

Investing In Kentucky's Working Families

A PATH TO SHARED PROSPERITY IN THE COMMONWEALTH



Mountain Association for Community Economic Development

www.maced.org

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For 34 years, MACED has worked to improve the quality of life in eastern Kentucky and Central Appalachia by creating economic opportunity, strengthening democracy and supporting the sustainable use of natural resources. MACED seeks to grow wealth for low-income people, raise their expectations of the possible and engage them in solving tough community problems. MACED employs three major strategies toward these goals: 1) providing financial capital and expertise to individuals, businesses and communities; 2) conducting research and engaging in communications to support good public policy; and 3) demonstrating effective community economic development efforts that make a difference. For more information, go to www.maced.org.



This report is part of the Working Poor Families Project (WFPF), a national initiative focused on state workforce development policies involving: 1) education and skills training for adults; 2) economic development; and 3) income and work supports. The WFPF supports nonprofit groups to engage in a two-part phased process that begins with an in-depth assessment of the economic conditions and state policies affecting working families and is followed by actions to strengthen public policies to improve economic conditions. The WFPF is funded by the Annie E. Casey Foundation, the Charles Stewart Mott Foundation, the Ford Foundation and the Joyce Foundation. Brandon Roberts + Associates manages the project.

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INTRODUCTION



Kentucky is a state of tremendous natural beauty and a rich history, heritage and culture. But Kentucky also has serious, longstanding economic challenges. Those challenges persist today. As this report reveals, an estimated one out of every three working families in Kentucky is low-income. Low-income working families are part of the fabric of every city, small town and rural community in the state. And their ranks are growing. The current recession, in which the unemployment rate reached 11.2 percent in August 2009, has only added to the number of families struggling to get by.

Kentucky leaders speak often about the need for economic development in the Commonwealth. Great effort and resources are put into creating jobs. But our leaders often start by thinking about what the state can attract to Kentucky. They rarely think about how closely our prosperity is linked to our direct investment in and support of the working families that make up our citizenry. Removing the barriers that working families face, and tapping the potential they possess, is in fact a central strategy for our shared prosperity.

Investing in Kentucky's Working Families reveals that the conditions facing Kentucky's low-income working families are enabled in part by inadequate state policy in the areas of education, workforce development, economic development and work supports. Significant improvement is needed in those areas in order to help more families access the higher skills and better jobs that will make for a stronger economy in the Commonwealth.

As state leaders decide how to respond to major shortfalls in the state budget, the discussion should include implications of continuing to underinvest in our working families. Kentucky leaders and citizens need to understand the impacts of the path we take. Legislators must consider how their decisions affect the daily reality of low-income working families and the future prosperity of the Commonwealth.

Chapter 1 of this report explains the terms we use to define low-income working families and addresses income, earnings and the challenges low-income families face in housing, health-care and education.

Chapter 2 addresses Kentucky's lasting educational weaknesses and recommends greater attention to access and affordability in higher education as well as attention to adult education.

Chapter 3 examines opportunities in the Kentucky economy, and recommends ways to focus our economic development strategies more on building from within and expanding access to job training programs that provide long-term, career-ladder opportunities for workers.

Chapter 4 provides an overview of state policies that provide worker support, including an Earned Income Tax Credit, improved credit regulations, and expanded access to child care, health care and unemployment benefits.

The issues this report addresses are not distinct, but link together in important ways. They make up a system of support for working families that is best attended to as a whole. The report brings these issues together in the hopes of focusing attention on what needs to change to make things better for low-income working families and for Kentucky's economy.

These are difficult economic times in Kentucky, but they are not new. The Commonwealth's longstanding economic weakness continues to hold the state and its citizens back. Our leaders cannot wish away the struggles of low-income working families as they attempt to solve our state's economic problems. Instead, policy-makers must understand that investing in low-income families is central to addressing Kentucky's problems. With the power of that understanding, we can build a Commonwealth where prosperity is both shared and abundant.

CHAPTER 1

KENTUCKY'S LOW-INCOME WORKING FAMILIES



How common are Kentucky's low-income working families, and what barriers do they face to improving their standard of living? In this section, we define the basic terms we will use and review key indicators of concern to low-income working families in Kentucky. As the data reveal, these families make up a large portion of the Kentucky population, and are facing major challenges in many areas including education, health care and housing.

Basic Terms

This report uses the following definitions:

- **Families** are households that include at least one child under the age of 18.
- **Working families** are families in which members over 15 years of age worked a combined 39 or more weeks a year in the last 12 months or worked a combined 26 or more and have an unemployed parent actively seeking employment.
- **Low-income families** earn less than 200 percent of the federally defined poverty level. For a family of four, that means 2007 earnings of \$41,902 or less.

This report uses 200 percent of poverty as a rough stand-in for more developed descriptions of family costs, but as a more accurate measure of what it takes families to make ends meet than the federal poverty line (FPL). The FPL, first established in 1965, was never intended to define an adequate family income. The figure is based on the 1965 cost of a basic family food basket and the assumption that the cost for this basket for one month was 1/3 of monthly income for a family of four. The 1965 estimate has been adjusted for inflation every year since then without attention to changes in the relative costs of the various goods and services that families use. Scholars and experts consistently challenge the FPL as a poverty measure. In 1995 the National Research Council created a panel on poverty measures which concluded that the FPL “no longer provides an accurate picture of the differences in the extent of poverty among population groups or geographic areas of the country, nor an accurate picture of trends over time.”¹

The Family Economic Self-Sufficiency Project created a systematic approach to calculating a “self-sufficiency standard” for families based on meeting basic needs without public assistance or private or informal subsidies like babysitting by a relative or friend, food provided by churches or local food banks, or shared housing. The self-sufficiency approach yields different results by family type and locality, taking into account what children need at different ages, housing costs in different areas, and other major variables.²

In 2001, Kentucky Youth Advocates applied the self-sufficiency standard to Kentucky costs. At that time, a family of four in Jefferson County needed a total of \$46,823 per year to be fully self-sufficient, while the same family in Breathitt County needed to earn a total of \$36,795.³ In 2001, the poverty threshold for a family of four was \$18,104, and 200 percent

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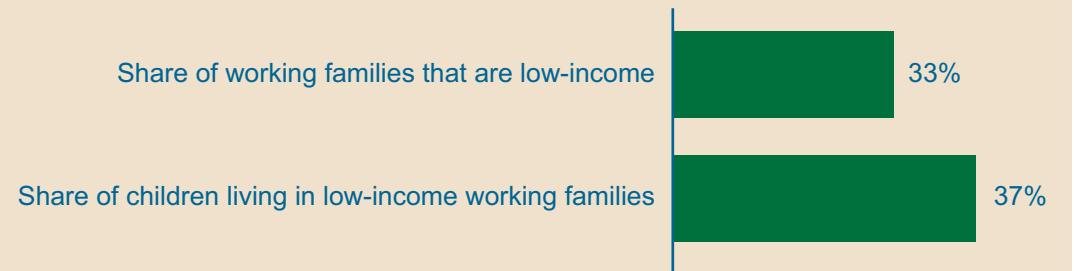
of the poverty threshold was \$36,208, which suggests that the 200 percent of poverty guideline is a relatively low estimate of costs.

No similar study has been undertaken since 2001, but 200 percent of poverty remains a conservative estimate of the income a family needs to be self-sufficient in many areas of the state.

Kentucky's Struggling Working Families

One-third of Kentucky's working families are low-income.⁴ These households participate actively in the workforce but bring in too little to reliably make ends meet. An even larger share of Kentucky's children lives in struggling households. More than 37 percent of kids in Kentucky are in low-income households (Figure 1).⁵

Figure 1: Kentucky's Working Families

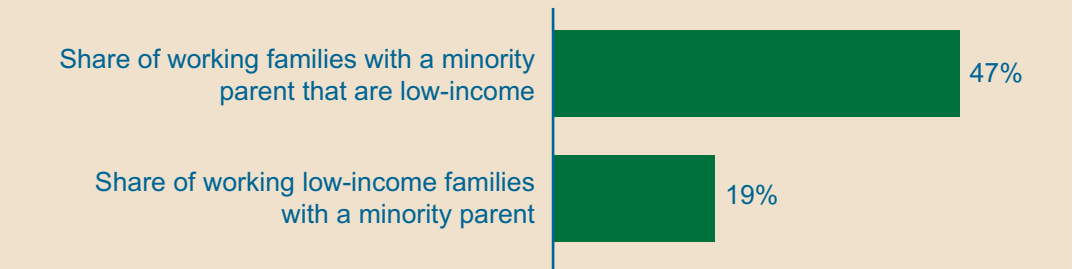


Source: Working Poor Families Project: 2009.
Data generated by Population Reference Bureau
from 2007 American Community Survey.



Minority working families in Kentucky are more likely than white families to fall into the low-income category. Among Kentucky working families with at least one minority parent, 47 percent are low-income.⁶ Kentucky's low-income working families are predominately white; only 19 percent have a minority parent (Figure 2).⁷

Figure 2: Race and Kentucky's Low-income Working Families



Source: Working Poor Families Project: 2009.
Data generated by Population Reference Bureau
from 2007 American Community Survey.

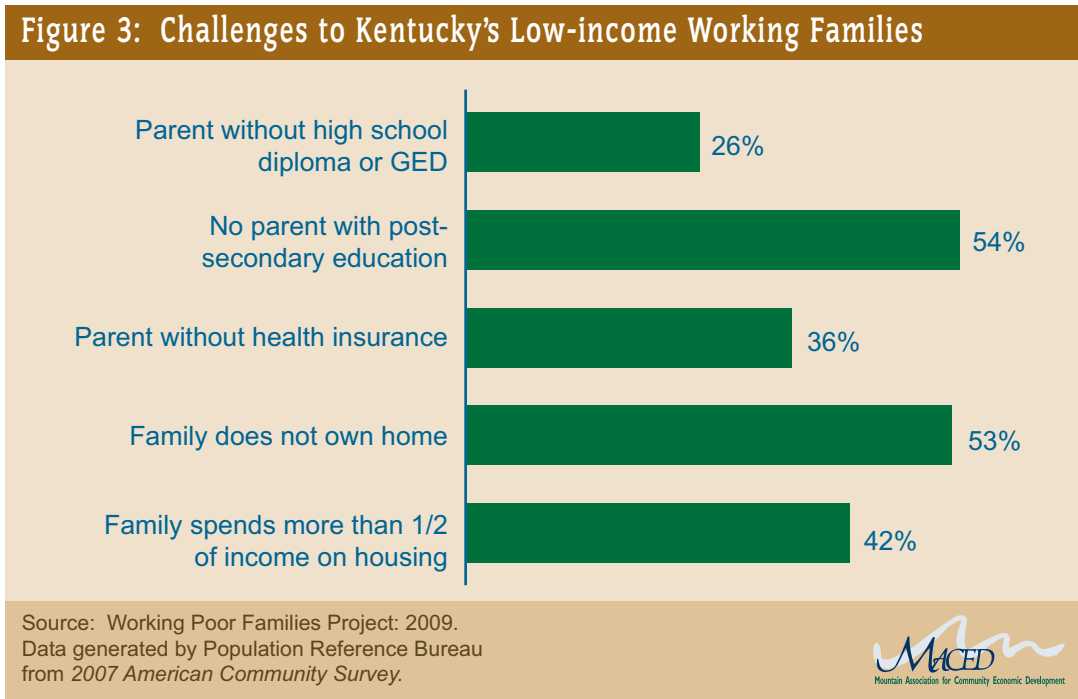


Too many of Kentucky's low-income working families lack the basic education needed to access employment that pays a decent wage, provides benefits and offers opportunities to move up (Figure 3). More than one-quarter include a parent without a high school diploma or GED (Figure 3).⁸ More than half have no parent with any postsecondary education (Figure 3).⁹

Access to health care is a major problem for many working families. More than one-third of low-income working families include at least one parent without health insurance (Figure 3).¹⁰ The number increases to more than half among those families living below the poverty line.¹¹ Without access to preventive and primary care, low-income parents are susceptible to job loss and long-term unemployment due to serious illness. These families are one injury or illness away from financial ruin.

Affordable housing is a challenge. More than half of low-income working families do not own their homes and 42 percent spend more than one-third of their income on housing (Figure 3). Even those who own their homes face serious housing issues; Kentucky's housing stock includes more substandard housing than other parts of the country. Both renters and buyers may pay less for housing than those in other locales, but they get less for their money.

Substandard housing places a significant burden on Kentucky's low-income families in the form of high energy costs. Kentucky's 105,000 poorest households spend an average of 55 percent of household income on energy.¹² Despite a recent decline in this figure due to stabilized gas prices, energy costs will go up in future years, especially as Kentucky's traditionally low electricity prices from coal-fired power increase.





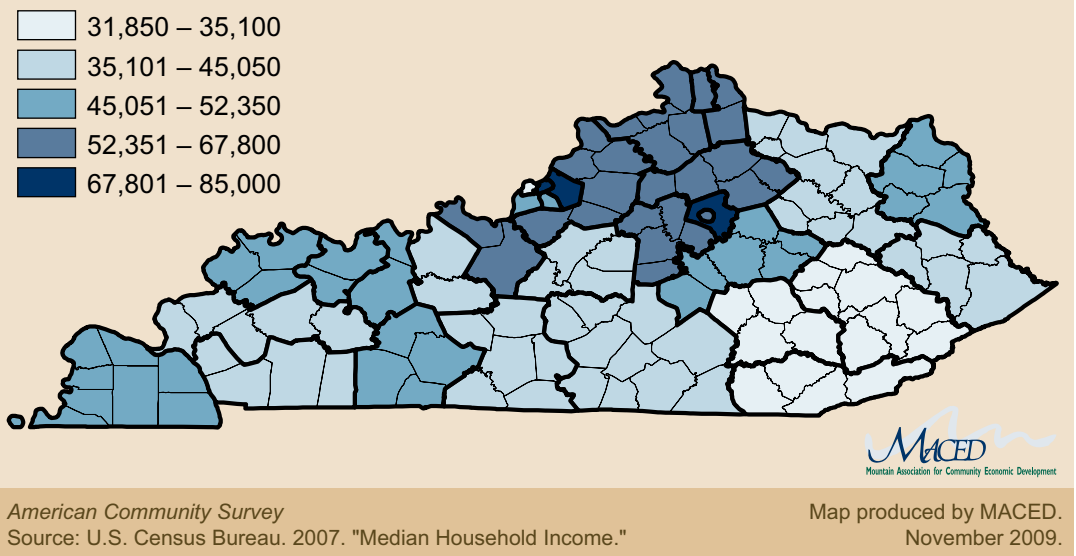
Further, subprime mortgages are a significant factor in Kentucky home ownership,¹³ increasing the risk that 2007 homeownership statistics include many families who may not be able to keep their homes through the current economic downturn.

The challenges Kentucky families face have a regional character. Poverty is heavily concentrated in more urban centers and in rural areas, particularly in Appalachian Kentucky. Suburban communities maintain a higher standard of living and enjoy better scores on most indicators of economic well-being and quality of life. Recent regional data using the Census Bureau's Public Use Microdata Areas (PUMAs) show that the key challenges discussed above include both rural and urban elements.¹⁴

Eight Appalachian PUMAs, all overwhelmingly rural, include:

- Six of the ten PUMAs with the state's lowest median family incomes (Figure 4).
- Eight of the ten Kentucky PUMAs with the highest proportion living below the poverty level (Figure 5).
- Seven of the ten PUMAs with the highest unemployment rate (Figure 6).

Figure 4: Median Household Income (dollars) 2007



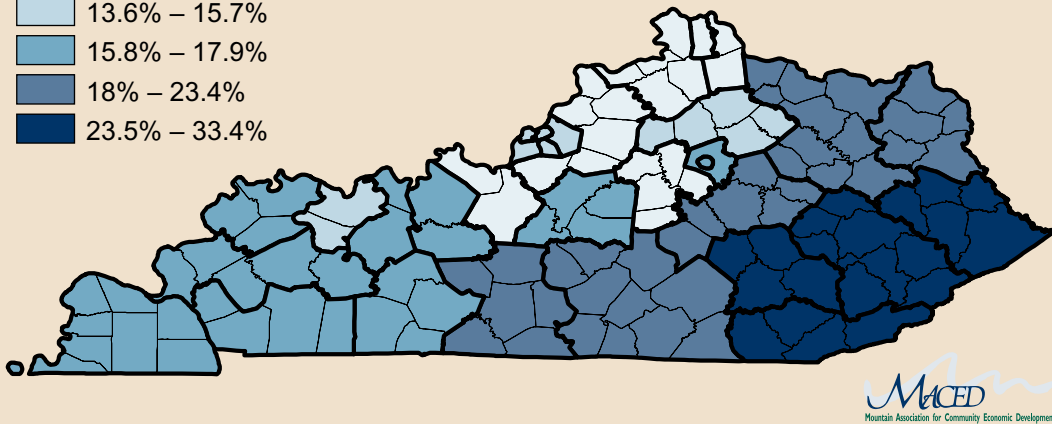
For the urban PUMAs in Jefferson and Fayette counties, home to Louisville and Lexington, respectively, the relative affluence of upper income neighborhoods and suburbs mask concentrations of urban poverty and unemployment (Figures 5 and 6). However, Median Household Income data by PUMA from the American Community Survey indicate the areas of inner-city Louisville and Lexington where economic challenges are greater (Figure 4).

One Jefferson County PUMA faces challenges at least as severe as those in rural areas. The PUMA located in the western part of the county along the Ohio River is among the twelve most challenged PUMAs for median family income.

The regional character of the Commonwealth's economic challenges suggests that Kentucky is unlikely to solve its economic problems by applying the same approach to all parts of the state.

Figure 5: Poverty Rates 2007

- 11% – 13.5%
- 13.6% – 15.7%
- 15.8% – 17.9%
- 18% – 23.4%
- 23.5% – 33.4%

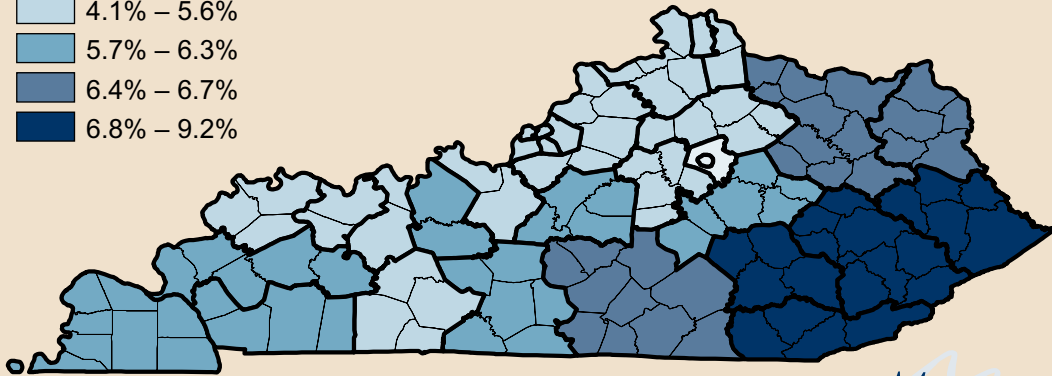


Source: U.S. Census Bureau. 2007. *Small Area Income and Poverty Estimates*. PUMA level figures represent the mean poverty rate for counties included in the PUMA. Data do not reflect the geography of urban poverty in densely populated PUMAs and therefore indicate lower poverty rates than actually exist in the urban centers of Louisville, Lexington and the Covington/Cincinnati area.

Map produced by MACED.
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Figure 6: Unemployment Rates 2007

- 4.0%
- 4.1% – 5.6%
- 5.7% – 6.3%
- 6.4% – 6.7%
- 6.8% – 9.2%



Local Area Unemployment Statistics Source: Bureau of Labor Statistics. 2007. PUMA level figures represent the mean unemployment rate for counties included in the PUMA. Data do not reflect the geography of urban unemployment in densely populated PUMAs and therefore indicate lower unemployment rates than actually exist in the urban centers of Louisville, Lexington and the Covington/Cincinnati area.

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CHAPTER 2



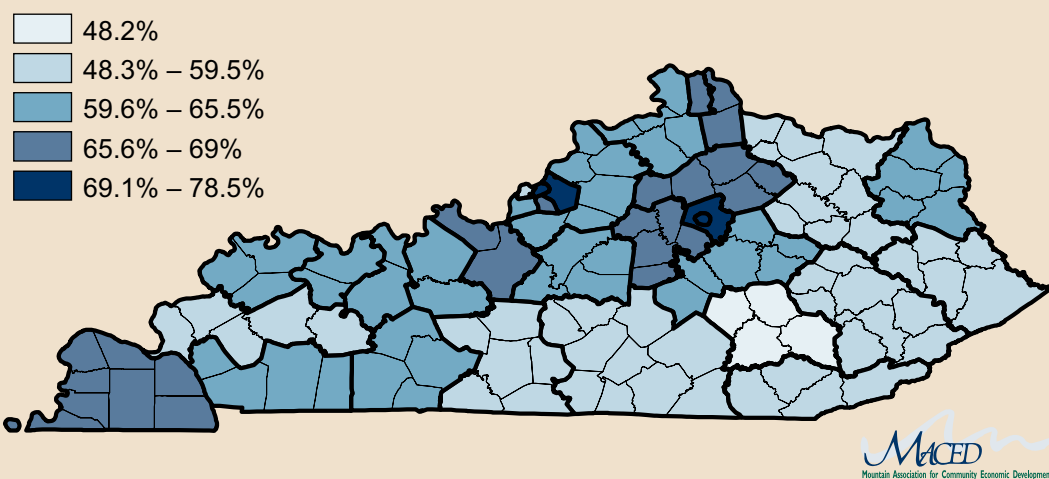
EDUCATION

Quality education throughout the Commonwealth is a key investment in working families that is necessary for the state's future prosperity. U.S. median income for 2007 for families where the household had less than a high school degree was \$40,194—placing these families among the working poor.¹⁵ According to a recent study, 80 percent of the job needs in Kentucky in 2016 will require at least two years of training past high school. The biggest skill gap, that report noted, is in those middle-skill jobs that will require more than a high school diploma but less than a four-year degree.¹⁶ Our challenge will be to help low-income working families move beyond low-skill jobs and acquire the skills needed for jobs that can sustain their families and help Kentucky build a stronger economy.

Kentucky has enjoyed some success in helping working families achieve basic and adult education as well as higher education. However, the state still lags significantly behind the rest of the country. Kentucky ranks 41st among the states in share of adults with a high school education or GED, and 46th in share of adults with an associate's degree or higher.¹⁷ As with other economic indicators, there is a regional pattern to Kentucky's shortage of diplomas. The ten PUMAs with the lowest high school completion include six of the eight Appalachian PUMAs, one Jefferson County urban PUMA, and two west-central and one far-western rural PUMA (Figure 7). In contrast, the state's strongest six PUMAs in high school completion include the state's most classically suburban areas, including three in Jefferson County, two in Fayette County and two outside Cincinnati.

Low-income working families face increasing challenges in the affordability and accessibility of adult and higher education. Budget cuts, tuition increases and financial aid gaps make it harder for such families to access the skills needed to move up and make a stronger contribution to the Kentucky economy. The state is doing too little to tailor aid and educational offerings to the needs and schedules of working families, and to link training to long-term career opportunities in emerging sectors of the economy.

Figure 7: High School and GED Attainment Rates 2007



Source: U.S. Census Bureau. 2007.

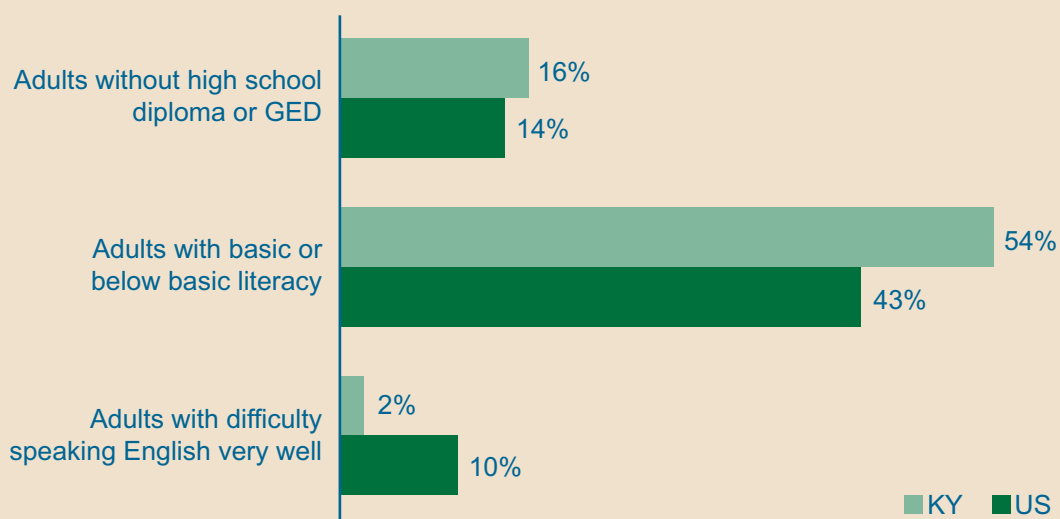
Map produced by MACED. November 2009.



Adult Education

Kentucky's adult education program helps eligible adults raise their basic education levels. The program focuses on literacy skills, mastery of English for non-native speakers, and GED attainment as gateways to skilled employment and postsecondary education.¹⁸ A local adult education program in every county provides academic instruction in reading, writing, math, science and social studies to help adults improve their literacy skills, earn a GED diploma, prepare for college and employment, and learn English as a second language.

Figure 8: Target Populations for Adult Education (Adults Age 18-64)



Source: Working Poor Families Project: 2009.
Data generated by Population Reference Bureau
from 2007 American Community Survey.



“Low-income working families face increasing challenges in the affordability and accessibility of adult and higher education.”

“Only one in four adults over the age of 18 in Kentucky has an associate’s degree or higher compared to one in three for the U.S. as a whole.”

Nationally, in 2005 adult education participation was about nine percent of the adult population without high school diplomas or GEDs, while seven percent of Kentucky adults in that position participated, putting Kentucky 29th of the 50 states.¹⁹ Almost half of adult education participants nationally were enrolled in English as a Second Language.²⁰

Kentucky’s smaller population of adults who are English language learners does not necessitate that scale of service, but Kentucky’s large population of adults with basic or below-basic literacy and without a high school credential suggests needed additional support. In Kentucky, 16 percent of adults age 18-64 lack a high school diploma or GED, and 54 percent of adults age 16 and over read at basic or below basic literacy levels (Figure 8).²¹ These figures suggest that even among those with a GED or high school diploma, many read at or below basic literacy levels. High school completion data suggest the need is greatest in eastern and south central Kentucky (Figure 7).

Adult education is also a crucial component of Kentucky’s strategy for increasing the number of college educated adults. The 1997 higher education reform legislation set a goal of reaching the national average in bachelor’s degrees by 2020. The Council on Postsecondary Education, realizing that merely educating students now leaving high school will not be enough to meet that goal, set targets for raising the annual number of GED graduates from 9,800 to 15,000 and increasing the college-going rate of GED graduates from 19 percent to 36 percent.²² Achieving that goal would move more than 3,500 more Kentuckians into higher education each year. Current levels of adult education participation will not produce change sufficient to meet those goals.

Additionally, Kentucky funding for adult education lags behind the nation. As of 2006, for each adult without a high school diploma or GED, Kentucky provides \$48.06 in annual funding, far below the national average of \$65.55.²³ A state with deep needs and ambitious goals cannot build success and future prosperity with inadequate funding.

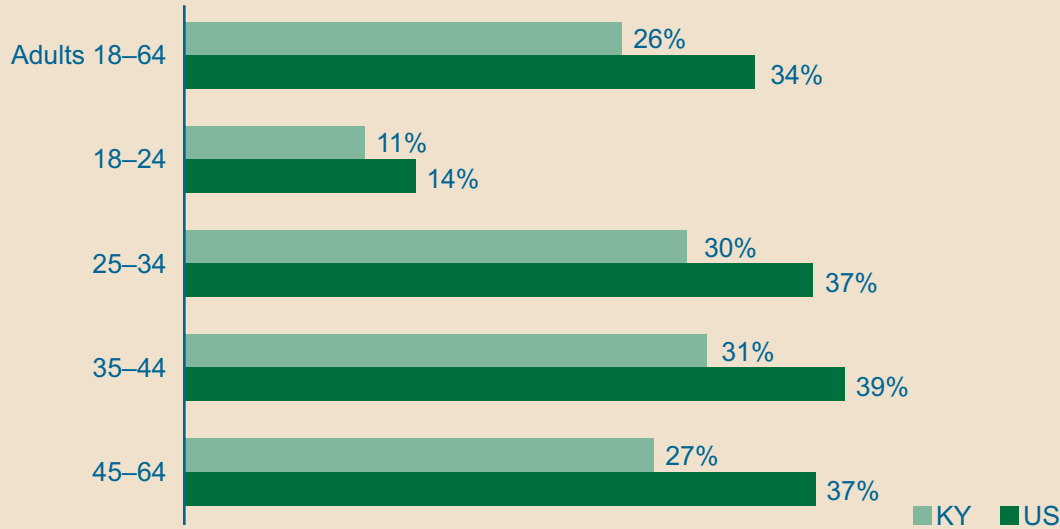
Postsecondary Education

A significant gap persists in postsecondary attainment between Kentucky and the U.S. Only one in four adults over the age of 18 in Kentucky has an associate’s degree or higher compared to one in three for the U.S. as a whole (Figure 9).

Regional variations again apply. Of the Census Bureau’s Kentucky PUMAs, the ten with the lowest bachelor’s completion rates include four rural Appalachian areas, two urban Jefferson County PUMAs and four predominantly rural PUMAs across central and western Kentucky (Figure 10). Meanwhile, the six strongest areas are clearly urban/suburban, as they include the two Jefferson County (Louisville) PUMAs, two in Fayette County (Lexington) and two in the area surrounding Covington (Figure 10).

From 2005–2007, the number of certificates awarded increased by 4,402 to reach a total 12,317 certificates; a full quarter of degrees and credentials awarded statewide.²⁴ Certificates are indicators of job preparation and signs of individual residents equipping themselves for the middle skill jobs that require more education than high school but less than a college degree. However, even this proliferation of certificate programs does not bring Kentucky up to the national average in postsecondary attainment.

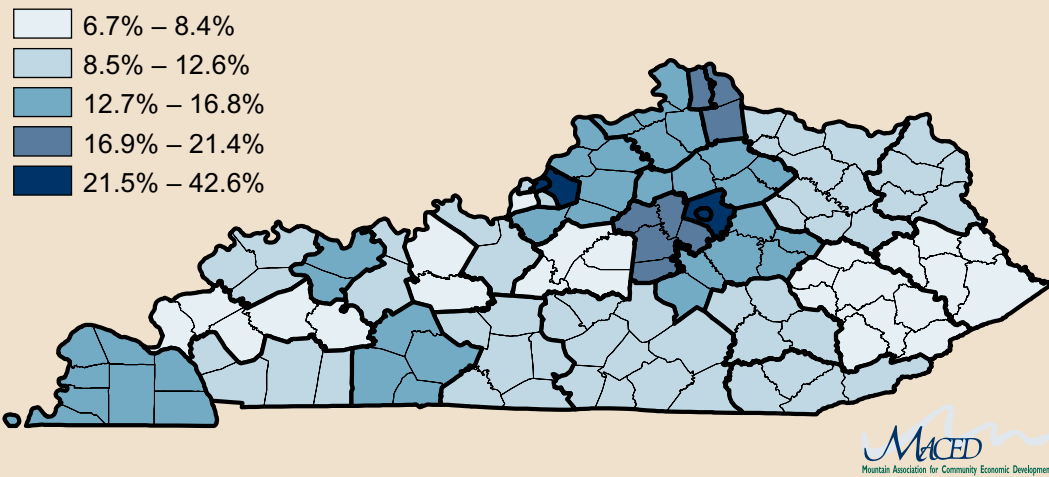
Figure 9: Associate's Degree or Higher



Source: U.S. Census Bureau, 2007, "Table B15001. Sex by Age by Educational Attainment for the Population 18 Years and Over." *American Community Survey*.



Figure 10: College Attainment Rate 2007



Source: U.S. Census Bureau.

Map produced by MACED. November 2009.



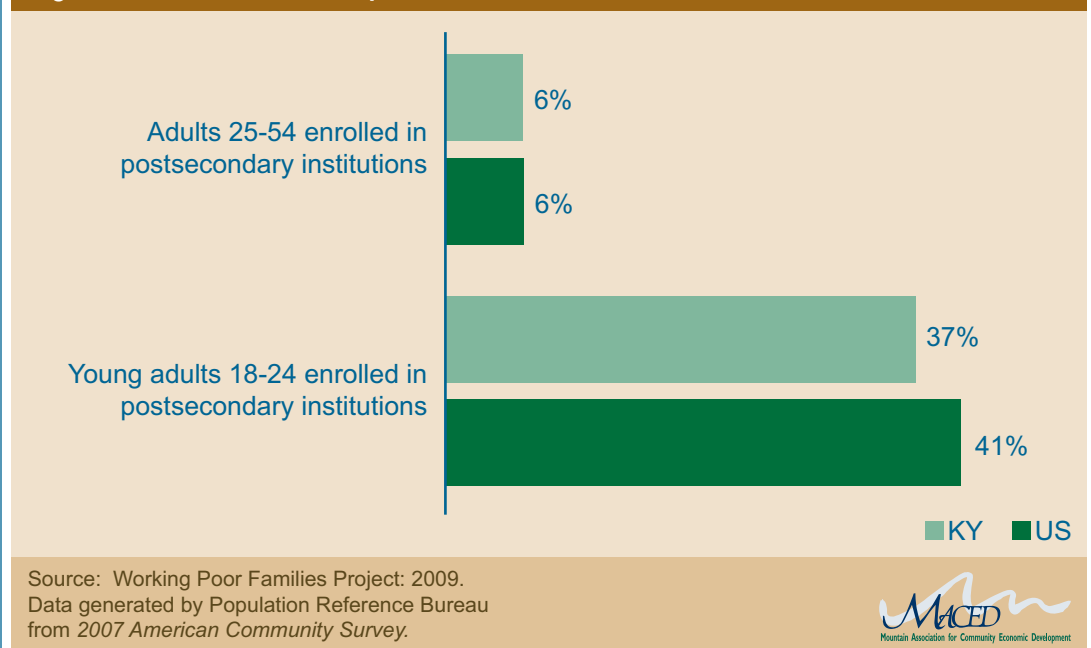
Postsecondary Enrollment

At Kentucky public institutions, undergraduate enrollment increased by 47,264 students from Fall 2000 to Fall 2007, an increase of 28.5 percent. The lion's share of that growth came in the Kentucky Community and Technical College System (KCTCS), where enrollment grew 56 percent, adding more than 30,000 students to the KCTCS system. At the universities, enrollment grew by 10,551, 12.4 percent.²⁵ This growth is one indication of the success of Kentucky's higher education reforms launched in 1997.

Enrollment statistics treat part-time enrollment and full-time enrollment as equally valuable, masking the extent to which part-time enrollment is the main growth sector. The State Auditor recently raised concerns about these figures noting that when part-time enrollment is converted to full-time equivalencies, recent growth rates look considerably less impressive. For example, from Fall 2003 to Fall 2006, Kentucky resident enrollment at KCTCS using a simple headcount grew by more than 5,800, 7.6 percent, but conversion to full-time equivalent students shows the addition of only 737 students, representing 1.5 percent growth. These figures may indicate an increase in adult learners who work and therefore must enroll only part time.

For four-year public institutions, increases in part-time enrollment may indicate more adult learners returning to school, but the figure may also indicate insufficient attention to the needs of in-state students in the face of willing tuition payers from out-of-state. Full-time equivalent enrollment of Kentucky residents actually declined from Fall 2003 to Fall 2006, going down 1,621 students, 3.6 percent. Meanwhile, four-year out-of-state enrollment grew 8.1 percent, possibly drawn in by out-of-state tuitions set too low to cover the universities' actual costs. The Auditor raised questions about whether current trends can reliably lead to a better-educated population for Kentucky.²⁶

Figure 11: Postsecondary Enrollment



Tuition Costs and Financial Aid

Kentucky's low-income families face significant financial barriers to accessing higher education. Tuition costs have risen rapidly, making higher education increasingly unaffordable for many working families.

From 2002 to 2007, Kentucky saw a 60.4 percent increase in public higher education "net tuition per FTE," from \$3,681 to \$5,906. For the average family in the bottom 40 percent of the income distribution, the net cost to attend a community college represents about 23 percent of their annual income, and roughly 39 percent to attend a public four-year college or university. For the average family in the bottom 20 percent of the income distribution, these costs for a public four-year college or university are 49 percent of income. Kentucky received a grade of F in the area of affordability from the National Center for Public Policy and Higher Education's *Measuring Up 2008* report.²⁷

Cuts in state funding are a factor. State appropriations per FTE declined 14.2 percent from 2002 to 2007. Over the same period, however, total educational revenue per FTE increased 7.6 percent due largely to tuition increases. In 2007 Kentucky ranked 12th of the 50 states in appropriations provided by the state per FTE pupil, 10th in net tuition paid by students and their families after financial aid, and 7th in total revenue from the two sources combined.²⁸

High tuition costs are made worse by the fact that the state's need-based financial aid programs are inadequately funded. When Kentucky enacted its lottery, the state pledged to dedicate nearly 100 percent of the proceeds to student financial aid. It created the Kentucky Educational Excellence Scholarship program (KEES), a merit-based program, as well as two need-based programs: the College Access Program (CAP) and Kentucky Tuition Grant program (KTG). However, funding for CAP and KTG has been limited. In 2008, 45,000 students (nearly 47 percent of all applicants) qualified for these need-based programs but did not receive funding.²⁹ Demand was \$64 million greater than available funds in 2009. That same year, the state spent over \$90 million on the merit-based KEES program.³⁰

Additionally, financial aid for adult students is limited and awareness is low. These programs don't work well for part-time, non-traditional students, many of whom are ineligible if they are enrolled for less than six credit hours per semester.

In October 2008, Governor Beshear appointed a new Higher Education Work Group tasked with researching and developing recommendations for how to increase affordability and access to higher education in the state and address funding issues.

"For the average family in the bottom 20 percent of the income distribution, these costs for a public four-year college or university are 49 percent of income."

“The Career Pathways approach redesigns training and coursework to serve growing sectors and industries in each regional economy.”

Career Pathways

One major initiative of the Kentucky Community and Technical College System in recent years is the Career Pathways program, designed to help students prepare for good jobs and career-ladder opportunities. The Career Pathways approach redesigns training and coursework to serve growing sectors and industries in each regional economy. Offerings are organized to include sequential steps that allow students to earn a first certificate or other credential that prepares them to work in an industry, and then move forward through additional study to qualify for promotion to higher steps on a “career ladder” in that field.

As of 2007, KCTCS established 22 pathways programs; 14 of them in the health field, three in manufacturing, two each in construction and business and one in transportation. The state began by providing pilot program grants to local community colleges in cooperation with the Ford Foundation, and committed some of its Kentucky Workforce Investment Network System (KY WINS) dollars to this effort.

KCTCS Career Pathways programs enrolled 2,470 students in 2006-07, 2.8 percent of KCTCS total enrollment. Career Pathways students earned five percent of all credentials awarded to KCTCS students, and they accounted for 6.4 percent of all graduates. Moving into 2007-08, KCTCS reported a 77 percent retention rate for Career Pathways students, well above the 53 percent rate for KCTCS as a whole.

Career Pathways shows promise in its ability to serve the needs of a diverse and changing economy. The program brings together the goals and interests of educators and industry in a way that serves education’s mission to support the long-term interests of the student through development of lifelong skills, and the short-term and future needs of industry. The design is well-suited to help important regional industries become more competitive by acquiring workers with the skills they need, and helps more families achieve permanent self-sufficiency.

KCTCS has now rolled Career Pathways into their Workforce Competitiveness Initiative and changed the funding structure. Career Pathways was funded initially by an earmarked allocation in the Kentucky WINS funds. Now the program is part of the Workforce Competitiveness Initiative and requires an employer match which can prove challenging when developing broader-based, sector-driven initiatives that require significant curriculum and delivery redesign efforts at the college level.

The Career Pathways model offers an excellent opportunity to tailor programs to regionally specific needs and support sector-based strategies for economic growth and prosperity. The Commonwealth needs to maintain a long-term orientation toward worker success and regional economic opportunities by investing in the Career Pathways program.

Postsecondary Completion

Kentucky's record for students completing their studies appears to be a mixed story with rapid growth in awarded certificates at least partly balancing out slower growth in completed degrees.

To improve completion rates, the Council on Postsecondary Education launched Project Graduate, a new initiative reaching out to the 11,000 Kentucky adults 25-50 who have 90 or more credit hours, but have not graduated, to encourage them to complete their degrees. The program launched early in November 2007. The public universities began outreach efforts in the spring of 2008 and since that time, ten independent institutions have adopted the program. As of May 2009 the program reports 153 former students earned their degrees at a public institution through the program. The program had an additional 123 new enrollments in public institutions last spring (data are not available for independent institutions).³¹

Measuring Up 2008: The State Report Card on Higher Education, ranked Kentucky 22nd among the states for postsecondary completion with a grade of B. The grade reflects five completion indicators, with Kentucky ranked as follows:

- 13th in students returning for a second year at two-year colleges in Fall 2007.
- 38th in students returning for a second year at four-year colleges in Fall 2007.
- 37th in 2006-07 bachelor's degrees completed within six years of enrollment.
- 4th in 2006-07 certificates, diplomas and degrees per 100 undergraduates.
- 20th in 2006-07 certificates, diplomas and degrees per 1,000 adults without a degree.

The overall rankings are higher than other reports of Kentucky results, and certificates appear to be an important part of the difference. Kentucky ranks 20th or higher in those indicators related to certificates and those institutions that award certificates, but below 35th in the two indicators that look solely at four-year colleges and bachelor's degrees. Although *Measuring Up 2008* did not look at associate's completion, Kentucky also ranked 35th in completion of associate's degrees within three years of enrollment. Kentucky's rapid growth in certificates plays an important role in Kentucky's overall ranking.

From the perspective of working low-income families, certificates can be an important indicator of marketable job skills. To the extent that Kentucky certificates are valuable in accessing quality jobs, the state's improving record in certificates is good news for families working to build self-sufficiency. The Career Pathways approach, and other steps to insure that certificates are respected indicators of needed skills, can make certificates especially important to economic growth. The Council on Postsecondary Education may have underestimated their value when it decided not to include a certificate target alongside its goal for increasing the attainment of bachelor's degrees.

Recently the Lumina Foundation led a Kentucky Adult Learner Initiative to explore the issue of access to and completion of higher education for working adults. Based on a phone survey of adults who have attended a postsecondary institution but are not currently enrolled, major barriers include: 1) providing credit for prior learning; 2) offering flexible academic programming (including accelerated programs and those with offerings outside traditional work hours); and 3) improving financial aid.³²



Key Recommendations

- Kentucky should overhaul its financial aid programs to prioritize need-based programs like CAP with increased funding, and should restructure financial aid to make it more accessible to adult students, including those attending part-time.
- Kentucky should expand its Career Pathways strategy with dedicated dollars in order to better link education and training to long-term job opportunities with career ladders based on key sectors in particular regions.
- Related to Career Pathways, Kentucky should offer more flexible delivery of education so that working families can more easily access the training and credentials they need.
- Kentucky should move adult education funding to national average levels in order to close the gap in basic literacy and educational attainment and help students reach the first rung of the ladder to good jobs and stronger economic contributions.
- The state and the Council on Postsecondary Education should work to avoid unreasonable tuition increases that put an unfair burden of the cost of higher education on students and families that increasingly cannot afford it.

CHAPTER 3

WORK OPPORTUNITY

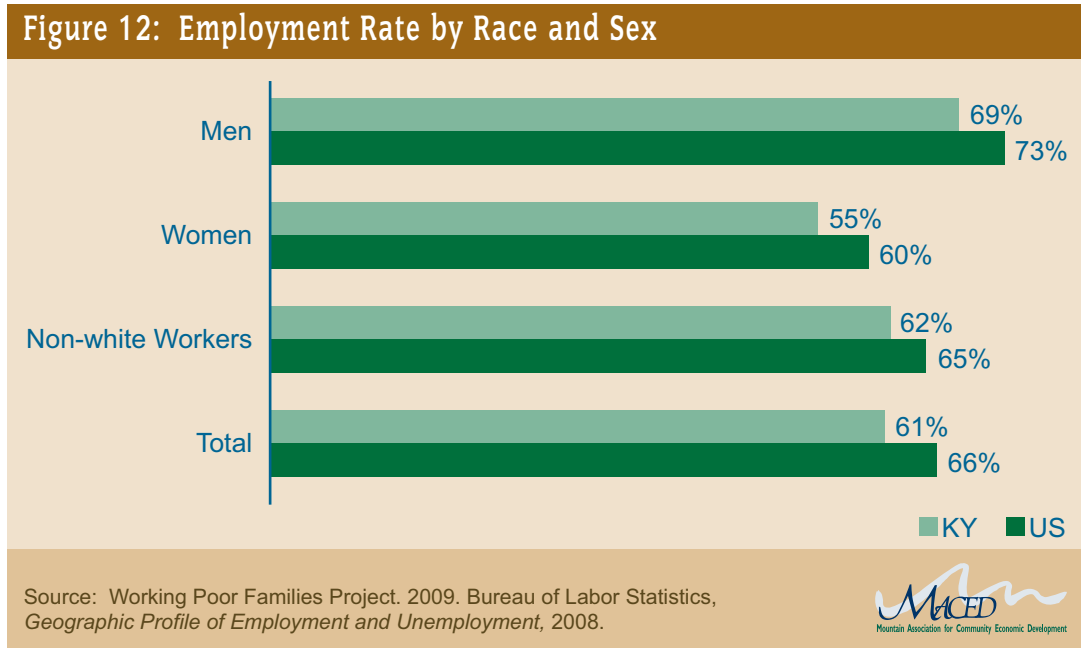


Creating opportunities for Kentuckians to find work is essential to the future prosperity of the state. In the current recession the unemployment rate in Kentucky is near 11 percent, putting it among the ten states with the highest unemployment. The unemployment rate also doesn't count those people who are no longer looking for work. Fewer Kentuckians are in the workforce or actively seeking employment than nationally. When compared with national rates, those who work more often hold down two jobs, are only marginally attached to the labor market, and hold jobs that pay less than they need for self-sufficiency.³³

Kentucky must have a stronger and more aligned economic and workforce development effort focused on creating new and better opportunities for the state's working families. That means a more diversified approach to economic development tailored to different regions of the state, as well as investments in providing the skills needed for citizens to obtain good jobs and grow successful businesses.

Kentucky's Employment Gaps

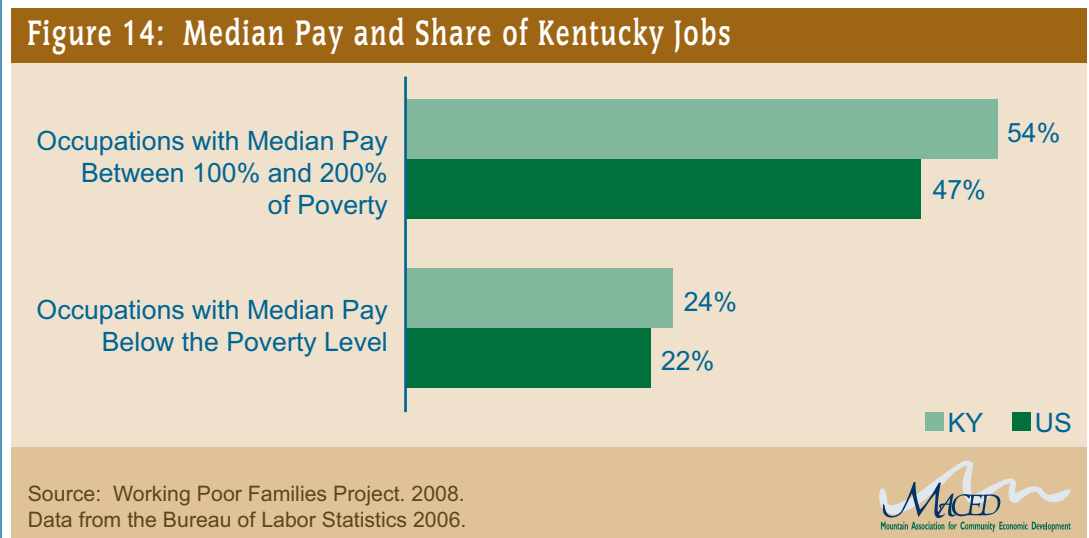
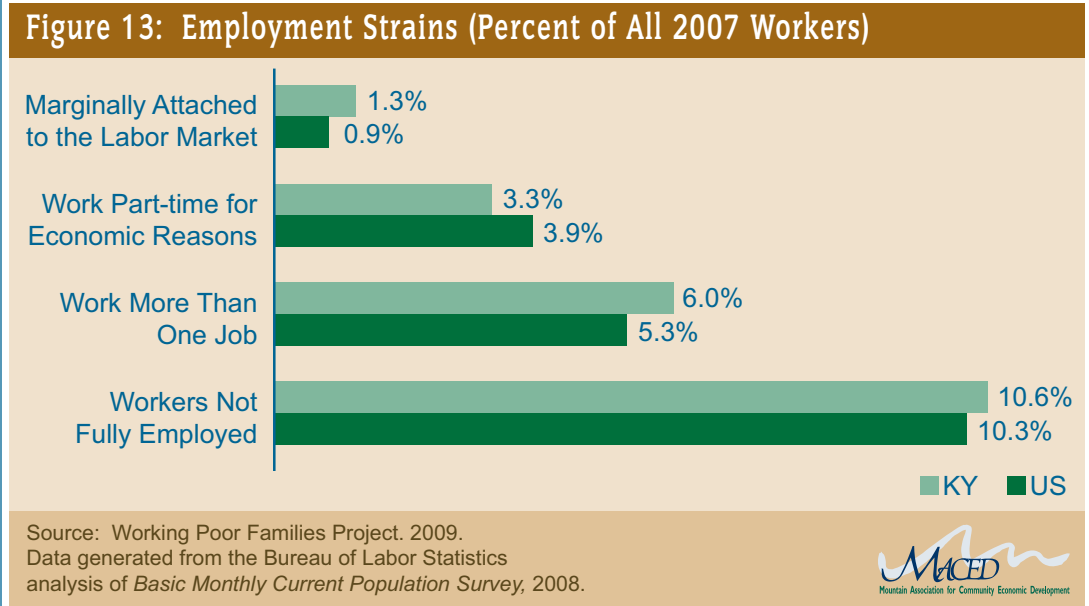
Kentucky residents are less likely to be in the labor force than people in most other states. In 2008, Kentucky ranked 47th among the states with a labor force participation rate of only 61.3 percent. Kentucky ranked 46th for men's labor force participation and 47th for women's. At 37th among the states, non-white Kentucky workers' 62 percent labor force participation rate was comparatively higher than the state's rate.



Adults not currently in the workforce may be pursuing education, caring for small children or ill relatives, enjoying well-earned early retirement, or struggling with illness or disabilities that preclude work. Still, the high nonparticipation rates in Kentucky suggest that some Kentucky residents who could contribute to the economy may have given up trying. Their choices may reflect the long-term toll taken by the absence of jobs, of good jobs, and of supports that make employment workable.

These challenges are supported by additional data on Kentuckians who are in the labor force but not fully employed (Figure 13). Kentucky has a very high comparative percentage of workers marginally attached to the labor force, ranking 47th among the states in 2008. Marginally attached workers are not currently working but have looked for work in the last 12 months, want a job and are available for work. A full 6.1 percent were unemployed in 2008, ranking Kentucky 36th (Figure 13). The current recession brought this figure up to 10.9 percent in June of 2009 tying for 47th among the fifty states in unemployment. More Kentuckians than the national average also work more than one job.

“...the high nonparticipation rates in Kentucky suggest that some Kentucky residents who could contribute to the economy may have given up trying.”



As noted earlier, Kentucky unemployment patterns have a regional, and distinctly rural, element. The ten PUMAs with the highest unemployment include seven in the Appalachian portion of the state and three in rural western Kentucky (Figure 6).

Further, a very high proportion of Kentucky jobs are in occupations with median pay too low for family self-sufficiency. More than 24 percent are in fields with median pay below the poverty level for a family of four (Figure 14). And 78 percent of all jobs have median pay below 200 percent of the poverty level.

Occupations with median wages below the federal poverty threshold for a family of four employ more than 830,000 workers in the Commonwealth, but offer them little chance of meeting their families' needs. Table 1 lists the top ten occupations, in terms of employment, that pay below the four-person family poverty threshold.

Table 1: Occupations with Median Annual Income Below Poverty for a Family of Four—Top Ten Occupations

Occupation	Total Employed	Median Hourly Wage	Median Annual Income
Sales and related occupations	185,220	9.75	20,280
Food preparation and serving-related occupations	159,890	7.29	15,170
Retail salespersons	57,680	8.72	18,140
Combined food preparation and serving workers, including fast food	52,640	6.71	13,960
Building and grounds cleaning and maintenance occupations	52,270	9.42	19,590
Cashiers	48,970	7.38	15,340
Personal care and service occupations	38,210	8.76	18,220
Waiters and waitresses	30,160	6.79	14,120
Janitors and cleaners, except maids and housekeeping cleaners	24,400	9.28	19,300
Maids and housekeeping cleaners	12,400	8.31	17,280

Source: United States Bureau of Labor Statistics, "May 2007 Occupational Employment and Wage Estimates: State Cross-Industry Estimates," retrieved 07-23-2009 (www.bls.gov/oes).

Economic Development

The state's economic development efforts are essential to providing more good jobs for working families. According to a 2005 MACED report, Kentucky overwhelmingly focuses its economic development resources on providing tax incentives and other subsidies to attract industry to the state.³⁴ In 2005, 79 percent of state economic development dollars went to either tax-based subsidies or to industrial recruitment activities. That means Kentucky spends a lot of money through the tax code, beyond the scrutiny of the state budgeting process.

MACED's *Accounting for Impact: Economic Development Spending in Kentucky* finds that 70 percent of state expenditures for economic development are off-budget. Ninety percent of on-budget economic development programs require at least some form of evaluation or reporting; only 20 percent of off-budget dollars do. Additionally, all on-budget programs must have funds appropriated every two years in a new budget, while off-budget tax incentives come off the top of state revenues, automatically receiving preference. The state regularly cuts on-budget programs in the face of fiscal constraints, while not making similar cuts to off-budget tax expenditures.

In 2001, Kentucky took a step forward, making sure that the jobs subsidized by tax incentives meet a minimum threshold in terms of quality. That year, the state created wage standards for incentive deals pegged to the county's average wage. However, in the summer of 2009 the state lowered those wage standards in a special legislative session. The state has somewhat better transparency in its awarding of economic development incentives. The Cabinet for Economic Development now has a searchable website of state incentive deals and Kentucky's tax expenditure report estimates total revenue loss from tax incentives every two years. However, detailed reporting is still absent and the state doesn't systematically measure and evaluate the effectiveness of its growing economic development tax incentive programs.

A study of the state's incentive programs by the University of Kentucky's Center for Business and Economic Research is not very encouraging. The report finds a positive though weak association between a group of tax incentive programs and resulting jobs and earnings. The programs are not deemed cost-effective, however, as each job created costs an estimated \$26,775 compared to \$2,510 per job for the Cabinet's main job training program, Bluegrass State Skills.³⁵

Sectors and Planning

In addition to greater accountability for current spending, Kentucky has much farther to go in exploring strategies, other than industrial recruitment, that have the potential to create good jobs that the state's working families can access. Kentucky could do more to experiment with regional strategies that target key industry sectors and clusters (clusters refer to related businesses and institutions in a particular region). Many states are pursuing comprehensive approaches to sector and cluster development that focus on strengthening existing and emerging businesses while simultaneously improving job quality and anchoring jobs in communities. These initiatives offer a range of services and supports, including help with forming associations, building a skilled workforce, doing research and development and reorganizing work systems to improve competitiveness. At one time, for example, Kentucky had a Wood Products Competitiveness Corporation to provide networking, marketing and technical support to businesses in a sector that employs many working families across the state, but that program has been eliminated.

The absence of more progressive economic development approaches is in part the result of inadequate planning. In 1994, the state conducted a significant statewide economic development planning process and instituted a new Cabinet for Economic Development, but that plan has only been modestly updated since then. The lack of significant planning is related to the perceived isolation of the Cabinet from the rest of state government—particularly from workforce development, as highlighted in a recent University of Kentucky report.³⁶

"MACED's *Accounting for Impact: Economic Development Spending in Kentucky* finds that 70 percent of state expenditures for economic development are off-budget."

Planning should also include a clearly articulated vision for the Kentucky economy. The state faces serious challenges in areas like energy, and our current course will only make us more vulnerable. Kentucky's economic development plan needs to be bold.

Energy: A Key Sector

Rising energy costs and the likelihood of future limits on carbon emissions will mean changes in Kentucky's energy sector. These changes could mean significant new job opportunities through the growth of energy efficiency and renewable energy. Dependent on coal for 94 percent of our electricity and with per capita electricity usage rates in the top five in the United States, Kentucky is ripe for the development of new opportunities in reducing electricity consumption and developing, producing and deploying technologies for widespread use of renewable energy. According to a report by the Political Economy Research Institute at the University of Massachusetts, a \$1 million investment in clean energy (energy efficiency and renewable energy) creates an estimated 16.7 jobs compared to 5.3 jobs from the same investment in fossil fuels.³⁷

Entrepreneurship and Small Business Development

Not all economic growth comes from large businesses or out-of-state investors. Existing small businesses and emerging local enterprises can play an important role in helping working families across the state move toward prosperity.

A recent MACED report on entrepreneurs and small businesses offered these reminders about the place of small businesses in Kentucky's total economy:

In 2005, small firms (less than 500 employees) accounted for 50 percent of employment in the state. Firms with less than 100 employees accounted for 35 percent of total employment. In 2002/4, firms with less than 20 employees showed a 17.4 percent increase in net new jobs and firms with less than 500 employees showed a 2.12 percent increase, while those firms with 500 or more employees showed a 4.9 percent decrease.³⁸

However, the same report notes that Kentucky is seeing slower growth than the nation as a whole on multiple indicators of local entrepreneurship, including proprietor employment (not counting farms), microenterprise businesses (fewer than five employees), and proprietor income (again excluding farms).

Job creation in small businesses is not a panacea; job quality at small businesses is often lower. However, Kentucky needs a sustained focus on nurturing stronger small businesses and individual entrepreneurs, dedicating attention, energy and resources commensurate with their place in the full economic development picture.

Starting in 2001, with the passage of the Kentucky Innovation Act, the state expanded its efforts to promote high-tech entrepreneurship. While these efforts are positive, the approach could be expanded to more comprehensively promote innovation across the Kentucky economy and not just in high-tech industries.

Workforce Skill Development

Kentucky provides a mix of programs and services that offer skills training directly related to helping Kentuckians find and obtain jobs and improve the quality of the jobs they have. These programs are funded in part by federal dollars, including the Workforce Investment Act and the Temporary Assistance to Needy Families program, and are in part paid for by state money. Too large a share of job training for working families in Kentucky—as in many





states—is of two varieties: “work first,” which prioritizes helping people get jobs with less attention to whether those jobs allow them to support their families and move up career ladders; and “business-oriented,” which function primarily as an incentive to companies to locate in the state by providing subsidies and assistance with job training, with less attention to the long-term needs of Kentucky workers.

Workforce Investment Act

The federal 1998 Workforce Investment Act (WIA) created a nationwide structure for the delivery of workforce preparation and employment services through a one stop system for employers and job seekers. The program allocates funds for adults, dislocated workers and youth. Until the recent bump of stimulus dollars, WIA struggled with declining federal dollars per worker and faced criticism for being too focused on placing workers rather than training them.³⁹ Nevertheless, it is an important element of Kentucky’s workforce development system, and Kentucky’s WIA efforts are more successful than the national average.

First, Kentucky’s WIA training programs have succeeded in moving many participants to employment. Seventy percent of Kentucky training participants found employment in the first quarter after they left the program and obtained a credential, ahead of the 65 percent national average.⁴⁰

Second, 85 percent of Kentucky adult WIA participants who entered work were still employed six months later. Again, that compares favorably to the national rate of 81 percent, and ranks Kentucky 5th in the nation.⁴¹

Third, Kentucky makes Individual Training Accounts (ITAs) available to more participants than the national average. ITAs provide funds for participants to pay for education targeted to gaining new skills that qualify them for better paying jobs. One criticism of the WIA program is that it makes ITAs too hard to get, requiring workers to jump through too many hoops before they can access the training funds. That makes getting to jobs that have career ladders more difficult. The recent changes to WIA through monies allocated in the American Recovery and Reinvestment Act make access to training easier.

In 2006, 42 percent of Kentucky adults who participated in WIA services but did not find employment received ITAs as a way to seek better opportunities. Although that put Kentucky only 28th in the nation for ITA use, it is noticeably stronger than the 29 percent national average for ITA access.⁴²

A large share of WIA funds are restricted to helping individuals find jobs, but at least 15 percent of the dollars are for statewide discretionary activities. Some states, including Indiana, Illinois and Washington, have used the discretionary funds for innovative programs that create career ladders for low-income people, or target key sectors of the economy. States receive incentive award grants for innovative efforts that exceed WIA performance goals. Kentucky received small incentive awards in the past. Unfortunately, statewide discretionary funds in Kentucky have funded a variety of projects without a clear strategy for building career ladders or testing new approaches.

In May 2009, Governor Beshear announced a reconstitution of the state’s Workforce Investment Board and the creation of a cross-Cabinet committee that will work with the board to create a new vision and plan for workforce development in the state.

Kentucky Temporary Assistance Program

The Temporary Assistance for Needy Families (TANF) program is the main federal block grant program providing cash assistance to families. TANF includes a heavy emphasis on

parents making the transition to employment. Following on 1996 federal welfare reform legislation, TANF required each state to design a program in response to federal criteria. Kentucky's approach, known as the Kentucky Temporary Assistance Program or K-TAP, focuses on learning opportunities for participants.

Kentucky ranks 8th of the 50 states in TANF participants enrolled in education and training programs. The state's 17 percent participation rate is better than double the eight percent national average.⁴³ This success is linked to the state's decision to allow up to 24 months of education to count toward the work requirements included in TANF. Only 14 states allow education and training to count for longer than 12 months.

A second part of Kentucky's program is the nationally recognized Ready-to-Work initiative. Ready-to-Work provides staff at the 16 community and technical colleges that help provide a comprehensive network of support services for K-TAP recipients, including work-study opportunities that don't reduce K-TAP assistance. In 2003, the program was expanded to include Work and Learn, a program targeting those seeking a GED so they can transfer to college. In 2006, 2,031 students participated in Ready-to-Work and 493 in Work and Learn.

Unfortunately, the state's success in educational participation has not translated into added success in transitions to work overall. Kentucky ranks 48th out of 50 in TANF adult employment retention. Only 56 percent of TANF recipients who have entered work have been able to stay employed for three consecutive quarters, compared to 65 percent nationally.⁴⁴ The state's higher educational enrollment for TANF recipients in combination with its lower success in transition to permanent employment may be linked to the lack of adequate job opportunities in many parts of the state.

Advocates also raise issues about the income qualifications for TANF in Kentucky.⁴⁵ The state's standard of need—or the level of income at which a family loses TANF benefits—could be higher to allow more families in poverty to qualify. The timeline by which families lose TANF benefits after earning additional work income is too short for families to make necessary adjustments. The state needs to facilitate more successful transitions from TANF to work and self-sufficiency.

Business-Oriented Job Training

The state's Bluegrass State Skills Corporation offers two major job-training options:

- The Grant-in-Aid program, which reimburses training for workers in new and expanding companies and for skills upgrade training of workers in Kentucky's existing companies.
- The Skills Training Investment Credit program supports skills and occupational upgrade training activities for companies that have been active in Kentucky for at least three years.⁴⁶

The Kentucky Workforce Investment Network System (KY WINS) is the Kentucky Community and Technical College System's effort to provide business and industry with education, training and support services designed to develop better jobs and a workforce with the knowledge and skills to fill them.

Recent assessments of these efforts put them in a positive light. A study by the Center for Business and Economic Research recommends expanded support for Bluegrass State Skills based on evidence that the program is positively associated with increases in employment and earnings at a reasonable cost. For fiscal year 2008, Kentucky transferred





additional resources into the program halfway through the fiscal year. However, those one-time monies were not continued, and were not tied to a clear strategy.⁴⁷

A recent report on the Kentucky WINS program found a \$22.29 per hour average wage with benefits for individuals participating in these projects. As of late 2007, KY WINS had completed 349 projects with more than 51,200 participants and had 113 active projects expected to serve over 30,600 participants.⁴⁸

Bluegrass State Skills and WINS tailor their assistance to what real companies want, and in that sense are grounded in the reality of the Kentucky economy today. However, they are also short-term, providing assistance for immediate needs without a long-term strategy for both industry success and worker development.

The Career Pathways initiative discussed in Chapter 2 deserves mention again here. Career Pathways designs programs based on an analysis of regional economies and the needs of area employers. As discussed earlier, students following the Career Pathways curriculum have shown greater perseverance in enrollment and program completion than their classmates, and the program appears to be a promising method to equip workers both for initial employment and for progress up a ladder of increasingly well-paid jobs in growing industries. Kentucky needs more job training efforts with a long-term orientation toward worker success and current economic opportunities.

Key Recommendations

- Kentucky should create a new statewide strategic economic development plan through a participatory process that includes regional planning components, integration with workforce development and a new vision that reflects the state's regional diversity.
- Kentucky should identify and launch new economic development and workforce initiatives targeting key sectors and clusters of the state's economy, drawing broadly from strengths and assets of each region of the state.
- Kentucky should create an Entrepreneurship and Small Business Commission to provide leadership, credible data on progress, and a statewide strategy to better support entrepreneurs and small business, and should invest in support for entrepreneurship and small business development through a competitive grants program open to programs in higher education, regional development organizations, state agencies and nonprofits.
- Kentucky should set a goal of using at least 70 percent of Kentucky's WIA funds for training and should more strategically utilize the 15 percent of WIA discretionary dollars to test our innovative workforce initiatives, and measure and publicize the results of those efforts. Energy efficiency training tied to Secretary Jonathan Miller's Clean Energy Corps would be a potential use of WIA discretionary funds.
- Kentucky should seek to better integrate its workforce development, TANF training, and business-oriented jobs training programs like Bluegrass State Skills and the KCTCS KY WINS programs along a Career Pathways model that focuses on helping individuals obtain access to long-term career ladders in their region of the state.

CHAPTER 4

WORKER SUPPORT



Achieving shared prosperity across the Commonwealth requires that our working age population have access to quality jobs that support their movement out of poverty and into financial security. Policies that support workers also support quality jobs and strong communities. Burdened by regressive taxes that make it hard for low-income workers to get ahead, insufficient healthcare and childcare, and inadequate protection against predatory financial services, low-income workers are vulnerable to small shifts or sudden illnesses that can push them into poverty. Kentucky needs to support policies that build security for our working families and help them take advantage of opportunities to move out of poverty and toward financial and community stability and prosperity.

Taxation

Kentucky's 2005 tax reform legislation substantially reduced the state tax burden on working families with the lowest incomes. In 2004, a family of four earning just \$5,500 was subject to Kentucky income tax, but the 2005 changes moved that threshold up to \$20,070 for 2007. That allowed more than 200,000 low-income families to avoid paying state income tax and keep more of their earnings for family expenses.⁴⁹

Nevertheless, Kentucky is still one of just 16 states that collect income tax from some families earning less than 100 percent of poverty. In 2007 those earning between \$14,000 and \$44,999 paid a larger share of their personal income in state and local taxes than those earning \$45,000 or more (Figure 15).

Further, income taxes, combined with others (on sales and property, for example) place a heavier tax burden on lower income Kentucky residents than on those who are substantially better off. A refundable state Earned Income Tax Credit (EITC) offsets the regressive tax burden imposed by these various taxes and puts money back in the pockets of low-income working families. Twenty-four states have enacted state EITCs.

Financial Services

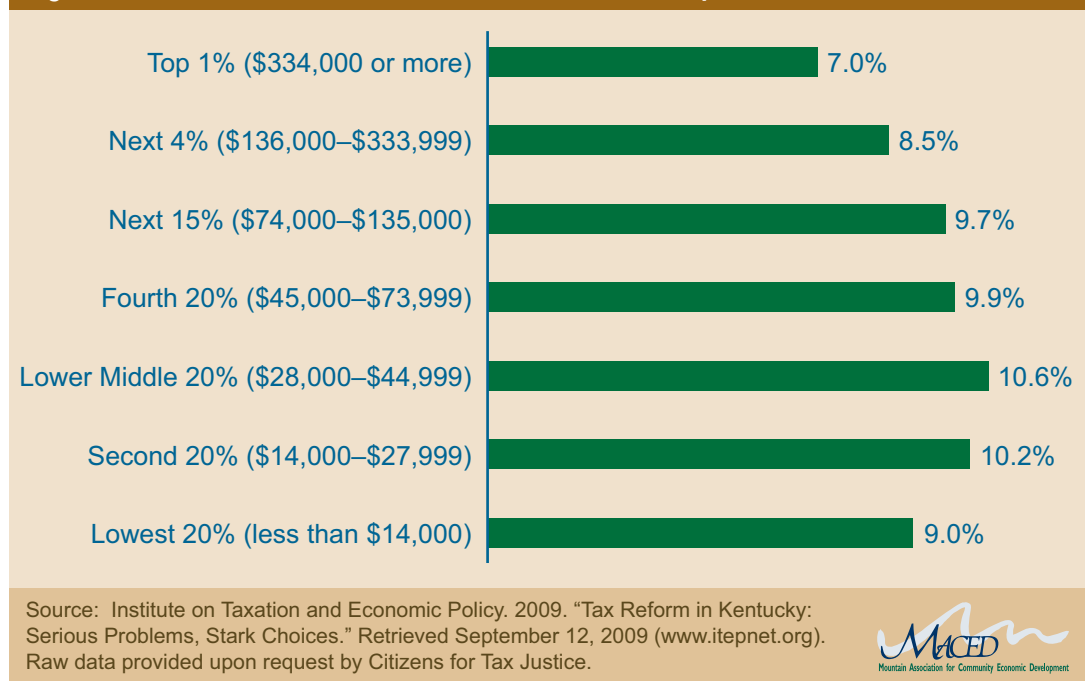
Every family has borrowing needs. Americans expect to borrow to purchase homes, cars and consumer durables, and economic emergencies may add temporary borrowing needs. As wages stagnate, unemployment increases, and the cost of living continues to rise, these needs become more acute. Unable to access traditional forms of credit, low-income working families faced with borrowing needs are vulnerable to predatory lending practices.

Wage stagnation amidst rising costs has created significant demand for financial services among low-income workers. Fringe financial institutions emerged in recent years in recognition of the market opportunity in meeting this demand. They now have products that charge an exorbitantly high premium to cover the risks associated with serving low-income borrowers. With little access to traditional banking, families turn to subprime mortgages, refund anticipation loans, car title loans, payday advances and high-interest credit cards.

“Kentucky needs to support policies that build security for our working families and help them take advantage of opportunities to move out of poverty and toward financial and community stability and prosperity.”

But the predatory nature of these products leaves low-income families trapped in debt and unable to get ahead.

Figure 15: Share of Personal Income Paid in Kentucky State and Local Taxes 2007



The demand for short-term credit, particularly among those working in low-skilled labor and service sector jobs, is great. Over the last ten years the payday lending industry emerged to meet this demand.

Unreasonable lending terms can quickly undermine the financial stability of the most vulnerable families. Payday loans are an especially dangerous form of credit, charging far more than the interest rate allowed on conventional loans, at annual rates of 390 percent to 780 percent.

Payday loans can quickly become a trap as borrowers, unable to repay the loan within two weeks and still make ends meet, take out additional loans to repay the previous loan. On average, a borrower who starts using payday advance loans takes out nine such loans per year.⁵⁰ The cycle of dependency on these extortionate loans is a major hazard to Kentucky's low-income families.

According to the 2007 Brookings Institution study, *The High Price of Being Poor in Kentucky*, one payday lender opened in Kentucky every four days, growing from 352 in 1999 to 781 in 2008. Payday loan stores stripped an estimated \$158 million in predatory fees from the budgets of Kentucky's working families in 2008.⁵¹

The 2009 General Assembly put an end to this growth but continues to permit the industry's predatory practices. The 2009 state legislature passed a moratorium on new licenses and put in place a database requirement that will allow the state to better track borrowers and payday loan activity. The database measure has been unsuccessful in keeping borrowers out of the debt trap in other states. The Kentucky Coalition for Responsible Lending argues that a 36 percent rate cap is the only way to end the predatory practice and protect the financial security of low-income families.



Child Care

High-quality child care makes a triple contribution to moving families toward self-sufficiency. First, affordable child care allows parents to stay in the workforce while their children are small. Second, high-quality child care gives children a stronger chance of success in school and later in life. Third, high-quality child care provides steady employment for child care workers and opportunities for improving education and skills.

Kentucky needs to do more to support access to high-quality, dependable and affordable child care for all families. The Commonwealth needs to support families who need quality care for their children as well as the small businesses that provide that care for working low-income families.

Kentucky offers limited child care assistance to low-income families. Full subsidies are available only for families in the most desperate circumstances. Qualifying families earn less than \$900 a month which means they live on less than 50 percent of the poverty threshold for a family of four.

The state requires co-payments, on an income-based sliding scale, from families earning more than \$900 per month. A family earning at the poverty level pays \$121 per month and a family earning 150 percent of the poverty level pays \$253 per month.⁵² Assistance is not available for families earning more than 150 percent of poverty-level wages. Kentucky's benefits are not generous compared to other states: high co-payments rank Kentucky 41st among the states.⁵³

In addition, the demand for child care assistance has a history of exceeding the available block grant funding. Rather than maintain a waiting list, Kentucky lowered the eligible income levels, masking the scale of unmet need.⁵⁴

The large portion of families with low wages combines with low subsidy rates to create a troubled child care market. State child care subsidies pay less than it costs to provide sound care, much less set aside funds to handle emergencies, weather financial downturns, or pay to expand or improve facilities. Child care providers struggle to fund professional development for their employees, and the jobs pay too little for employees to expect any economic benefit from paying for their own learning. In areas where markets fail and investments yield public benefits, the state has a role to play in supporting financial viability and quality improvements. In the case of child care, the public has an interest in making sure that providers offer and parents choose high-quality child care rather than cutting corners to make ends meet.⁵⁵

Health Insurance

Health insurance plays a pivotal role in allowing families to become and remain self-sufficient, but obtaining insurance remains a serious challenge to many Kentucky working families, as shown by these statistics:

- 17 percent of Kentucky workers age 18 to 64 are without health insurance.⁵⁶
- 35.6 percent of low-income working families have at least one parent without health insurance.⁵⁷
- Medicaid is only available to parents of Kentucky working families earning less than 62 percent of poverty level income.⁵⁸

For children in low-income families, an available insurance option has been underused. The Kentucky Child Health Insurance Program (KCHIP), supported by federal SCHIP funding, offers health insurance to uncovered children from families with incomes

“State child care subsidies pay less than it costs to provide sound care, much less set aside funds to handle emergencies, weather financial downturns, or pay to expand or improve facilities.”



less than 200 percent of poverty. However, an estimated 67,000 Kentucky children are eligible but not enrolled.

While Kentucky only allows working families with income of less than 62 percent of the federal poverty level to qualify, 25 other states qualify those working families earning less than 100 percent of poverty wages. States like Arkansas, Oklahoma and Pennsylvania qualify those with income less than 200 percent of the federal poverty line.⁵⁹

Kentucky also limits families to \$2,000 in assets when they seek Medicaid for parents. Twenty-two states have no asset limit, and 14 set limits higher than Kentucky's. As a result, Kentucky makes it harder for parents to build toward self-sufficiency, forcing them to choose between health insurance and all but the smallest savings for their future.⁶⁰

Unemployment Insurance

Pink slips can strip away a family's economic independence in a matter of minutes. Unemployment insurance is a key social safety net protecting those who lose their jobs. Kentucky's unemployment insurance (UI) program pays maximum weekly benefits of \$415, ranking Kentucky 18th of the 50 states.⁶¹ However, 70 percent of unemployed Kentuckians are not currently receiving unemployment insurance benefits. That rate is well above the national average of 64 percent.⁶²

The American Recovery and Reinvestment Act (ARRA) of 2009 offers additional federal unemployment monies to states that adopt best practices in unemployment insurance policy.

One such requirement to obtain one-third of the additional monies is that states adopt an Alternate Base Period (ABP) for determining eligibility. Currently, Kentucky decides eligibility for benefits based on earnings from the first four of the five most recent quarters. For example: an individual was out of work for the last few months of 2007, was hired on January 1, 2008, and worked until the plant closed on December 31. If that person applied for unemployment promptly at the start of 2009, the fall of 2007 would count against his or her eligibility, and the steady work in the fall of 2008 would not. He or she could apply again in April and get credit for all of 2008, but families out of work generally need support more quickly than that.

The standard base period counting the first four of the five quarters is used nationwide for its administrative convenience: it lets employers report earnings a month after each quarter ends and then allows two months for the reports to be entered in state records. Administrative convenience, however, is a weak reason to deny unemployment to those who have a good record in the months before they seek benefits.

By adopting an ABP, the state would allow a person who cannot qualify based on the first four quarters to count the most recent quarter. Low-income workers are especially likely to have added eligibility when that change is made. A 2005 study by the National Employment Law Project found that, "In states that have implemented the ABP, between 2.1 and 6.5 percent of all eligible claims used the ABP. ABP eligible claims only represent 1.1 to 5.2 percent of all UI payouts in these states, because ABP claimants qualify for far less in UI benefits."⁶³

Additionally, the remaining two-thirds of ARRA modernization monies are contingent on two of the following additional reforms: extending unemployment insurance for 26 weeks while workers are engaged in training; providing part-time worker coverage; providing a weekly \$15 dependent allowance; or providing unemployment insurance for leaving work

for compelling family reasons like domestic violence, spouse relocation and illness and disability.⁶⁴

Governor Beshear has created a task force to examine modernization of the state's unemployment insurance program. Under modernization, the federal government will provide funds to increase and extend unemployment benefits, but states have to provide a match to receive maximum funds. Kentucky is already in debt to the federal government to the tune of \$537 million for benefits paid out since the state's fund ran dry in January 2009.⁶⁵

The task force hired consultants to develop models for revising the state's unemployment insurance system, and task force findings are being considered in the 2010 General Assembly.⁶⁶ Proposals under consideration include raising the unemployment insurance tax rates, altering eligibility requirements and establishing a minimum balance for the unemployment insurance fund.

Key Recommendations

- Kentucky should make its tax system fair by enacting a refundable State Earned Income Tax Credit (EITC) that mirrors the federal EITC structure.
- Kentucky should limit payday loan effective interest rates to no greater than 36 percent annual percentage rate.
- To strengthen support for quality child care, Kentucky should provide subsidies sufficient to cover the costs of quality care, increase the income ceiling for those receiving a full subsidy, decrease co-pays for families earning up to 200 percent of poverty, expand the child care and dependent care tax credit and make it refundable.
- Kentucky should fund Medicaid for working adults earning up to 200 percent of poverty, looking at Arkansas and Oklahoma as examples of states now doing so, and should eliminate the asset cap for parents applying for Medicaid.
- Kentucky should adopt unemployment insurance modernization measures, while protecting current benefit levels, in order to expand access to working families who lose their jobs and to receive bonus federal stimulus dollars.



RECOMMENDATIONS



This overview of the status of working low-income families and the policies that affect them identifies a number of important themes that reach across the varied areas discussed previously.

A stronger commitment to supporting working poor families is essential to the Commonwealth's economic future.

Kentucky's working low-income families live in every community across the state. In a wide range of industries and occupations, they are doing the work our Commonwealth needs done, and raising the children who are the state's future workforce. State policy does not reflect an adequate commitment to the needs of working families. Kentucky must acknowledge how intimately future economic prosperity is tied to the condition of all Kentucky families.

Kentucky needs an overarching and integrated strategy for building family self-sufficiency.

Education, job skills and training programs, economic development efforts and supports for workforce participation would all be more effective if integrated into a systematic state approach with a long-term orientation toward family success. Coherent, ongoing analysis and planning allows the Commonwealth to develop and maintain a comprehensive approach to helping workers support their families, build their skills and improve their economic status.

Kentucky must commit more resources to investment in its working low-income families.

Existing dollars, even used with maximum efficiency, will not support the investments Kentucky needs to make in low-income families and the state's shared future. Kentucky has underinvested in its people for too long. While the state considers responses to the current budget crisis and adjustments to the state's tax system, it must remember the need for investment in working families. Investments today will improve the Commonwealth's future tax base.

Increased evaluation and improved performance are critical.

Legislation will not work without ongoing scrutiny. State efforts should become more effective over time, improving strategies based on regular evaluation of performance results. Across state government, annual data should be publicly reviewed and easily available to citizens and the media year-round. We should track how Kentucky's policies and investments work to improve conditions for working low-income families.

Kentucky must see working families as central to our shared future. Dollars invested can yield a return both for working families and for the shared economic and community life of the entire Commonwealth. With thoughtful policies, judicious investments and effective implementation, we can build broadly shared prosperity in the Commonwealth.

ENDNOTES



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