

Working Poor Families with Children: Leaving Welfare Doesn't Necessarily Mean Leaving Poverty

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As reauthorization of federal welfare legislation gets under way and the risk of an economic downturn increases, this is an opportune time to compare the status of working poor families before and after the implementation of the 1996 welfare reform law.¹ Increasing poor families' employment and decreasing child poverty were two explicit objectives of welfare reform. This research brief updates a statistical snapshot of working poor families with children that Child Trends published two years ago. The data in this research brief indicate that, even during the economic boom times of 1995-98, employment did not guarantee that a family would escape poverty.

The statistical snapshot presented here shows that of all children living in poverty in 1995, 34 percent had a parent or parents who were making a substantial work effort. By 1998, that percentage had risen to 42 percent. Because of this increase, even though there was an overall decline in child poverty during this period, the number of children in working families with incomes below the poverty level grew by more than 650,000.²

This brief is one of a series planned by researchers at Child Trends to help inform the public debate surrounding the 2002 reauthorization of the Temporary Assistance for Needy Families (TANF) block grant.

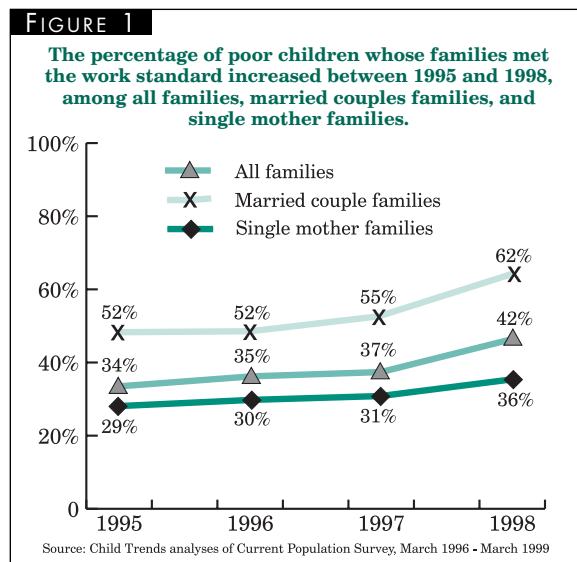
Who are working poor families?

There is no generally accepted definition of "working poor," even though the term is widely used in policy discussions. For its statistical portrait, Child Trends developed the following definition:

- Working poor families with children are families whose incomes are below the federal poverty threshold (\$16,640 for a family of four in 1998) and in which either two parents together work a total of at least 35 hours a week or a single parent works at least 20 hours a week. This *work standard* is similar to that established by the 1996 welfare reform law.³

More poor children have parents who are working a substantial amount of time.

There has been an increase in the percentage of poor children whose parents are meeting the work standard, as defined above. As shown in Figure 1, in 1995, before the



enactment of the federal welfare reform legislation, about 34 percent of all poor children had parents who were meeting the work standard. By 1997, the year in which federal welfare reform was implemented, 37 percent of poor children had parents who were meeting the work standard. By 1998, the percentage had increased to 42 percent.

Married-couple and single-parent families followed the same pattern. Among children in poor, married-couple families, the percentage whose parents worked increased from 52 percent in 1995 to 62 percent by 1998. Among poor children in single-parent families, the percentage increased from 29 percent to 36 percent.

Because of the large increases in the percentage of poor parents who were working, the number of children in working poor families increased from 4.9 million children in 1995 to 5.6 million children in 1998 – even though the total number of children in poverty dropped during the same period by 1.2 million.⁴

Parental employment greatly reduces, but does not eliminate, poverty among children.

The increase in the number of poor children with working parents should not be interpreted to mean that working cannot reduce a family's risk of poverty. To the contrary: In 1998, for example, children living in working families were six times less likely to be poor than children living in families not meeting the work standard.

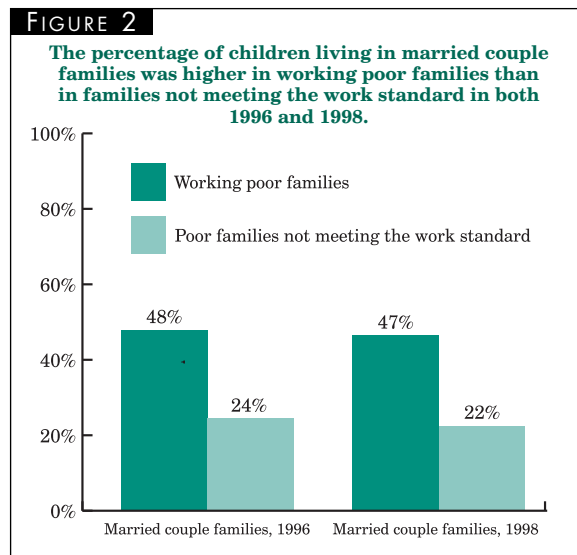
- Among children living in families that met the work standard in 1998, only 10 percent were poor,⁵ compared with 59 percent of children in families not meeting the work standard.
- Among children living in married-couple families meeting the work standard, only 6 percent were poor, compared with 50 percent of children in families not meeting the work standard.

- Among children living in single-mother families meeting the work standard, 25 percent were poor, compared with 74 percent of children in single-mother families not meeting the work standard.

Poor families not meeting the work standard are more likely to be headed by single parents or by parents who have not graduated from high school.

Compared with children in working poor families, children in poor families not meeting the work standard are less likely to be living with both parents and less likely to have at least one parent who has completed 12 years of education.

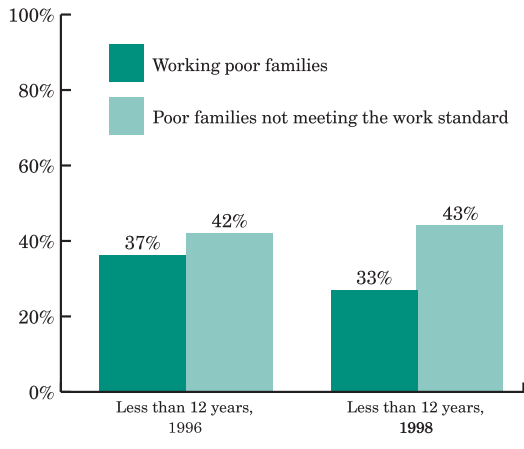
- As shown in Figure 2, only 22 percent⁶ of children in poor families not meeting the work standard in 1998 were living with both parents (compared with 47 percent of children in working poor families).



- As shown in Figure 3, about 43 percent of children in poor families not meeting the work standard in 1998 lived in families in which neither parent had completed at least 12 years of education (compared with 33 percent⁷ of children in working poor families).

FIGURE 3

The percentage of children whose better educated parent had less than 12 years of education was slightly higher in poor families not meeting the work standard than in working poor families in both 1996 and 1998.



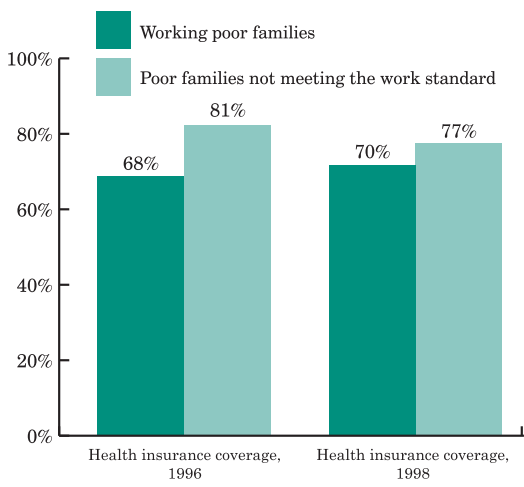
Moreover, the education gap between parents who met the work standard and those who did not was wider in 1998 (10 percentage points) than in 1996 (5 percentage points).

Children in working poor families are less likely to have health insurance and receive public assistance.

Compared with children in poor families that did not meet the work standard, in 1998, children in working poor families were less likely to have health insurance coverage (see Figure 4) and much less likely to be receiving food stamps or benefits under the Aid to Families with Dependent Children (AFDC) and

FIGURE 4

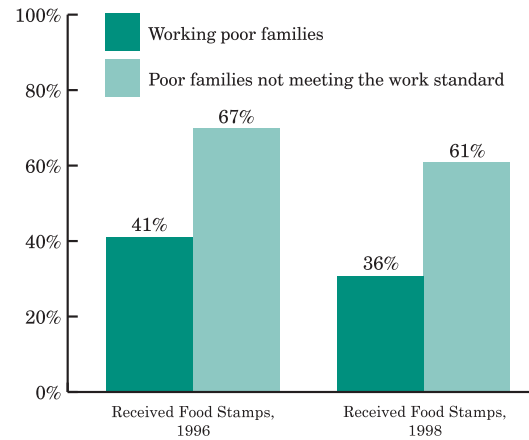
The percentage of children with health insurance was higher in poor families not meeting the work standard than in working poor families in both 1996 and 1998, though the gap narrowed.



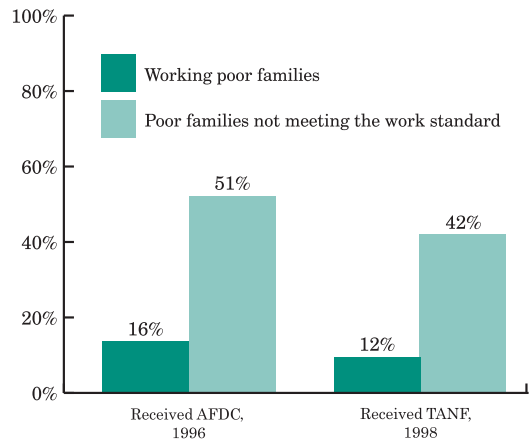
Temporary Assistance for Needy Families (TANF) programs (see Figures 5 and 6).⁸ However, the gap in health insurance coverage between children in poor families that met the work standard and those that did not was significantly smaller in 1998 – after implementation of the Children’s Health Insurance Program (CHIP) – than in 1996.

FIGURE 5

The percentage of children whose families received Food Stamps fell in 1998, but was considerably higher in poor families not meeting the work standard than among children in working poor families in both 1996 and 1998.

**FIGURE 6**

The percentage of children whose families received AFDC or TANF fell in 1998, but was much higher among poor families not meeting the work standard than among children in working poor families in both 1996 and 1998.

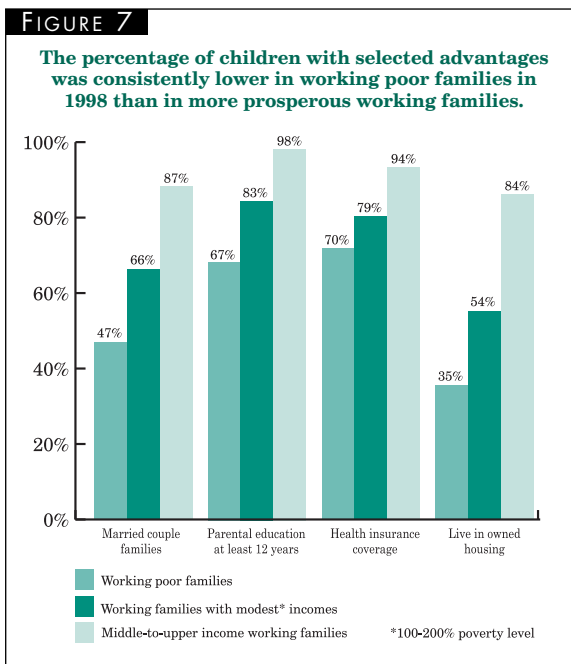


- In 1998, 70 percent of children in working poor families had health insurance coverage (up from 68 percent in 1996, a small but statistically significant increase). However, 77 percent of children in poor families not meeting the work standard had health insurance (down modestly but significantly from 81 percent in 1996).

- Receipt of AFDC or TANF and Food Stamps dropped sharply for children in both working poor families and in poor families not meeting the work standard between 1996 and 1998.

Working poor families are often doubly disadvantaged in their quest to escape poverty.

Children in working poor families have two key disadvantages. Compared with children in working families with modest incomes (between 100 percent and 200 percent of the poverty threshold), and with children in middle-to-upper income working families (above 200 percent of the poverty threshold)⁹, children in working poor families are less likely to live with two parents, and they are less likely to have at least one parent who has completed 12 or more years of education (see Figure 7).



- In 1998, less than half of children in working poor families lived with two parents. In contrast, about two-thirds of children in working families with modest incomes lived with two parents, and 87 percent of children in middle-to-upper income working families did so.

- About one-third of children in working poor families in 1998 lived in families in which the better-educated parent had less than 12 years of education. In contrast, 83 percent of children in working families with modest incomes had at least one parent with 12 years or more of education. Among middle-to-upper income working families, it was nearly universal for at least one parent to have a high school diploma.

Homeownership and access to health care remain elusive goals for many working poor families.

In addition to an income disadvantage, children in working poor families are less likely than children in more prosperous working families to have health insurance coverage and to live in a family that owns its home (see Figure 7).

- In 1998, 70 percent of children in working poor families had health insurance coverage. In contrast, 79 percent of children in working families with modest incomes and 94 percent of children in middle-to-upper income working families were covered by health insurance.
- Just over one-third of children in working poor families lived in a home the family owned in 1998, compared with 54 percent of children in working families with modest incomes and 84 percent of children in middle-to-upper income working families.

Implications for Public Policy

This updated snapshot of working poor families has broad implications for public policies intended to lift working families with children out of poverty. The data presented here suggest a number of policy options for reaching that goal.

One policy option is to increase the Earned Income Tax Credit (EITC), a refundable credit available to low-income parents who work. In keeping with the intent of welfare reform, the

EITC encourages people to make a substantial work effort by increasing the amount of disposable income received for each hour of employment. The EITC has made a real difference for the families who have learned about the credit and have been able to take advantage of it. For example, one study has estimated that the credit moved 2.4 million children out of poverty in 1996.¹⁰

A second policy option is to increase the educational levels of working poor parents. Obtaining more education may be costly and difficult to achieve for adults, and it is not a certain guarantee of being able to attain a higher-paying job. It also runs counter to welfare reform's emphasis on getting a job and getting it quickly. Nonetheless, workers without a high school diploma or specialized training are at a tremendous disadvantage in today's labor market.

A third policy option is to help parents get and keep good child care. Holding a job can be as challenging as getting one, particularly when a mother worries about the safety and reliability of her child care. Assistance with child care can remove one obstacle to staying employed.

Since marriage is often a route to greater income, a fourth policy option is to encourage marriage among single parents. Two parents working full time can generally escape poverty; one parent often cannot. However, many of the programs that have been set up to provide assistance to low-income families with children weaken the economic incentives for a single parent to get married. Both the EITC and many needs-tested transfer programs, such as Food Stamps and Medicaid, phase out benefits as income increases, and these phase-out provisions often apply at or near the poverty threshold.¹¹ As a family's income increases – for example, as a result of marriage to a second earner – benefits fall and tax rates rise. At least in theory, this situation creates a financial disincentive to marry. In addition, these provisions reduce the incentive for parents to increase their wages by working more hours or by investing in education or training. Although it is impossible to eliminate altogether these “phase-out” problems associated with an

increase in a poor family's income, it is possible (at a cost to the federal treasury) to adjust upwardly the ranges at which they apply or to reduce the “tax rates” they implicitly impose.

Summary

In the first two years of welfare reform, more than 1.3 million families with children left the welfare rolls, and the number of poor children declined from 5.6 million to 4.9 million. Nevertheless, the number of children in working poor families grew by more than 650,000 children between 1995 and 1998. Over the same period, among poor children the percentage whose parents met the work standard increased from 34 percent to 42 percent. Still, among all U.S. children, those in working families were only one-sixth as likely to be poor as children in families not meeting the work standard.

In a time of slowing economic growth, we can expect the transition from welfare to working poor to become more difficult because poor parents not meeting the work standard are at a competitive disadvantage relative to working poor parents. For example, the education gap between low-income adults who met the work standard and those who did not was wider in 1998 than it was the year before welfare reform was implemented. Parents in working poor families are at a similar competitive disadvantage – even when compared with parents in working families with modest incomes.

In short, if eradicating child poverty is an objective, welfare reform is only the first step on what may be a long, arduous, and complex journey. Recognizing this is especially critical as the process gets under way to reauthorize the Temporary Assistance for Needy Families (TANF) block grant, a centerpiece of the 1996 welfare reform law. The reauthorization process opens a door for greater public discourse about the types of aid and support needed by families that are not on welfare, that are headed by a working parent or parents, but that are nonetheless still poor. Addressing these needs – the needs of the working poor – could well be the next chapter in the nation's welfare reform story.

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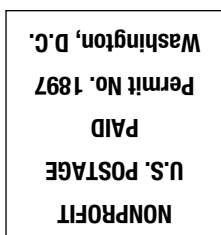
Research Assistant: Justin Jager

Endnotes

1. U.S. Congress, Personal Responsibility and Work Opportunity Reconciliation Act of 1996, Sec.411.
2. This calculation is based on the official definition of poverty, which counts only pre-tax money income. When an alternative definition of poverty is used, which includes the Earned Income Tax Credit (EITC), Food Stamps, and other non-cash benefits, the increase in the number of children in working poor families is about 270,000.
3. The official poverty standard has many deficiencies that have been carefully described elsewhere (Citro and Michael, 1995). 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.

4. Dalaker, J (1999), U.S. Census Bureau, Current Population Reports, Series P60-207, Poverty in the United States, 1998, U.S. Government Printing Office, Washington, D.C.
5. Even though the ranks of working families have presumably been swelled with families previously not making a substantial work effort, the risk of poverty for working families has not changed significantly since 1996 – the year before federal welfare reform was implemented. However, overall child poverty has fallen from 20.2 percent in 1995 to 18.3 percent in 1998.
6. This is significantly less than the 24 percent who were living with both parents in 1996.
7. This is significantly less than the 37 percent who lived in families in which neither parent had completed at least 12 years of education in 1996.
8. In 1997, the year in which welfare reform was actually implemented, TANF replaced AFDC. Statistics for 1995, therefore, are for AFDC; later statistics are for TANF.
9. Using this definition, working families of four with modest incomes had incomes between \$16,661 and \$33,319 in 1998; middle-to-upper income working families of four had incomes of at least \$33,320.
10. Center for Budget and Policy Priorities (1998), “Strengths of the Safety Net: How the EITC, Social Security and Other Government Programs Affect Poverty,” Washington, D.C.
11. For example, in 1997, for a family with two children earning between \$11,930 and \$29,290, the EITC was reduced by 21 cents for every dollar of additional earnings. The phaseout “tax” is imposed on top of the federal payroll tax rate, the federal income tax rate, and the marginal state income tax rate.

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