

INVESTING IN FAMILIES . . . INVESTING IN OUR FUTURE

Introduction

Over the past decade, popular support for many programs serving lower-income children and families has declined, based in part on an underlying belief that little return is gained from human service investments. This sentiment, coupled with the recent downturn in the state's economy, has resulted in large reductions in state spending on a myriad of social programs.

But an interesting phenomenon is occurring. Social service providers, accustomed to advocating for their programs based on need and ethics, are beginning to speak in economic terms. They are demonstrating with data that their programs are effective in reducing poverty and producing positive outcomes, and are smart investments with broad societal benefits. And policymakers are beginning to listen.

Reflecting the need to go beyond one-dimensional poverty policy, this year's Data Book has as its focus a specific set of measures that relate to *Family Economic Security (FES)* issues: child poverty, family income, parental employment, homeownership, and more. Our intent is to provide policymakers, advocates, and the general public with benchmarks on the economic well-being of children and families; demonstrate successes and problem areas; and offer a policy agenda to lift low-income working families out of poverty and strengthen the overall Connecticut economy.

This book offers a Connecticut perspective on the growing movement to rethink how we address poverty and its devastating consequences. CAHS is not alone in supporting a *Family Economic Security* agenda. Several national entities, including the Annie E. Casey Foundation (the sponsor of the KIDS COUNT project nationally and at the state level), the Corporation for Enterprise Development, the National Center for Children in Poverty, the Center for the Study of Social Policy, and others are actively working to inform policymakers and the general public about the positive outcomes that an FES agenda could produce.¹

The focus of the Data Book is on children, in large part, because investments in Connecticut's kids will yield greater returns than any other investment government can make. Indeed, leaders in the business world are coming forward with data of their own to support this fact. A recent report by Art Rolnick, Senior Vice President of the Federal Reserve Bank of Minneapolis, concluded, "Dollars invested in early childhood development yield extraordinary public returns"—a 12 percent public return on investment that is greater than traditional investments by government in the name of economic development.² As the Minneapolis Fed study states: "The quality of life for a child and the contribution the child makes to society as an adult can be traced back to the first few years of life," affecting academic success or failure and financial independence or reliance on the state.

Many of the indicators reported in the Data Book have similar, long-term implications for both the individuals involved and society as a whole. Indeed, to understand how to improve the lives of children and families, we must look at how the indicators interrelate. Young people who drop out of school will earn less money throughout their lives and contribute less to the economy. Mothers with less than a high school diploma giving birth are more likely to have low-birthweight babies and are less likely to be able to provide their children with the environment they need to succeed in school.

Defining Family Economic Security

Fortunately, we know what works to reduce childhood poverty, create a stable environment, and ensure positive outcomes for all children in the state. This essay highlights the lessons learned from research, including relationships among indicators, and recommends a policy agenda that will maximize the ability of families to become self-sufficient, create a more stable workforce, and strengthen the state's economy.

For decades, conservatives and progressives have battled over how to help low-income families break the cycle of poverty. With information gleaned from welfare reform research, a new, holistic set of policies with proven outcomes is coming together, under the framework of *Family Economic Security*. The consensus emerging from this policy perspective is that employment is an important component of self-sufficiency, but that a job alone is not enough.³

What the Data Show: The Challenge

As in past years, overall, children in Connecticut are doing very well in many areas. However, the statewide data often mask extremes within the state, among towns and among racial and ethnic groups.

First, the good news: Connecticut ranks seventh best among the 50 states in the Annie E. Casey Foundation's 2004 National KIDS COUNT Data Book on the full array of 14 indicators, several of which are economic. Only 10% of Connecticut children lived below the Federal Poverty Level (FPL) according to the 2000 Census, the third lowest rate in the nation. Again, according to the 2000 Census, Connecticut's median family income was \$64,692, second highest in the nation. Most Connecticut families own their home (70%), an important indicator of real economic security. The cumulative dropout rate for Connecticut high school students is 11%, and only 11% of children in the state are born to women with less than a high school diploma—two key factors for life-long earning potential.

In many ways, these positive outcomes can be tied to public investments and policies over decades. Our state prides itself on the quality of our schools, which contributes to low dropout rates. Many schools have achieved their high quality through annual investments, primarily at the local level. Federal housing policies since the 1930s, such as federally backed mortgage insurance and the mortgage interest deduction, have helped boost national homeownership rates from under 44% in 1940 to 68% in 2003.⁴

Family Economic Data Headlines

- The state's child poverty rate is 10%, third best in the nation; but Hartford's is 41%, second worst of any major U.S. city.
- Poverty among Latino children in Connecticut is 31%, the 7th highest rate in the nation.
- 24% of Connecticut children live in households with income less than 200% of FPL, about \$37,000 for a family of four.
- 83% of low-income children in Connecticut have a parent who works. Half of the state's low-income children have a parent who works *full time, year round*.⁵
- The homeownership rate for families with children is close to 70% statewide, but only 19% in Hartford, 26% in New Haven, and 36% in Bridgeport.
- The EITC provides \$217,152,927 to lower-income working families in Connecticut—but 20% of eligible families fail to claim it.
- The number of children receiving child care subsidies statewide dropped from 39,559 in 2000 to 14,779 in 2003.
- Enrollment of children in TFA dropped from 137,779 in 1995-96 (pre-welfare reform) to 64,100 in 2000-01—during good economic times, and continued to drop to 56,356 in 2002-03, despite the economic downturn. Meanwhile, Food Stamp enrollment for children dropped from 145,893 in 1995-96 to 98,341 in 2000-01, and then rose to 103,985 in 2002-03. Overall during this time, TFA enrollment dropped 59%, while Food Stamp enrollment dropped only 29%.

Higher enrollment by eligible participants in federally funded programs can have a tremendous impact on reducing poverty that is often overlooked. Federal government investments in programs for the poor, including Food Stamps, housing assistance, school meals, and the EITC, lifted nearly 27 million out of poverty in 1995, reducing the number of poor people from 57.6 million— based on earnings alone— to 30.4 million.⁶

Now, the bad news: As documented in last year’s Connecticut KIDS COUNT Data Book, *A Tale of Two Connecticuts*, our state is one of extremes, on economic measures, and for indicators of child well-being generally. Although Connecticut’s overall childhood poverty rate (10%) is the third lowest of any state in the nation, Hartford had the second highest rate of child poverty (41%) of any city with a population over 100,000 in the 2000 Census. And while only 10% of Connecticut children live below the FPL, 24% live below 200% of the FPL, a more realistic measure of poverty that is still below an actual self-sufficiency level in our high-cost state.⁷

Others looking at Connecticut’s economic data and policies have noted this polarization. The Corporation for Enterprise Development (CFED), which promotes sustainable economic well-being in low-income communities, ranks Connecticut 20th best among the 50 states on “asset outcomes,” and 12th best for “asset policy.” CFED’s *State Asset Development Report Card* for Connecticut notes: “The state’s final grade resulted from extremely high and low scores across the index. For example . . . Connecticut boasts a mean net worth of \$140,989 (6th), yet the state has a below-average rank on the gap in wealth between white and non-white households (28th), and a significant number of households possessing zero net worth (36th).”⁸ The report also notes that Connecticut’s homeownership rate is below the median (28th), and that the gap between homeownership for white and non-white families is the 5th largest among all states.

Again noting extremes, the same report ranks Connecticut “First and third in the nation for basic educational proficiency in reading and math, respectively, and 5th for overall college attainment. The state sinks back down again when considering parity with regard to income, race, or gender, ranking 39th in Head Start coverage, 42nd in the gap in college attainment between whites and non-whites, and 47th in the gap in college attainment between men and women.” The state ranks first in the nation in employer-provided health insurance, and is one of the few states with a minimum wage higher than the federal minimum wage (\$7.10 per hour, compared to \$5.15). At the other end of the spectrum, we rank 48th in the nation in unemployment insurance benefit levels. The average white Connecticut household has assets 3.5 times higher than those of the average non-white household, and 23% of all households are considered “asset poor” (29th).

Geographically, the negative extremes of family economic indicators are concentrated in the core large cities (Hartford, Bridgeport, New Haven, Waterbury, but not Stamford), and to a slightly lesser extent in a group of smaller cities (generally including Meriden, New Britain, New London, and Windham). Median family income is below \$30,000 in Hartford and New Haven, and between \$30,000 and \$36,000 in New London, Windham, Bridgeport, New Britain, and Waterbury—compared to \$64,692 for the state as a whole.

In some cases, disparities are also pronounced in smaller towns, especially those in rural northeastern Connecticut. For example, 34% of the births in Hartford are to women with less than a high school degree, followed by 28% for Windham, 27% for New Haven, 26% for Bridgeport, 24% for New London and Meriden, and 21% for Putnam, Sterling, and Waterbury.

On indicators such as homeownership rates for family households and free or reduced-price school meals program enrollment, inner-ring suburbs like East Hartford and West Haven have rates far worse than the state as a whole, although not approaching those of the largest cities.

Setting a Policy Agenda for Low-Income Working Families

The *Family Economic Security* framework involves the activity and interaction of three fundamental components. Each component is necessary for the framework to be effective. Successful *Family Economic Security* policies:

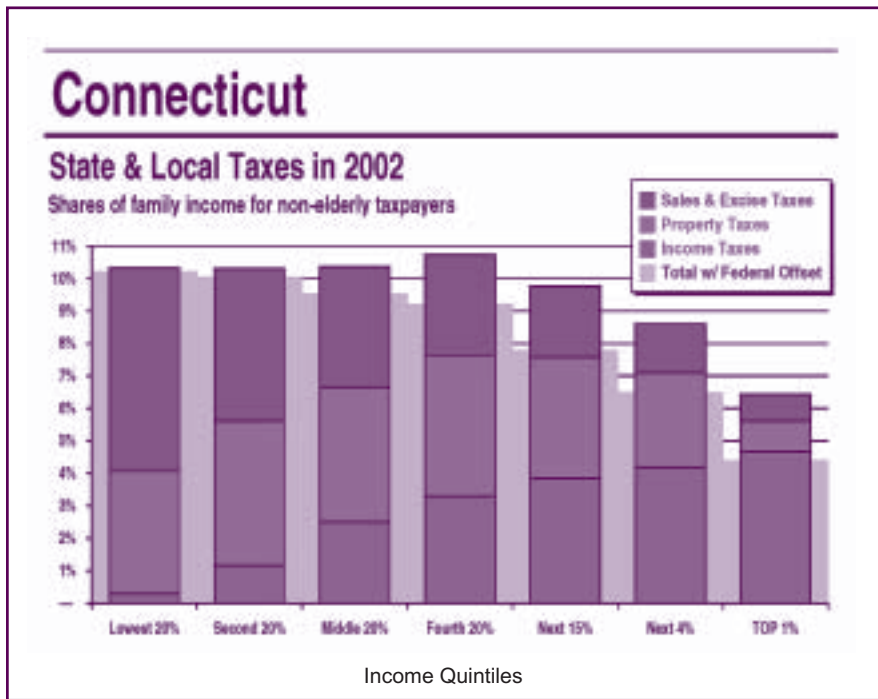
- Empower affected individuals and families,
- Engage the private sector to support solutions that strengthen the workforce and overall economy, and
- Increase investments by all levels of government to ensure that every child's basic needs are met, and that all families have the opportunity to achieve self-sufficiency.

As part of an overall agenda to help reduce poverty among low-income families, the state of Connecticut should take the following actions in the short term:

- **Revamp welfare reform** to reduce poverty, rather than simply reducing cash assistance rolls, by better preparing recipients for jobs that pay self-sufficiency wages. Program participants need greater resources and flexibility for education (including Graduate Equivalency Diplomas and college coursework) and job training. In addition, with many of those now leaving welfare without a job, the state should suspend strict time limits in times and areas of high unemployment. The state should integrate welfare reform and federal **Workforce Investment Act** (WIA) programs, while exercising options to improve work-related outcomes for all those covered under the act.⁹
- Connecticut policymakers recently restored **health insurance** programs cut due to the budget deficits, eliminating premium cost sharing and co-pays for families receiving HUSKY A earning above 50% of the FPL. With this done, in future years, Connecticut should follow the lead of states like Rhode Island that extend Medicaid eligibility to children, parents, and legal immigrants in families earning up to 250% of the FPL, rather than the current 185% for children and 100% for parents.

- Funding for Care 4 Kids, the state's **child care subsidy program** for low-income working parents and those moving from welfare to work, has been cut in half, from \$121.5 million in State Fiscal Year 2002 to about \$62 million this year. In August 2002, the state closed enrollment to new working families earning less than 50% of the State Median Income (SMI). Since that time, enrollment has dropped substantially and a waiting list has grown to 10,000 families with 17,000 children. These cuts hurt parents' ability to work and negatively affect child care centers dependent on the program. Legislators must restore this funding. In future years, Connecticut should expand income eligibility for child care subsidies to families earning up to 85% of SMI (compared to the present 50% of SMI), and follow the lead of other states, again including neighboring Rhode Island, that guarantee child care for eligible families.
- An abundance of research demonstrates the link between quality early care and education and long-term academic and life success for children enrolled in these programs. Connecticut's **School Readiness program** for 3- and 4-year-olds serves approximately 6,500 children in 36 school districts (those designated as Priority, Transitional, or having one or more Severe Needs Schools). The Connecticut Department of Education has proposed to expand the program universally to all children in that age group whose parents desire enrollment. A critical component of this proposal is the assurance that program expansion is done in a way to preserve the high quality of existing programs while ensuring that of new programs.
- **Equitable state tax policy** is critical to improve the income of poor children and families. Connecticut largely avoids regressive taxes like low income tax thresholds and taxes on food and low-cost clothing. However, in recent years, the General Assembly reduced (and recently restored) the property tax credit on the state income tax, and increased the cigarette excise

tax, which disproportionately affects poorer taxpayers.¹⁰ The legislature has also failed to enact a progressive tax rate for the state’s highest earners, the so-called “millionaire’s tax,” while slashing programs serving low-income people. As the chart below indicates, Connecticut’s top 1% of income earners pay a much smaller share of their total income in state and local taxes than do all other income groups. In 2002, they paid 6.4% of their income in state and local taxes, compared to 10.3% to 10.7% for taxpayers in the bottom four income quintiles. After accounting for the deduction of state and local taxes from federal taxes (the background shadow in the chart below), the wealthiest 1% paid only 4.4% of their income in state and local taxes, compared to 9.2% to 10.2% for taxpayers in the bottom four income quintiles.



SOURCE: McIntyre, R.S., et al. (2003). *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States, 2nd Edition*. (p. 28). Washington, DC: Institute on Taxation & Economic Policy.

- A state **Earned Income Tax Credit** (EITC) would augment low wages so that family income is raised closer to 200% of the FPL, the amount economists believe approaches the true threshold for self-sufficiency. The state could piggyback on the federal EITC, which is available to families earning up to \$34,692 per year. The EITC reduces childhood poverty, rewards work, and increases disposable income. The state should offer a refundable EITC (meaning that it is available even for filers with no tax liability), and also offer a **child tax credit**, as the federal government does, to further enhance the incomes of lower-income families with children.
- At least one-third of state households eligible for **Food Stamps** does not receive them. The state could increase Food Stamp participation by coordinating benefits among multiple programs which typically serve the same population of families, including a joint application process, with programs such as Supplemental Security Income (SSI), Temporary Family Assistance (TFA), child care subsidies, and HUSKY A. The General Assembly recently restored Food Stamp and other benefits to legal immigrant families that were eliminated last year, but has yet to restore state funding for nutrition program outreach. Research from other states has shown that increasing the Food Stamp participation rate helps entire neighborhoods, and the state as a whole, as the additional benefits are returned to the local economy.
- To promote the acquisition of assets among low-income families, which help ensure long-term economic stability, the state should expand its **Individual Development Account** (IDA) program. The state program, created by legislation spearheaded by the State Treasurer’s Office several years ago, allows families to accumulate assets to purchase homes or vehicles, and save for a down payment for an apartment, for education, and for small business start-ups. State and private sources match savings by participants, who also learn financial management. The state’s

IDA network includes contributing banks, nonprofits that administer local programs (primarily local anti-poverty agencies), United Way of Connecticut, and others. The challenge for this very successful program will be to bring it to scale in coming years, so that the opportunity to save for the future can be offered to all families who meet income and other guidelines.

- **Homeownership** is the most significant asset for most families, and a cornerstone of financial security. Connecticut's low homeownership rate in our largest cities is due in part to the cities' housing stock, much of which is multi-family and was constructed before homeownership was common. The state can promote homeownership by offering homebuyer assistance programs for low-income families and those living in targeted communities. Yale University's homebuyer program for employees is an excellent model.
- Given the high and fast-rising cost of **housing** in the state, Connecticut policymakers should also work to increase the supply of low- and moderate-priced housing by increasing state bond funds for construction. The state should also work to increase the supply of affordable housing in suburbs where most new jobs are located, by maintaining the Affordable Housing Appeals Procedure, which makes it easier for developers to construct low-cost housing in towns that presently have little, and by exploring other zoning methods that spur construction.
- The state should strengthen **predatory lending legislation** to protect lower-income families from private practices that effectively strip families of their accumulated wealth. North Carolina's broad-based predatory lending legislation, enacted with support from banks, mortgage lenders and consumer advocates, can serve as a model for Connecticut. In one year, that legislation saved the state's homeowners \$232 million by prohibiting predatory practices and ensuring that homeowners were provided information regarding financial practices.¹¹

A Connecticut Agenda: Lift Working Families Out of Poverty

Prepare the Workforce

- Spend a higher proportion of TFA funds on job training and education
- Improve outcomes under the Workforce Investment Act

Make Work Pay

- Restore cuts to HUSKY and Medicaid and expand health insurance coverage
- Restore child care subsidies to 2002 levels and expand income eligibility

Support Income with Other Benefits

- Increase tax system equity by charging higher income tax rates for the highest earners
- Create a state Earned Income Tax Credit (EITC) for working families
- Improve Food Stamp participation rates

Build Financial Assets

- Make Individual Development Accounts (IDAs) available to all working families
- Facilitate homeownership, especially in central cities and among minorities
- Encourage affordable housing construction with bonding and zoning laws
- Better regulate predatory lending practices

Implementing the Agenda: Building Political Will

A *Family Economic Security* agenda is ambitious—it addresses many areas, and some components will cost a lot of money, raising the obvious question of feasibility. While, to some, this agenda may appear to be an expensive hodgepodge of programs, many others have been won over by its vision. Consider some reasons why an FES agenda is possible in Connecticut.

- **Return on Investment.** Most of the policies outlined will yield substantial returns in the short-term, long-term, or both, in part because these are largely prevention-based programs; that is, investing now prevents costly problems in the future. For example, early care and education programs have been found to return \$8 for every \$1 of public investment over the life of the child.¹² Some of these returns come early on, with fewer children repeating grades and lower costs for special education. Other returns take longer, as with a lower rate of incarceration for adults who as children experienced quality pre-school programs. Some of these benefits go to individuals, but most benefit society as a whole. Investment in children to ensure their future economic success is especially important for Connecticut, which has the sixth lowest rate of school-age children as a percent of the total population among the 50 states.¹³ We need for each of our children to succeed economically when they become adults. Children who experience persistent poverty are more likely to be poor as adults and to earn lower wages than their peers.¹⁴
- **Low Cost for Some Programs.** Some of the programs and policies outlined here will not cost state taxpayers much. TFA, the Workforce Investment Act, the federal EITC, and Food Stamps are all federally funded. Maximizing use of these programs is simply good practice for a state that contributes far more to the federal government than is returned to it. Other policies, such as stronger predatory lending legislation, have no cost to taxpayers, but will save the beneficiaries tens of millions of dollars.
- **Broad Constituencies.** Young middle-class families stand to benefit along with poorer families from state investments in affordable housing, child care, and health care. The elderly, many of whom are grandparents who do not want to see their children and grandchildren struggling—or moving out of state—similarly have an interest in ensuring effective housing, child care, and education programs. Businesses, in many ways the most powerful lobby, require a well-educated and trained workforce. Businesses also seek a high quality of life that makes it easier to retain the existing workforce and to attract new employees, and affordable and accessible public benefits.
- **Bipartisan Appeal.** Support for programs aimed at reducing poverty is sometimes thought to be the bastion of liberals. But backing for many of these policies crosses party and ideological lines, because family economic security stresses individual empowerment and accountability, and a direct link between investments and documented outcomes. Conservatives pushed welfare reform for decades. In 1996, centrist President Bill Clinton proposed to “end welfare as we know it.” While emphasizing the importance of work under welfare reform, many conservatives now acknowledge that government needs to expand child care subsidies and other work supports that allow parents to work.¹⁵ The federal EITC was created in the 1970s under Presidents Richard Nixon and Gerald Ford and was embraced by Republicans because it provided an incentive for low-income people to work. The Food Stamp program enjoys strong bipartisan support in Washington, in part because of the economic benefits provided to both low-income neighborhoods and states dependent on agriculture.
- **Good Timing?** Finally, after years of retrenchment on the state budget for many social service programs, the state economy is beginning to pick up. Political leaders can cast a fresh eye, not just on individual programs, but also on an overall agenda. The changing political climate also may be conducive to an ambitious agenda that recognizes that people who work should not be poor.

In the end, it's important to remember that even incremental investments and changes in policy can have a big impact over time. President Clinton's universal health care coverage proposal failed in the early 1990s, but the SCHIP program (HUSKY in Connecticut) has extended insurance coverage to millions of children and families, improving health outcomes and averting economic catastrophe for many. The federal EITC started small and has emerged over time to have a huge impact on many families, with the potential to do more in the future, especially if paired with a state EITC and asset-building programs. Advocates and state lawmakers should be inspired by the results of small programs in Connecticut and the nation. United behind FES investments in policies and programs, we can reduce poverty and make Connecticut an even better place to grow up, work, and live—for everyone.

James P. Horan
Executive Director

Endnotes

¹The excellent work of several national groups facilitates the task of compiling a policy agenda with measurable outcomes for *Family Economic Security*. As part of its "Policy Matters" initiative, in collaboration with the National Center for Children in Poverty (NCCP) and Child Trends, the Center for the Study of Social Policy (CSSP) has developed six discussion papers that set goals and measure the strength and adequacy of state policy affecting children, families, and communities. One of these six papers, "Improving the Economic Success of Families," includes benchmarks for most of the policies described in this paper, detailing specific features and scoring methods for each policy.

²Rolnick, A., & Grunewald, R. (2003). Early childhood development: Economic development with a high public return. *The Region*. December 2003, 6-12.

³Pearce, D. & the State of Connecticut. (1999). *The Self-Sufficiency Standard for Connecticut, Summary Report*. Hartford, CT: Connecticut Office of Policy and Management.

⁴Nothat, F. (2003). *Homeownership Rate Now Approaching 70%*. McLean, VA: Freddie Mac. Retrieved on April 16, 2004, from http://www.freddiemac.com/news/finance/commentary/070703_homeown_rate.htm

⁵Cauthen, N. K. (2004, March). *Investing in Children by Supporting Work*. New York: National Center for Children in Poverty, Columbia University. Presentation conducted at the Informational Forum on Child Poverty. Hartford, Connecticut.

⁶Center for the Study of Social Policy. (2003). *Policy Matters: Setting and Measuring Benchmarks for State Policies, Improving the Economic Success of Families*. Washington, DC.

⁷Pearce, D. & the State of Connecticut. (1999); Gershoff, E. (2003). Low Income and the Development of America's Kindergartners. *Living at the Edge*, Research Brief No. 4. New York, NY: National Center for Children in Poverty, Columbia University.

⁸Corporation for Enterprise Development. (2002). *State Asset Development Report Card*. Washington, DC. Retrieved on April 1, 2004, from <http://sadcrc.cfed.org/states/measure/ct.php>

⁹The WIA is the federal law regulating state and regional workforce training programs.

¹⁰Geballe, S. (2004). *Connecticut's FY04 Budget: A Summary & A Contextual Analysis*. New Haven, CT: Connecticut Voices for Children.

¹¹Nelson, D. (2003). The High Cost of Being Poor: Another Perspective on Helping Low-Income Families Get By and Get Ahead. *The Annie E. Casey Foundation 2003 KIDS COUNT Data Book: State Profiles of Child Well-Being*. (pp.11-33). Baltimore, MD: The Annie E. Casey Foundation.

¹²Rolnick, A., & Grunewald, R. (2003).

¹³Quitno, M. (2000). *State Rankings 2000, A Statistical View of the 50 States*. Lawrence, KS: Morgan Quitno Press; Connecticut Light and Power. (1999). *Connecticut Economic Review, 2000*. Hartford, CT: Connecticut Light and Power.

¹⁴Moore, K.A., & Redd, Z. (2002). *Children in Poverty: Trends, Consequences, and Policy Options*. Washington, DC: Child Trends.

¹⁵In debating a child care amendment connected to TANF reauthorization, Sen. Orrin Hatch (R-UT) stated that extra money for child care "goes hand-in-hand with the increase in work requirements." in Pear, R. (2004, March 31). "Defying Bush, Senate Increases Child Care Funds for the Poor." *The New York Times*. Retrieved on March 31, 2004, from <http://www.nytimes.com/2004/03/31/politics/31WELF.html?ex=1081740667&ei=1&en=a1f5a31aa4e1cdd0>