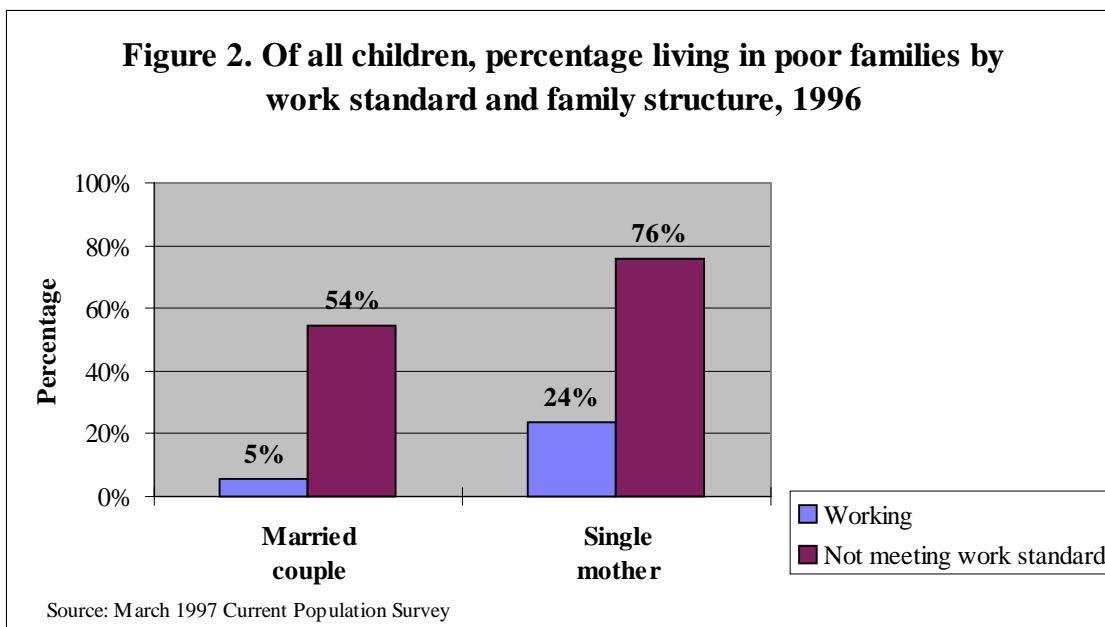
meeting the work standard, 63 percent were poor. Thus, in 1996, children living in families not meeting the work standard were seven times as likely to be poor as children living in working families.

This difference in the likelihood of poverty also holds for the four racial/ethnic groups in Figure 1. Although black and Hispanic children in working families have a higher likelihood of poverty than comparable white or Asian children, work is consistently associated with dramatically lower levels of poverty.

The likelihood of poverty for children in working families is also lower when children in married-couple families are considered separately from those in single-mother families. As shown in Figure 2, among children living in married-couple families meeting the work standard, only 5 percent were poor. In contrast, among children in married-couple families not meeting the work standard, 54 percent were poor. Among children living in single-

mother families meeting the work standard, only 24 percent were poor. In contrast, among children in single-mother families not meeting the work standard, 76 percent were poor.

In short, the likelihood of poverty is lower if a child has one or more working parents. However, as we shall demonstrate in the next section, it provides no guarantee of escaping poverty.



Moving in and out of poverty: effect of work

Over time, there is a rough balance between the number of children entering and leaving poverty. For example, according to analysis of the Survey of Income and Program Participation (SIPP), 2.6 million children who were poor in 1991 left poverty in 1992, and 2.6 million children previously in families above the poverty line entered poverty in 1992.³ Since about 12.7 million children were in poverty in 1991 (according to analysis of SIPP), about one in five children left poverty between 1991 and 1992 and were replaced by a different group but equal number of children.

For children living in poor families not meeting the work standard, increasing parental work effort to meet or exceed the work standard is successful at removing the children from poverty about half the time. Conversely, having one's parents meeting the work standard for two consecutive years helps nonpoor children avoid falling into poverty. According to analyses of SIPP, for children who were not poor in 1993 and whose parents met the work standard in both 1993 and 1994, the likelihood of moving into poverty in the

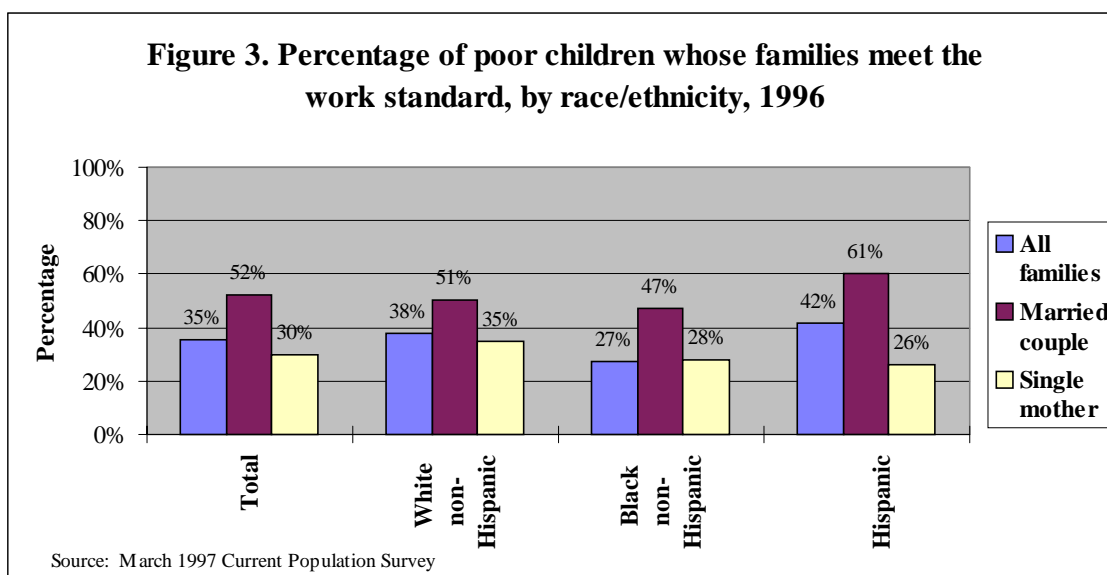
³ When the economy is growing rapidly, the balance shifts in favor of children leaving poverty; when the economy is in recession, the balance shifts the other way.

second year was only 2 percent. In contrast, if nonpoor children's parents met the work standard in 1993 but not in 1994, the likelihood of moving into poverty was 15 percent.

In short, while there is substantial movement of children into and out of poverty, children whose parents meet the work standard have higher odds of leaving poverty and lower odds of entering poverty.

How common is it for children in poverty to have working parents?

Although children living in a working family have a substantially lower likelihood of a child being poor, 5.0 million children lived in poor families that met the work standard in 1996. As shown in Figure 3, 52 percent of children in poor, married-couple families had parents who met the work standard. Meeting the work standard is significantly less common for children in poor, single-mother families. In 1996, only 30 percent of children



in poor, single-mother families had a parent who met the work standard.

Among the three largest racial/ethnic groups,⁴ poor Hispanic children living in married-couple families were the most likely (61 percent) to have parents meeting the work standard. In contrast, poor Hispanic children living in single-mother families were the least likely (26 percent) to have their parent meet the work standard.

How are working poor families different from poor families not meeting the work standard?

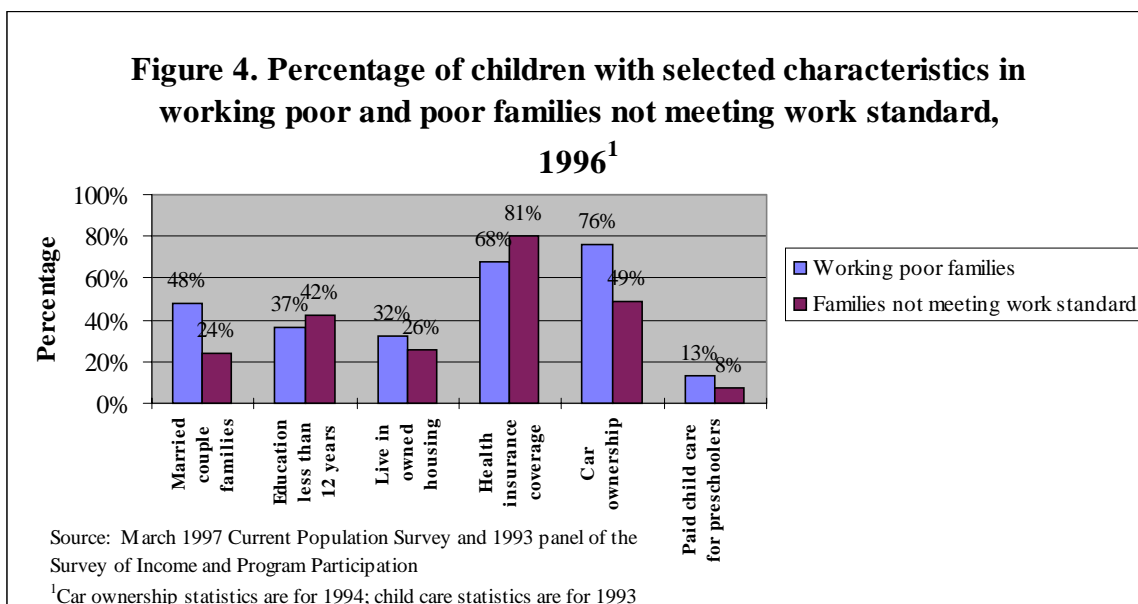
There are substantial differences between working poor families and poor families not meeting the work standard with respect to family structure, education, home-ownership,

⁴ Statistics for Asian children are not shown due to small sample.

health insurance coverage, car ownership, and child care costs. As shown in Figure 4, 48 percent of children living in working poor families lived with both parents, while only 24 percent of children living in poor families not meeting the work standard lived with both parents.

Compared with children in poor families not meeting the work standard, children in working poor families are:

- more likely to have at least one parent who has completed 12 years of education;
- more likely to live in owner-occupied housing;
- more likely to live in a family that owns a car;
- more likely to be in preschool child care paid for by parents; and
- less likely to be covered by health insurance.



These differences illustrate some of the obstacles to meeting the objectives of welfare reform. First, 42 percent of the parents of children in poor families not meeting the work standard lack a high school diploma, and about half do not own a car. This may put them at a serious disadvantage in finding and holding a job--especially in a labor market that is less vibrant than today's.⁵

⁵ During 1998, about 28 percent of adults on the welfare rolls were engaged in work-related activities as defined by the TANF rules (Pear, 1998). This provides evidence that welfare reform is promoting increased work activity on the part of welfare recipients, in spite of their disadvantages in competing in the labor market. It should be noted, however, that this increase in work is occurring in the context of an unusually robust economy with unemployment rates lower than they have been since 1969 (during the Vietnam War) and the lowest unemployment rates for blacks and Hispanics since statistics first began to be published for these groups.

Unfortunately, providing the financial assistance and the time needed to help these parents complete their high school education conflicts with the goal of immediately increasing these parents' work effort. Given the already heavy demands on the time of working single mothers, it would seem unlikely that many of them would be able to devote time to obtaining a high school diploma or a post-secondary education.

This suggests that policy makers should continue to explore the payoff from adult education. Analysis of the JOBS program by the Manpower Development Research Corporation (MDRC) may provide a definitive answer to this question over the next two years. Regardless of the payoff to *remedial* education, these findings underscore the importance of encouraging students who are still in school to earn a high school diploma and consider post-secondary education.

Second, a significantly higher percentage of preschool age children in working poor families are in child care arrangements paid for by their parents. This suggests that some parents not currently meeting the work standard and not currently paying for child care may have to obtain paid child care when they increase their work effort. Since child care costs are likely to consume a substantial percentage of working poor families' income, on-going subsidization of child care costs may be necessary. Welfare reform legislation increased federal spending on child care assistance in 1997 by an estimated 27 percent over prior law (Long and Clark, 1997). However, it did so by consolidating several key federal child care assistance programs for low income families into a single block grant entitled the Child Care and Development Fund (CCDF). CCDF give states much more autonomy in both setting total child care spending and in how both the federal and state money is spent. Under CCDF, states could either increase or decrease total child care subsidies and could either increase or decrease the percentage of a family's child care expenses that are subsidized.

Third, the low health insurance coverage rate for children in working poor families suggests that coverage rates for children may fall as poor families not meeting the work standard make the transition into work. The newly enacted State Child Health Insurance Program (CHIP) is providing block grants to states that provide coverage to children not covered by health insurance and whose family income is below 200 percent of the poverty threshold.

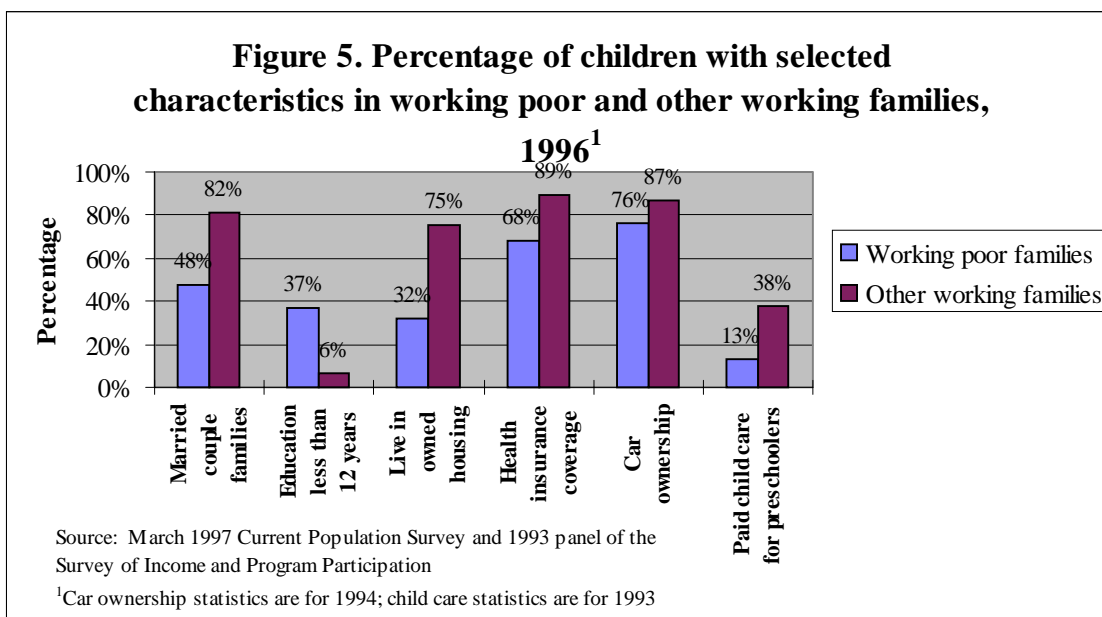
How are working poor families different from other, more prosperous, working families?

While there are substantial differences between working poor families and poor families not meeting the work standard, there are also important differences between working poor families and other, more prosperous, working families. As shown in Figure 5, a high school diploma is nearly universal for at least one parent in working families above the poverty line, and children are twice as likely to live in owner-occupied housing. Car ownership rates, participation by preschoolers in paid child care, and health insurance coverage rates are higher as well. The low rate of participation in paid child care by preschoolers in working poor families may be due to the high cost of child care relative to family income for families in poverty. Of those working poor families paying for child

care for their preschoolers in 1993, half paid more than 20 percent of their family income, and one out of five paid more than 40 percent of their family income.

These findings suggest that moving children from the ranks of the working poor families to above the poverty line may require a substantial investment in the human capital of their parents. As noted in the previous section, this investment may be very difficult to undertake if we are expecting these parents to be making a substantial work effort at the same time.

Another alternative is further expansion of the earned income tax credit (EITC).⁶ Until the EITC reaches the phase-out point, its incentives are completely consistent with welfare



reform. It encourages expanded work effort by increasing the amount of disposable income received for each hour of employment. A recent study credits the EITC with moving the families of 2.4 million children above the poverty threshold (Center on Budget and Policy Priorities, 1998).

A third plausible way to help the children in working poor families to escape poverty is to encourage marriage for single parents. Marriage provides a family with at least the potential for two earners, and two parents working full-time can generally escape poverty as measured by the official standard.

However, many of the programs that have been set up to provide assistance to low-income families with children weaken the economic incentive for a single parent to get married. Both the EITC and many needs-tested transfer programs phase out benefits as income

⁶ As of 1997, working families with at least two children could qualify for an EITC as large as \$3,656, compared with only \$851 ten years earlier.

increases, and these phase-out provisions often apply at or near the poverty threshold.⁷ These phase-out features also reduce the incentive for parents to increase their hours worked or invest in education or training to increase their wage rates.

Although it is impossible to eliminate altogether these “phase-out” problems, it is possible (at a substantial cost to the federal treasury) to adjust upwardly the ranges at which they apply or to reduce the “tax rates” they implicitly impose.

Summary

Although having one or more working parents reduces the likelihood that children will live in poverty, it does not provide a guarantee of escaping poverty. Thus, if welfare reform succeeds in moving more parents into the labor market, more working poor families may be a consequence.

We can expect the transition from welfare to working poor to be difficult (especially in a labor market that is less robust than today’s), because poor parents not meeting the work standard are at a competitive disadvantage in the labor market compared with working poor parents. More specifically, parents not meeting the work standard are less likely to have graduated from high school and less likely to own a car.

Moving children from working poor families above the poverty line may be even more difficult since working poor parents are at a similar competitive disadvantage in the labor market compared with other working parents. In short, if eradicating child poverty is the objective, welfare reform is only the first step in a long and difficult process.

References

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⁷ For example, in 1997, for a family with two children earnings between \$11,930 and \$29,290, the EITC was reduced by 21 cents for every dollar of additional earnings. This phaseout “tax” is imposed on top of the federal payroll tax rate, the federal income tax rate, and the marginal state income tax rate.