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MAILMAN SCHOOL OF PUBLIC HEALTH

Low-Income Families in the District of Columbia: Results from the Family Resource Simulator

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About 85 percent of low-income children have parents who work, and most have at least one parent working full-time, year-round. Nonetheless, many of these parents are unable to afford basic necessities for their families, such as food, housing, and stable child care. Even a full-time job is not always enough to make ends meet, and many parents cannot get ahead simply by working more. As earnings increase—particularly as they rise above the official poverty level—families begin to lose eligibility for work supports. At the same time, work-related expenses, such as child care and transportation, increase. This means that parents may earn more without a family experiencing more financial security.¹ In some cases, earning more actually leaves a family with fewer resources after the bills are paid.

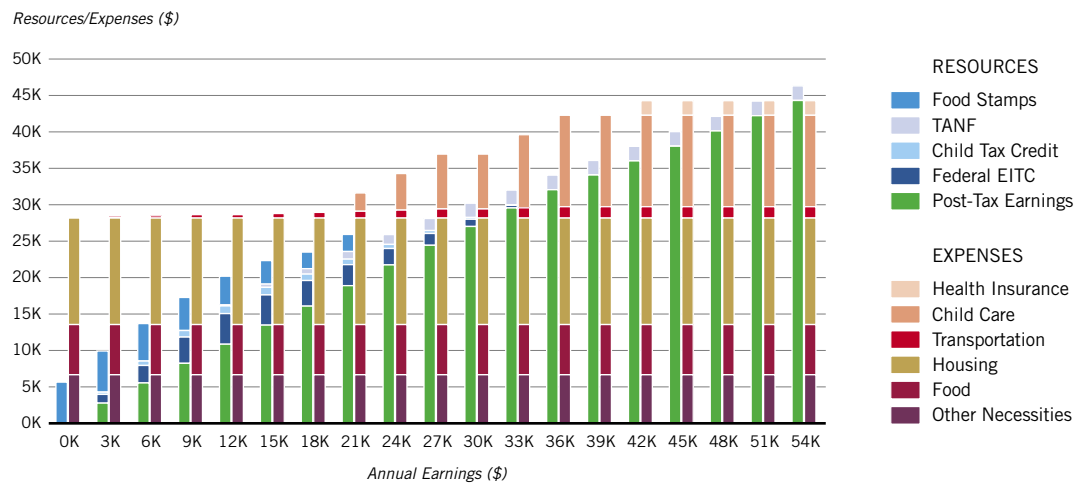
The Family Resource Simulator, developed by the National Center for Children in Poverty, illustrates how this happens. This web-based tool calculates resources and expenses for a hypothetical family that the user “creates” by selecting city and state, family characteristics, income sources, and assets. The user also selects which public benefits the family receives when eligible and makes choices about what happens when the family loses benefits (e.g., does the family seek cheaper child care after losing a subsidy?).

The result is a series of charts that show the hypothetical family's total income from various sources as earnings rise, as well as the cost of basic family expenses. Using the Simulator, this report describes the experiences of two hypothetical families in the workforce.

Low Income in DC: The Johnsons

The Johnsons are a married couple with two children, ages 3 and 6, living in the District of Columbia. The federal poverty level for such a family is \$18,850 per year.² For simplicity, the Simulator assumes that the Johnsons begin with no earned income; then one parent enters the workforce and steadily increases hours to full-time employment. After that, the second parent begins part-time work and gradually moves into full-time employment. When the Johnsons' employment requires outside child care, both children go to child care centers (the 6-year-old goes after school). The Johnsons pay taxes on their earnings, and when they qualify, they receive earned income tax credits—including DC's refundable state credit—and the federal Child Tax Credit. In addition, the Johnsons receive food stamps and public health insurance when eligible.

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Figure 1: Johnson Family**Family Resources and Basic Expenses**NCCP Family Resource Simulator:
District of Columbia 2003

As shown in Figure 1, the family's resources are far lower than what it needs to meet basic necessities until earnings reach \$51,000, or nearly three times the federal poverty level. It takes a full-time job at nearly \$8 per hour just to cover the cost of housing.³ At that earnings level (about \$14,000 per year), the family's other resources—tax credits and food stamps—are not nearly enough to cover the cost of food, transportation, and other necessities for a family of four.

When the second parent enters the workforce, the Johnsons' earnings increase, but so do their work-related expenses. At the same time, the family begins to lose eligibility for the benefits that support work. By the time both parents are working full-time—together earning about \$37,000 per year—the family is no longer eligible for food stamps or the federal or DC earned income tax credits. (These refundable income tax credits had provided more than \$5,000 to the family at lower earnings levels.) In addition, although the District of Columbia has a relatively generous Medicaid program under which both children and parents are eligible at incomes up to 200 percent of the poverty level, the Johnsons still lose public health insurance before they are able to make ends meet, further increasing the family's expenses. This simulation assumes that the Johnsons have insurance through an employer. Without this benefit, the Johnsons would have to pay substantially more or go without health insurance.⁴

Housing and child care are the Johnsons' most daunting expenses. At an income of \$30,000, well above the official poverty level, housing costs consume nearly half of the family's income; housing and child care expenses combined equal two-thirds of their income at this level. If the Johnsons received both housing vouchers and child care subsidies, they would have just enough resources to meet their basic expenses with a full-time minimum-wage job. In practice, however, funding for these benefits is limited, and only a fraction of eligible families receive them. Without housing and child care assistance, the family needs *two* full-time jobs at \$15 per hour to cover basic expenses.

Thousands of families in the District of Columbia have resources and expenses similar to the Johnsons. There are 23,000 low-income families living in DC, and 34 percent of them have a preschool-aged child (under age 6). Among low-income families in DC, 68 percent have at least one parent who works, and 40 percent have a parent who works full-time, year-round. Fifteen percent are two-parent families.

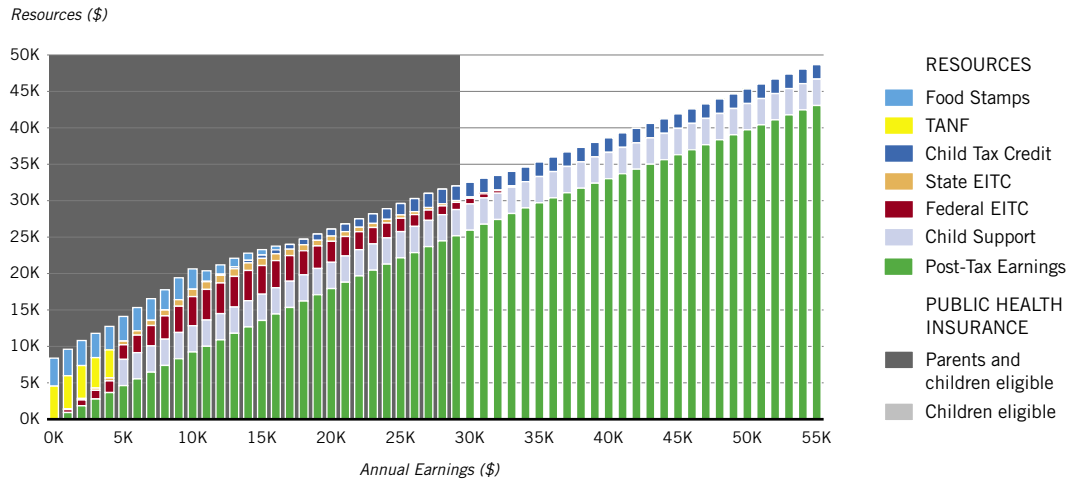
Low Income in DC: The Greene Family

Ms. Greene is a single mother living in DC who also has two children, ages 3 and 6. The federal poverty level for this family is \$15,670.⁵ When Ms. Greene has no earnings, she receives TANF assistance, food stamps, and public health insurance, as well as child care assistance while she is in job training. As she moves into the labor market, she begins to qualify for tax credits. Ms. Greene also receives child support payments of \$300 per month.⁶ These payments significantly increase the family’s resources, but they reduce the family’s food stamp benefits, and they cause the family to lose TANF cash assistance when earnings reach just \$5,000 (see Figure 2).

Figure 2: Greene Family

Family Resources

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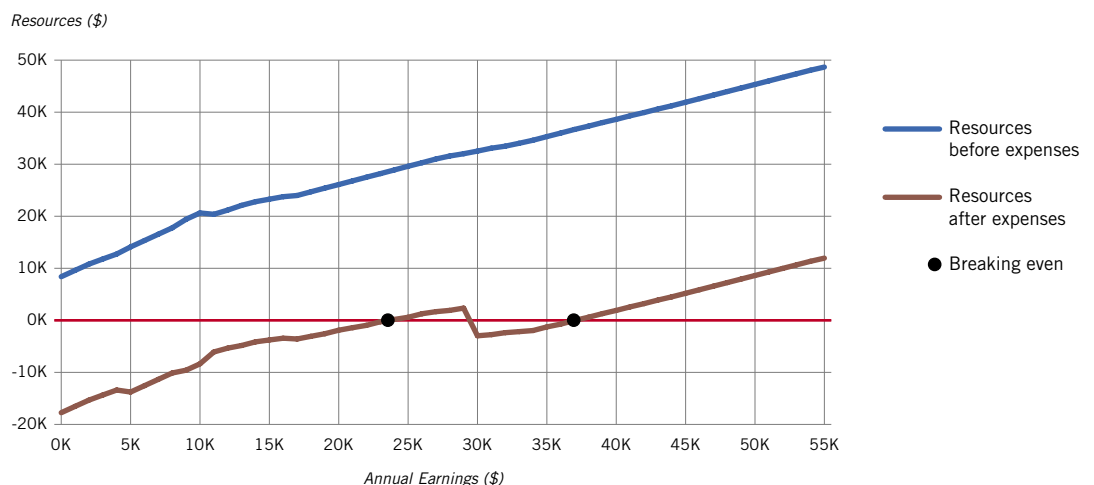
Ms. Greene’s resources rise steadily as she enters the workforce, particularly because her earnings are boosted by the federal and DC earned income tax credits. However, with child support payments, tax credits, and a full-time, year-round job paying roughly \$10 per hour⁷—more than \$3 per hour above the DC minimum wage—Ms. Greene does not have enough money to provide for her family. She is not able to make ends meet until she earns \$24,000, or \$13 per hour. Even at this wage, she is unable to afford anything beyond her family’s basic necessities.

Moreover, when Ms. Greene’s earnings reach \$31,000, her entire family loses eligibility for public health insurance. This simulation assumes that like many workers, Ms. Greene does not receive health benefits from her employer.⁸ The high cost of individual health coverage means that an increase in Ms. Greene’s earnings from \$24,000 to \$36,000 per year yields no financial gain for her family (see Figure 3).

Figure 3: Greene Family

Resources Before and After Basic Expenses

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It is worth noting that Ms. Greene was able to obtain child care assistance because she started out on cash assistance. Had she applied for child care assistance as a low-income working parent not on TANF, she would have been placed on a waiting list and would have had to meet all child care expenses herself. This simulation assumes that Ms. Greene pays a relative to provide care, the least expensive of paid child care options. Nevertheless, the added child care expense means that Ms. Greene would have needed to earn \$28,000 per year to meet her family's basic needs, or \$4,000 more than needed with child care subsidies.

There are other public supports that can help working families cover basic expenses, such as Section 8 housing vouchers. Yet the supply of vouchers is limited, and recent decisions by the U.S. Department of Housing and Urban Development, along with proposed funding cuts for fiscal year 2005, mean that soon even fewer vouchers will be available. As a result, only a small percentage of eligible families receive them.

Challenges for Policymakers

Federal and state budget woes threaten existing work supports for low-income families. Since early 2003, nearly half of the states have taken steps that reduce eligible children and parents' access to public health insurance, such as raising premiums, increasing reporting and verification requirements, and/or implementing enrollment freezes. Similarly, over the past few years, most states have restricted family access to child care subsidies by lowering income eligibility limits, increasing family co-payments, and/or placing eligible applicants on waiting lists. Many of these changes hit families just above the poverty level the hardest. At the same time, job creation has been slow. As policymakers respond to the difficult choices they face, understanding the impact of public policies on the resources and work incentives of low-income working families is critical.

Endnotes

1. Cauthen, N. K. & Lu, H. (2003). *Employment alone is not enough for America's low-income children and families* (Living at the Edge Research Brief 1). New York, NY: National Center for Children in Poverty, Columbia University Mailman School of Public Health <www.nccp.org/media/lat03a-text.pdf>.
2. The analysis in this report is based on tax and benefit policies in effect in December 2003; the 2003 poverty level for a family of four was \$18,400. See <aspe.hhs.gov/poverty/index.shtml> for more information about federal poverty measures.
3. The cost of housing is estimated based on the federal Fair Market Rent used by the U.S. Department of Housing and Urban Development in December 2003 for a 2-bedroom home in the DC area: \$1,218 per month. See <www.huduser.org/Datasets/fmr.html> for more information.
4. The percentage of employees that receive health benefits at work has steadily declined in recent years. According to the March 2003 National Compensation Survey, among employees in the private sector, only about half receive medical care benefits through their employers, and the rate is lower among employees with wages of less than \$15 per hour. See: U.S. Bureau of Labor Statistics. (2003). *Employee benefits in private industry*, Table 1: Percent of workers participating in health care and retirement benefits, by selected characteristics, private industry <www.bls.gov/news.release/ebs2.t01.htm>.
5. The 2003 federal poverty level for a family of three was \$15,260. See note 2.
6. According to 2001 National Survey of America's Families (NSAF) data, among families in which children are living with their mothers and have noncustodial fathers, just under half receive child support payments. For poor families, the likelihood of receiving child support is much lower—only about 36 percent receive payments—and for those who receive child support, the average received is \$2,550 per year, or \$213 per month. For families with income between 100 and 200 percent of the poverty level, about 50 percent receive payments, and the average received is \$3,980 per year, or \$332 per month. See: Sorensen, E. (2003). *Child support gains some ground* (Snapshots of America's Families III, No. 11). Washington, DC: Urban Institute <www.urban.org/UploadedPDF/310860_snapshots3_no11.pdf>.
7. Given research indicating that persons leaving TANF cash assistance for employment typically earn more than the minimum wage, the Simulator assumes that parents earn the 20th percentile wage when they enter the workforce. In the District of Columbia, the 20th percentile wage is \$10.03 per hour. See: Mishel, L.; Bernstein, J.; & Allegretto, S. (2004). *The state of working America, 2004/2005* (An Economic Policy Institute Book). Ithaca, NY: Cornell University Press.
8. See note 4.

To learn more about the impact of public policies on low-income families in the District of Columbia, go to NCCP's Family Resource Simulator at www.nccp.org.