



ChildWise

Focus on Family Economics

Spring 2004

ChildWise: Focus on Family Economics is a six-part series to promote sound public policies that help families work, earn sustainable wages, and invest their money to create a financially secure future. ChildWise is written to help policymakers, advocates, social service providers, and the general public learn more about policies and programs that work.

Family Economic Security

Family Economic Security (FES) is a new way to reduce poverty based on lessons learned from policies and programs of the past 70 years. Family Economic Security programs combine the thinking of both conservatives and progressives about the value of work and the empowerment of low-income people and their ability to improve their lives. Within this concept, the public and private sectors both have a role to play in assisting family and community. Family Economic Security programs, when done right, increase job growth, disposable income, government savings, and public health over the long term.

Family Economic Security is made up of three parts:

- jobs that are readily available, provide health care, dental and disability benefits, and pay enough to support a family;
- government programs like tax credits and child care subsidies that supplement income when needed; and
- opportunities for asset-building like homeownership and savings that guarantee a secure future.

Families are economically secure when parents can pay for the basics: food, clothing, housing, child care, health care, and transportation.

Work should lift people out of poverty, but in reality it often doesn't. While poverty creates difficulties for anyone, growing up poor can have a devastating physical impact on children. It contributes to asthma, obesity, and poor cognitive development, to name only a few of the negative outcomes that have been directly linked to poverty.

The economic health of the family is closely tied to that of the community. In a family-friendly community, residents can buy reasonably priced food and basic goods at grocery stores and pharmacies close to home. Employment opportunities are easily accessible. Buses run frequently, taking people to and from work without complicated routes. Banks are prominent fixtures as are after-school programs, religious institutions, and community and civic groups that strengthen and support families.



Why Is Family Economic Security Important?

Many of the developmental problems that children experience can be traced to the fact that low-income working parents have to make difficult decisions in order to get by. When parents must choose between buying food and paying the rent, eating nutritiously during pregnancy may not be an option. As a result, newborns may be premature and underweight. As children grow, they may be prone to colds and poor general health.

A family without an adequate income can't pay for health insurance. Families may be forced to go without health care, praying that family members don't become critically ill and that hospital bills don't overwhelm already strapped budgets. Bare necessities can add up to more than what minimum wages can provide. Living with no heat, lead-based paint, and unsafe streets may be the only choice there is. Homelessness may be one missed paycheck or a medical emergency away.

Child outcomes are closely tied to parental earning levels, more so than whether or not a parent has a

job. According to several national studies, children living in families with income less than 200% of the federal poverty level (FPL), or \$33,400 for a family of four, score much lower on academic and developmental tests than do children living in upper-income families.¹

Family Economic Security Policies and Programs

The following policies and programs are components of a comprehensive model to improve the economic well-being of families.

Workforce Preparation

Temporary Family Assistance (TFA)
Workforce Investment Act (WIA)

Work Attachment/Retention

Insurance Coverage
Child Care Subsidies

Income Support

Tax Thresholds
Sales Tax
Earned Income Tax Credit (EITC)
Minimum Wage
Section 8 Housing Assistance
Child Support

Asset Development and Protection

Asset Promotion
Homeownership
Predatory Lending Prevention
Unemployment Insurance

SOURCE: Center for the Study of Social Policy. (2003). *Improving the Economic Success of Families: Recommendations for State Policy*. A discussion paper for the Policy Matters Project.

The cost of poverty is quite high, as developmental delays and poor health can lead to an increased need for remedial programs, higher per child education costs, and, as we see in Connecticut, an educational achievement gap between children from different income groups.



Who is Poor?

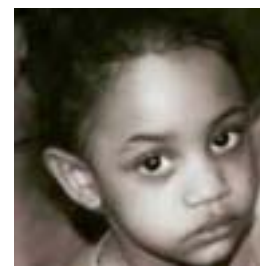
Our collective image of who is poor also does not always match reality. While the federal income adequacy level may be the established measure of poverty, most economists assume the FPL is inaccurate as it fails to take into account geographic variation, costs such as child care, transportation, and taxes that working families have to pay, and the varying needs of children at different ages. Economists indicate that in most areas of the country an income of at least 200% of FPL is needed to meet the basic housing, food, and employment costs for a family and to give children a healthy, safe start.²

According to the 2000 Census, in 1999, 637,000 Connecticut residents earned less than 200% of the FPL.³

Nationally, half of families with income below 200% of poverty include parents who work full time. Almost 60% of these families have two parents in the home, and over 75% are headed by a parent with at least a high school degree. In almost half of these families the primary worker is a parent over 30 years of age.⁴

When welfare reform was passed in 1996, the United States was in a period of economic expansion. Job opportunities were available for even unskilled parents. Unfortunately, since the late 1990s, the national and state economies have taken a downturn. Between 2001 and 2003, 2.3 million jobs were lost nationally; 48,000 of those were in Connecticut.⁵

Policy analysts of all types agree that while welfare reform was successful in getting people to work, it did not improve the earning capacity of welfare parents. When public policies focus only on work and not on poverty itself, the battle to change welfare may be won, but the children of low-income parents are still lost.

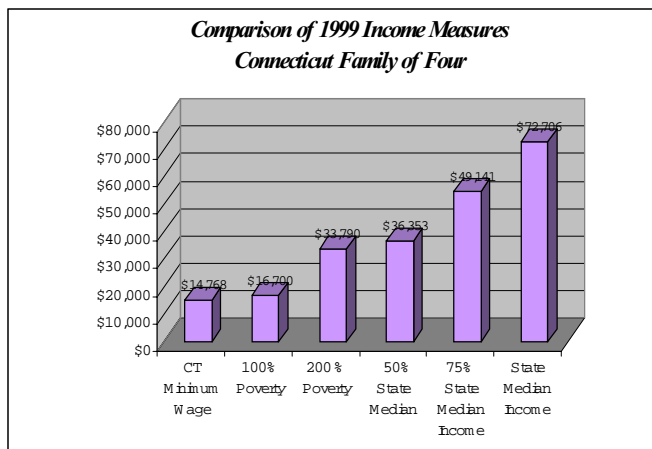


What Are the Benefits of FES Programs?

The financial benefits of Family Economic Security policies and programs are seen in ample returns to everyone: communities, the state of Connecticut, and families themselves. FES programs are prevention-based. Support of health insurance availability, child care subsidies that work in tandem with School Readiness programs, and asset investment insure the long-term success of children, as readers will learn through this policy brief series.

Some of the social and economic benefits of FES programs include:

- Increased tax base
- Lower remedial education costs to towns
- Higher academic scores of children



SOURCE: U.S. Census Bureau and Connecticut Departments of Labor and Social Services



Family Economic Security :

FES Policies and Programs That Work

Several federal and state programs have been shown to improve the economic security of low-income working parents. A dynamic family economic security strategy contains several policy and program components, including: (1) workforce preparation, (2) workforce attachment and retention, (3) income support, and (4) asset promotion and protection.

Workforce Preparation and Attachment

Temporary Family Assistance (TFA)

Since the implementation of welfare reform legislation in 1996, it has become obvious that some elements of TFA do not work well. In particular, many parents leaving TFA do so without a Graduate Equivalency Diploma (GED) or the skills necessary to obtain gainful employment. While there was a slight shift in spending on employment and training opportunities for TFA recipients over the past few years, far more of an investment is needed, particularly as competition for jobs escalates. TFA needs to promote GEDs and improved employment and training opportunities. The legislature needs to consider the current economic climate and suspend time limitations for TFA until the economy recovers and jobs are available.

HUSKY A Health Insurance

Health insurance and health care costs are becoming increasingly burdensome for all Americans. Low-income families, who have higher rates of chronic illness and disability than upper-income families, are less likely to have adequate health care benefits.⁶ As in other states, Connecticut's Medicaid child health

insurance program, or HUSKY A, has been very effective in providing comprehensive health care to low-income children that includes preventive services such as well child visits.

Connecticut has applied for a federal waiver of Medicaid minimum standards that would impose a premium on families receiving HUSKY A whose earnings are between 50% and 185% of the federal poverty level. Research clearly shows that the imposition of premiums directly results in the loss of health care coverage because families with such low income cannot afford to pay them.

It is estimated that almost 60,000 children and 27,000 parents or pregnant mothers will lose health insurance if this waiver is implemented. Connecticut will be the only state to pass premium costs on to families below the poverty level.⁷ Connecticut lawmakers should prevent the imposition of HUSKY A premiums by reversing legislation passed by the General Assembly in 2003.



Care 4 Kids Child Care Subsidies

Connecticut's Care 4 Kids program has a long history of assisting working families with their child care expenses. But in the past two legislative sessions,

Policies and programs that work

lawmakers supported a drastic reduction in funding and a staggering drop in enrollment. Care 4 Kids funding was reduced from \$121.5 million in SFY 2001-2002 to a proposed \$60.3 million in the SFY 2004-2005 adjusted midterm budget. Prior cuts, coupled with changes to program eligibility guidelines, have resulted in a drop in enrollment from 39,000 to fewer than 20,000.

Working, non-TFA parents that leave the Care 4 Kids program because of a job loss or child care problems are no longer eligible for the subsidy. New working non-TFA families who are applying for the first time or those who are reapplying are put on a waiting list. In February 2004, the waiting list for non-TFA families had grown to 10,000 families (17,000 children).

TFA families also have been affected; the income eligibility cap for this group of families is now 20% lower than the cut off for non-TFA families.⁸

Along with the negative impact to families, the loss of substantive Care 4 Kids funding has negatively affected the state's School Readiness programs in particular and the early care and education industry in general. School Readiness program grants are calculated assuming they will be augmented by Care 4 Kids subsidies and parent fees.

Without Care 4 Kids, School Readiness programs are forced to cut back on the number of children served. Many programs do not have the resources to withstand the loss in funding that these budgetary decisions are creating. The potential closing of center and family child care programs has profound implications for Connecticut's economy.

Connecticut legislators should reinstate Care 4 Kids funding to the level appropriated in the 2001-2002 state budget.

Connecticut Self-Sufficiency Standard

The *Connecticut Self-Sufficiency Standard* was first calculated in 1998 by Diana Pearce of the University of Washington as a series of individual budgets for 12 regions in the state, multiple family sizes, and various ages of children.

Each budget provides a picture of the minimum dollar amount needed to cover basic family costs, including housing, child care, food, transportation, health care, taxes, and miscellaneous expenses. Adjustments for receipt of the Earned Income Tax Credit, the Child Care Tax Credit, and the Child Tax Credit are also included.

In 1998, the Connecticut Self-Sufficiency Standard estimated that an income of \$35,604 was needed to pay for food, housing, child care, transportation, health care, taxes, and miscellaneous expenses for a family of three (two adults and a preschooler) living in New Haven. In contrast, the 1998 federal poverty level for all cities and towns in the continental United States was \$13,650 for a family of three.

SOURCE: Pearce, D. & the State of Connecticut. (1999). *The Self-Sufficiency Standard for Connecticut, Summary Report*. Connecticut Office of Policy and Management.

Income Support

Food Stamps

The federal Food Stamp program provides a legitimate safety net for low-income families that are unable to purchase

nutritious food. The percentage of eligible Connecticut residents who are enrolled in the program has hovered at approximately 60% for the past few years and is consistent with the national average.⁹ Efforts by state agencies to improve access to the program could boost participation levels.

Minimum Wage

Connecticut's minimum wage was raised to \$7.10 an hour in January 2004. While this amount may seem generous compared to the federal minimum wage of \$5.15 an hour, it translates to an annual income of only \$14,768.

In contrast, when the 1998 Connecticut Self-Sufficiency Standard was calculated, an annual income of \$46,728 was needed to pay for basic necessities such as food, housing, child care, transportation, health care, taxes, and miscellaneous expenses for a family of four (two adults, a preschooler, and an infant) living in New Haven.¹⁰



Photo courtesy of Hartford Area Habitat for Humanity.

Earned Income Tax Credit (EITC)

The Earned Income Tax Credit (EITC) is a federal refundable tax credit that can provide as much as \$4,000 to working parents who earn up to \$34,692 annually. The EITC is only available to those who are in the labor force, and therefore, operates as an incentive to work.

In 1997, over 48,000 residents of Greater Hartford earned \$65 million in federal dollars from this program. However, the IRS estimates that at least 25% of available EITC dollars go unclaimed every year.

Along with the need to improve the number of workers applying for the tax credit, administrative problems also must be addressed. Connecticut considers federal EITC payments as income for purposes of determining eligibility for state benefits, such as TFA. This means that a worker who receives the credit may be disqualified from eligibility from state programs. This is clearly counter to the intention of Congress in creating the EITC, and the legislature should require the state to discontinue the practice.

Connecticut lawmakers also should consider establishing a state EITC as several states have done, as a state tax credit would contribute \$12.5 million to low-income working families in Greater Hartford alone.¹¹

Asset Promotion and Protection

Individual Development Accounts (IDAs)

IDAs are matched savings accounts for low-income families to build their investments and personal assets. Savings may be used for the first-time purchase of a home, small business start up, job training or education costs, car purchase for employment, and first and last month's rent for a primary residence. Financial and asset-building education and goal setting are important components of IDA programs.

In 2000, the state legislature passed a Connecticut IDA initiative administered by the Department of Labor. Between 2000 and 2002, Connecticut invested \$725,000 in the IDA program. However, during the 2003 legislative session, the state commitment was reduced to \$400,000, and was eliminated in the proposed SFY 05 budget. Program funding should be reinstated and increased, given the success of this program.



Photo courtesy of Hartford Area Habitat for Humanity.

Homeownership

Building wealth through homeownership is an important way that middle- and upper-income families invest their money. According to studies, parental homeownership reduces the likelihood that teenage children will give birth and drop out of school.¹² The association of homeownership to positive child outcomes for very young children also has been established by research. An analysis of national data found that when all other attributes were accounted for, the children of homeowners had higher math and reading scores and fewer behavioral problems than did children of renters.¹³

In addition, in 2001, every \$10 million of public money invested in affordable housing generated almost 2,000 new jobs nationally.¹⁴

Predatory Lending Prevention

Connecticut and several other states have instituted predatory lending laws to stop the exploitation of low- and middle-income consumers and homebuyers. Because of its complexity, most low- and moderate-income people who qualify for the federal EITC use paid tax preparers. The IRS estimates that low-income Connecticut residents paid over \$20 million in tax preparation fees in 2001, in part because many took Refund Anticipation Loans (RALs), commonly called “rapid refunds,” to receive their tax refunds and credits faster. These refunds are actually short-term loans for which the tax preparers are legally permitted to charge interest rates in excess of 100% annually. Connecticut’s

General Assembly should follow the lead of Minnesota’s legislature, which passed legislation requiring tax preparers to clearly inform people the terms of the loan, and the availability of the refund without a loan in 7-10 days by filing electronically with the IRS.

FES Actions for the 2004 Legislative Session

The Connecticut General Assembly can take the following actions in 2004 to improve the economic security of low-income families:

- Repeal changes to HUSKY enacted in 2003;
- Restore Care 4 Kids funding and reopen the program to low-income working families;
- Allocate TANF/TFA bonus funds for child care, workforce training, and other programs that work;
- Provide funding for the state Individual Development Account program; and
- Require tax preparers to clearly disclose terms of tax Refund Anticipation Loans

Conclusion

In order to lessen the impact of poverty on children and families, low-income working parents need access to resources and support

to improve their financial well-being. Programs that support family economic security have proven to produce significant return on investment

and help families before a crisis happens. Family Economic Security programs reward work, guarantee that families aren’t devastated by illness or disability, and increase the tax base. An investment in families is an investment in the state’s economy.



For more information on the Connecticut KIDS COUNT Project, call Jude Carroll, Project Director at (860) 951-2212, ext. 240.

Endnotes

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