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Low-Income Families in Delaware: 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 Delaware: The Rogers

The Rogers live in Wilmington with two children, ages 3 and 6. The federal poverty level for such a family is $18,850 per year.[2] For simplicity, the Simulator assumes that the Rogers begin with no 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 Rogers' employment requires outside child care, both children go to child care centers (the 6-year-old goes after school).

The Rogers pay taxes on their earnings, and when they qualify, they receive the federal Earned Income Tax Credit (EITC) and Child Tax Credit. The family has $500 in savings; together with the value of the car they use to commute to work, this prevents them from receiving TANF cash assistance.[3] However, they are still able to receive food stamps, as Delaware effectively exempts food stamp recipients from the program's asset test.[4] In addition, the Rogers receive public health insurance coverage.

As the Rogers' earnings increase, their child care and transportation expenses increase, and they begin to lose eligibility for the benefits that support work. At $23,000 in annual earnings,

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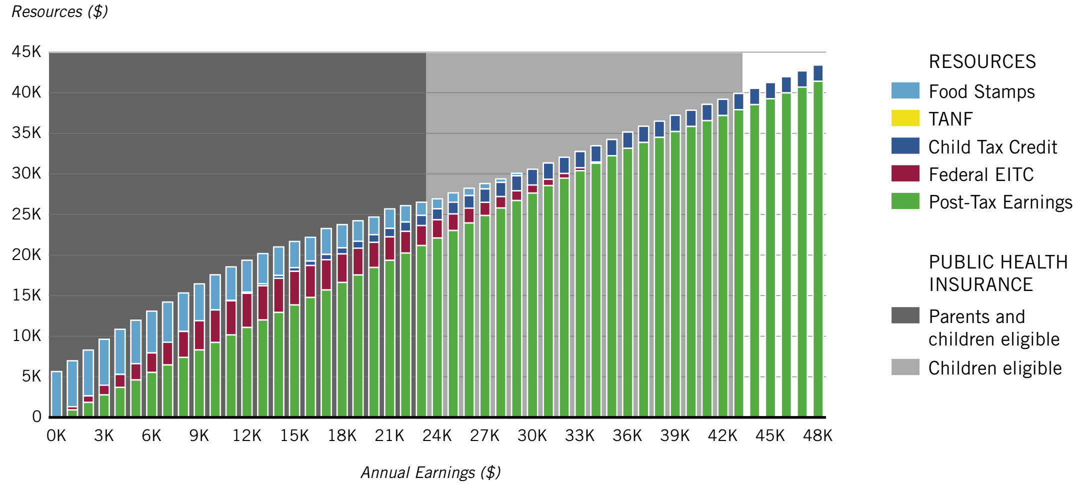
Figure 1: Rogers Family

Family Resources

NCCP Family Resource Simulator: Delaware 2003



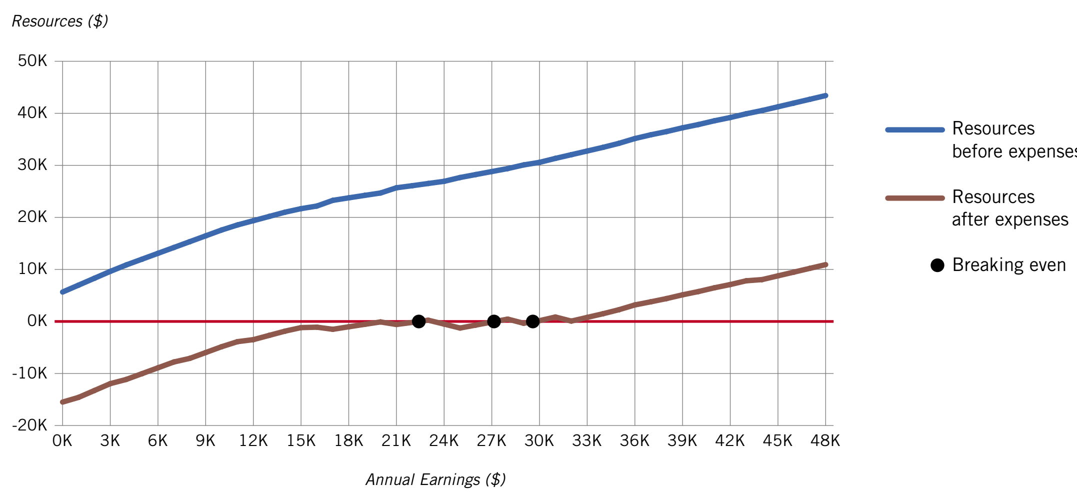
the parents lose public health insurance coverage (see Figure 1). This simulation assumes that the Rogers have insurance through an employer;[5] without this benefit, the Rogers would have to pay substantially more or go without health insurance. By the time both parents are working full-time, together earning about $33,000 per year, the family has lost food stamps, and the EITC has nearly phased out.

Despite steady increases in the Rogers' total resources, when expenses are taken into account, additional earnings do not always lead to greater economic security for the family. Initially, increased earnings do narrow the gap between the family's resources and a basic budget. With one parent working full-time, earning about $16,500 per year, the Rogers are nearly able to make ends meet (see Figure 2). But when the second parent enters the workforce and gradually moves from part-time to full-time employment, the family first experiences a net loss in resources and then hovers near the "break even" point—i.e., the point where resources equal the cost of basic family necessities. Altogether, as the family's earnings double from $16,000 to $32,000, the combination of increased child care and transportation costs, the loss of food stamps, and the phasing out of the EITC results in only a minimal economic benefit for the family.

Figure 2: Rogers Family

Resources Before and After Basic Expenses

NCCP Family Resource Simulator: Delaware 2003



Thousands of families in Delaware have resources and expenses similar to the Rogers. There are 26,000 low-income families living in the state, and 37 percent of them have a preschool-aged child (under age 6). Among low-income families in Delaware, 86 percent have at least one parent who works, and 60 percent have a parent who works full-time, year-round. Forty-two percent are two-parent families.

Low Income in Delaware: The Wallaces

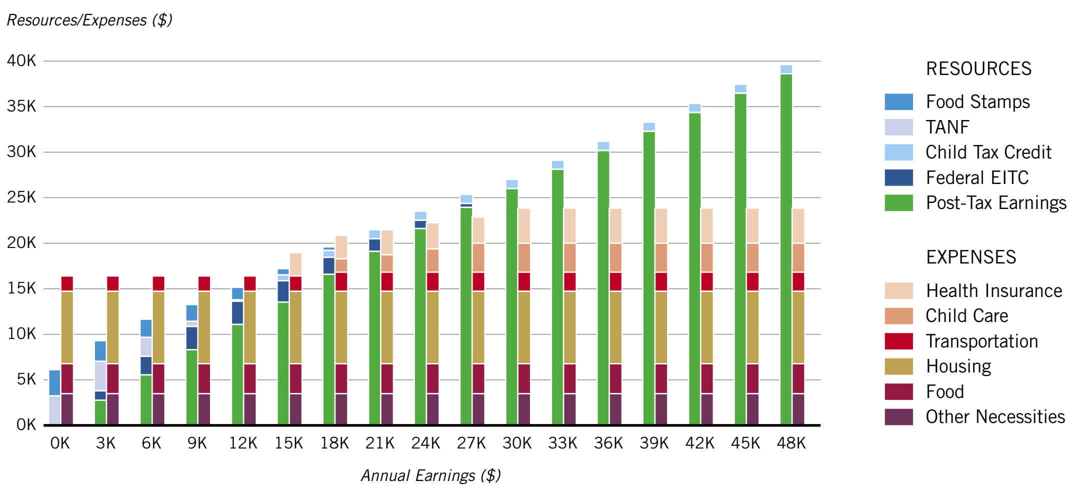
For a single-parent family in Delaware, providing for a family's basic needs is even more challenging. Ms. Wallace is a single mother living in Dover who has one child, age 2. The federal poverty level for this family is $12,490.[6] In this simulation, Ms. Wallace initially receives Temporary Assistance for Needy Families (TANF) cash assistance, along with child care subsidies to offset the cost of care while she works. In addition, like the Rogers, the Wallaces receive income tax credits, food stamps, and public health insurance.

With these supports, Ms. Wallace comes close to making ends meet when her earnings reach $13,000 per year—just over poverty-level wages. At this point, the Wallaces are no longer eligible for TANF cash assistance, but they still receive other important benefits that support and reward employment. When her earnings increase to $14,000, however, Ms. Wallace loses public health insurance coverage. This simulation assumes that like most low-wage workers, Ms. Wallace does not have access to employer-based coverage, so the loss of public health insurance leads to a sharp increase in expenses (see Figure 3).

Figure 3: Wallace Family

Family Resources and Basic Expenses

NCCP Family Resource Simulator: Delaware 2003



When Ms. Wallace reaches full-time employment, she faces another significant increase in expenses. Delaware's child care assistance program waives the co-payment for families with very low income, but after this point, co-payments can be sizable. At $17,000 in annual earnings, Ms. Wallace must pay 44 percent of the cost of her child's care—and her share rises to 80 percent before the family loses child care assistance entirely at $25,000 in earnings. (Ms. Wallace saves some money by placing her child in licensed family care, rather than in a center-based care setting.) At the same time, the premium for her child's public health insurance coverage is rising, and the family's food stamps are phasing out.

Despite work supports and a full-time, year-round job paying roughly $9 per hour[7]—$4 per hour above the federal minimum wage—Ms. Wallace does not have enough money to provide for her family. The Wallaces' resources do not exceed the cost of basic expenses until Ms. Wallace's earnings increase to $21,000. This means that Ms. Wallace is not able to make ends meet until she earns more than $11 per hour. Even at this wage, she is unable to afford anything beyond her family's basic necessities. Moreover, as her earnings increase further, the loss of the federal EITC and her child's public health insurance coverage continue to make it difficult for the family to get ahead.

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, nearly half the states have reduced access to child care subsidies by lowering income eligibility limits and/or increasing family co-payments. 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. This simulation assumes that the Rogers have a car worth $5,200, with no money owed. Delaware's TANF cash assistance program has a total asset limit of $1,000. In calculating a family's assets, $4,650 in equity value (i.e., the fair market value minus the amount still owed) of one vehicle is excluded.

4. Delaware takes advantage of federal provisions that allow the state to exempt most food stamp recipients from the program's asset test. These families are also exempted from the gross income test, so food stamp benefits phase out more slowly.

5. 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>.

6. The 2003 federal poverty level for a family of two was $12,120. See endnote 2.

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 Delaware, the 20th percentile wage is $9.14 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.

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