

Who Are Low-Income Working Families?

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Low-Income Working Families
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CONTENTS

Work and Wages	2
Characteristics of Low-Income Working Families	4
Job Characteristics of Workers in Low-Income Families	7
Difficulties Confronting Low-Income Working Families	8
Income Sources of Low-Income Working Families	11
Expenditures of Low-Income Working Families	13
How Do Low-Income Families Fare Over Time?	14
Conclusion	15
Notes	16
References	17
About the Authors	19

WHO ARE LOW-INCOME WORKING FAMILIES?

Over the past decade, national policy has emphasized the centrality of parental work in strategies to support low-income families. This emphasis is exemplified by the fact that the earned income tax credit (EITC), the nation's largest cash assistance program for low-income families, is available only to those who are working. In addition, work among low-income women and single parents has increased dramatically since the mid-1990s.

It is natural to ask, therefore, who working low-income families are and how they are faring. This paper addresses these questions. In large part, the paper relies on data from the 2002 National Survey of America's Families (NSAF), which provides extensive information on family and job characteristics, income sources and expenses, and experience of material hardships for a large sample of low-income families.¹ We also draw from other sources to provide additional context for these findings. In the paper, we examine the work effort of low-income families, characteristics of their jobs including wages and benefits, their demographic characteristics, and how often parents and children in these families experience various good and bad outcomes measured by the survey.

We focus on low-income working families with children; this differs from other discussions that focus on low-wage workers. Targeting families with a worker that are nevertheless low-income (as opposed to individual workers earning low wages) brings attention to the circumstances of children in these families, who live with limited economic resources and with parents who are (for the most part) working outside the home. The problems and potential solutions related to low-wage jobs in the labor market are relevant for our focus, however, because many workers in low-income families hold low-wage jobs.²

We set our low-income threshold at twice the official poverty threshold, or about \$38,000 for a family of four. While any choice of cutoff is arbitrary, this line defines a group of families that often endures hardships despite working and “playing by the rules.” This is also the income level when most families are no longer eligible for government support. The number of children in low-income families under this definition is large, encompassing almost a third of all families with children in 2001 (Nelson 2004). This represents just over 13 million families and 26.5 million children.

Attention to working low-income families is especially salient now given the dramatic increases in work over the past 10 years. In reaction to changes in welfare policy and the booming labor market of the 1990s, large numbers of poor women with children have left welfare and entered the labor market (Acs and Loprest 2004). Employment gains since the mid-1990s among single parents have been dramatic, rising from 59 percent in 1994 to 74 percent in 2001. These employment gains have been largest among less-educated single mothers (Lerman 2001).

The recession in 2001 and subsequent weak labor market through 2003 dampened these trends in work but did not reverse them entirely. Employment among single parents remained at 71 percent in 2004 (Lerman 2005). Of course, the composition of low-income working families changes in a recession. As unemployment reduces work hours and earnings, the size of the low-income population grows and families that usually have higher incomes become low-income. Acs, Holzer, and Nichols (2005) find that between 2000 and 2003, the number of people in low-income families with children increased from 30 to 32 percent of the population, and the proportion of all households with a full-time, full-year worker fell from 88 to 85 percent. The results presented below are for low-income working families in 2001, just after the recession began but while employment and incomes remained relatively high.

Work and Wages

In 2001, 59 percent of low-income families had at least one adult working essentially full-time, full-year (at least 1,800 hours over the year). We refer to this group of families as “high-work” families. They include almost 16 million children. These families are most clearly “playing by the rules” by having substantial work effort but still remain low-income. Another 11 percent of families are what we call “moderate-work” families. The hours worked by adults in these families over the past year are roughly equivalent to full-year, part-time work by one or both parents.³ Families with a worker who usually works full-time but experienced several months of unemployment in the past year are also included in this group.

The remaining low-income families that are not high-work or moderate-work worked relatively little or not at all over the year. About 19 percent of low-income families have “low” work attachment (an adult working less than half the time) and another 11 percent of low-income families had no adult working at all in 2001 (figure 1).

While this is just one of the many ways to characterize low-income families’ work, other research concurs with the point that most of these families have high work effort. For example, Waldron, Roberts, and Reamer (2004) find the average low-income family’s total work effort is 2,500 hours a year.

Throughout the rest of the paper we focus on high-work and moderate-work low-income families. These families include the majority of low-income families—over 70 percent—and we believe they

come most readily to mind in discussions of how to support struggling *working* families. This is not to say that families with relatively low amounts of work over the year do not merit attention and concern. The needs and issues of these families, particularly around moving more completely into the labor market, are the subject of other research but not the focus of this paper.

Work effort varies by family type. Low-income single parents living without other adults are less likely to work full-time, full-year than low-income married-couple families, 40 percent compared with 73 percent (table 1). However, when we add families with moderate work levels, the difference is much reduced. An additional 23 percent of single parents living alone and 6 percent of married couples work at least part-time or part-year.

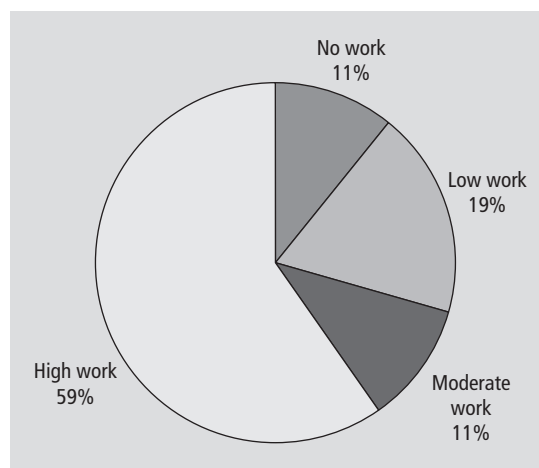
In addition, while work effort is high among low-income two-parent families, a majority of these families do not have a second worker. In about 83 percent of high-work, low-income married-couple families, only one person is working full-time, full-year.

Low-income families with incomes below the federal poverty level are less likely to have a full-time, full-year worker than higher-income families (table 1). Only about a third of poor families have a full-time, full-year worker, compared with almost three-quarters of families with incomes between 100 and 200 percent of the poverty level. However, this also shows that working full-time, full-year does not guarantee income above the poverty level, given the sizeable group of families (about 1.8 million) working full-time, full-year and remaining poor.

The work effort of low-income families with children suggests that increasing work hours is a path to greater income for only some low-income families. Even for this subset several questions remain. First, what impact would increasing hours of work have on family income? Acs, Ross Phillips, and McKenzie (2001) find that if all prime-age adults in these families worked at least 2,000 hours a year, a large increase in work effort, about 20 percent of low-income families would increase their incomes above twice the poverty level.⁴ This calculation does not take into account additional work-related expenses.

In addition, efforts to actually increase hours would require considering the reasons families are not working full-time, full-year. These include unemployment during the year, poor health limiting work, and difficulties balancing full-time work with child care responsibilities. Studies show that low-wage workers are more likely to have low levels of education, poor health, and live in single-parent families than other workers (Schochet and Rangarajan 2004). In addition, some part-time work is involuntary, because individuals cannot find a full-time job or have had hours on the job reduced. In 2004, about 2.7 percent of all workers were involuntary part-time and about 19 percent of all part-time workers were involuntary (Bureau of Labor Statistics 2005).

FIGURE 1. *Work Effort of Low-Income Families with Children in 2001*



Source: 2002 National Survey of America's Families.

Note: Weighted using the person-level weight of the head of the family.

TABLE 1. *Work Effort of Low-Income Families by Family Type and Poverty Status (%)*

	High-work	Moderate-work	Low- or no-work
Family type			
Single parent alone	39.5	22.5	38.0
Married couple	73.4	6.2	20.4
Poverty status			
< 100% of poverty level	34.5	12.9	52.7
100%–200% of poverty level	73.2	9.7	17.1

Source: 2002 National Survey of America's Families.

Note: Weighted using the person-level weight of the adult most knowledgeable about the children. Rows sum to 100, subject to rounding.

Many families are low-income because they earn low hourly wages. The median wage of the highest wage earner (the family “head”) in low-income families with a full-time, full-year worker is \$8.99 an hour. This is well above the federal minimum wage of \$5.15,⁵ and roughly two-thirds of the median wage of all workers in 2002. About 25 percent of workers in the labor market earned \$9 or less.⁶ This wage rate is also well below the \$14 per hour median wage of highly attached workers in middle-income families (those with incomes between 200 and 300 percent of the poverty level).

The wage level only provides a snapshot at a point in time. Wage increases over time are another way families may move out of low-income status. A growing body of evidence shows that wage growth for low-wage workers is as high or higher than wage growth for other groups in the labor market (Gladden and Taber 2000; Loeb and Corcoran 2001; Schochet and Rangarajan 2004). One study finds that low-skilled workers experience about 4 to 6 percent wage growth per year of full-time work early in their career, similar to wage growth for medium-skilled workers (Gladden and Taber 2000).

However, wage growth results vary across subgroups; most studies find that females, nonwhites, and workers with low education levels have significantly lower wage growth. As we show below, a disproportionate share of workers in low-income families is female, nonwhite, and without a high school degree. In addition, about a fifth of low-wage workers experience a decline in wages over a three-year period (Schochet and Rangarajan 2004).

Even high levels of wage growth do not result in substantially higher incomes for many families because of the low starting wages of workers. For example, in their study of low-wage workers, Schochet and Rangarajan (2004) find that of those who started low-wage jobs in 1996, three years later about 50 percent of male workers and 60 percent of female workers still had annualized earnings below the poverty level for a family of four. Roughly another 25 percent of each group had attained annualized earnings between 100 and 125 percent of the poverty level.

Characteristics of Low-Income Working Families

Characteristics of low-income families help us understand why families have low income levels, identify groups that are disproportionately low-income, and suggest the diversity of this group of families. To provide context for the statistics on low-income families who are working full-time, full-year (high-work families), we compare them to families working full-time, full-year who are in the next higher income bracket. We call these families high-work, middle-income families, where we define

middle-income as between 200 and 300 percent of the federal poverty level. We also present findings for low-income families that are working moderate hours.

More than a quarter of full-time, full-year working heads of low-income families are high school dropouts, significantly more than full-time, full-year workers in middle-income families (28 percent compared with 11 percent, as shown in table 2). Another 39 percent have only a high school degree. These family heads are also significantly less likely to have any postsecondary education than middle-income family heads. Low-income families with a moderate amount of work do not have lower levels of education than high-work families. In fact, they are slightly less likely to be high school dropouts, although a fifth of them still have not graduated high school. Studies show that the U.S. labor market gives substantial returns to education and that these returns have been increasing over the last decades (Katz and Autor 1999). Thus workers with low education levels are likely to start at the lowest wages, contributing to low incomes.

Almost a quarter of full-time, full-year workers in low-income families are between the ages of 18 and 30. This is greater than the 18 percent of heads in high-work, middle-income families. Low-income family heads working moderate amounts are even younger, with over a third less than 30 years old. Young workers, all else equal, usually have less work experience than older workers, which can contribute to lower wages. They may be more likely than older workers to move out of

TABLE 2. Characteristics of the Heads of Low- and Middle-Income Families by Work Status (%)

	Low-Income		Middle-Income
	High-work	Moderate-work	High-work
Education			
High school dropout	27.9	21.3**	11.4**
High school graduate (or GED)	39.2	43.8	38.0
Some postsecondary school	25.0	27.3	32.6**
College graduate	7.9	7.6	17.9**
	100.0	100.0	99.9
Age			
18–29	24.0	35.7**	17.6**
30–39	45.0	38.1**	38.8**
40+	31.1	26.2	43.6**
	100.1	100.0	100.0
Health status			
Excellent/very good	52.6	43.9*	65.2**
Good	31.6	31.8	27.4**
Fair/poor	15.9	24.4**	7.4**
	100.1	100.1	100.0
Child health			
Receiving SSI disability benefits	4.0	5.2	2.2**

Source: 2002 National Survey of America's Families.
 Notes: Head is defined as the adult working the most hours. Weighted using the person-level weight of the adult most knowledgeable about the children, except health status, which is weighted using the person-level weight of the head of the family.
 Significance tests in the second column are for high-work, low-income relative to moderate-work, low-income and in the third column are for high-work, low-income relative to high-work, middle-income. * significant at the 90% level; ** significant at the 95% level.

low-income status over time as they gain experience. However, almost a third of low-income family heads working full-year, full-time (31 percent) are age 40 or older, and about a quarter of low-income, moderate-work family heads are in this age group.

Health problems are more prevalent among workers in low-income families than workers in middle-income families. About 16 percent of full-year, full-time low-income family heads report they are in fair or poor health, compared with 7 percent of those in middle-income families. Low-income moderate-work family heads are even more likely to have health problems, with about 24 percent reporting fair or poor health. Health problems may be limiting hours of work for these family heads.

In addition, low-income families are more likely to have a child in poor health. About 4 percent of high-work, low-income families and over 5 percent of moderate-work, low-income families have a child receiving government disability benefits from the Supplemental Security Income (SSI) program. The strict disability eligibility criteria for this program mean this is likely a lower-bound on the prevalence of children with serious health problems among these families. Fewer middle-income families have children on SSI (about 2 percent), in part because it is an income-based assistance program.

Low-income working families are disproportionately nonwhite and immigrant compared to middle-income families, although the majority of these heads are native-born, white, and non-Hispanic. Low-income family heads working a moderate amount of hours are even more likely to be nonwhite, but are less likely to be immigrants.

About 19 percent of heads of low-income families working full-time, full-year are black and another 19 percent are Hispanic, compared with 14 percent and 9 percent of middle-income families (table 3). A larger share of these low-income, high-work family heads is foreign-born, either naturalized citizens (9 percent) or noncitizens (22 percent), than middle-income, high-work family heads (7 and 8 percent, respectively).

Moderate-work families are even more likely to be black or Hispanic. Over 27 percent of moderate-work, low-income family heads are black and another 14 percent are Hispanic. However, moderate-work families are less likely to be immigrants than high-work families. Only 6 percent of low-income, moderate-work family heads are naturalized citizens, and 14 percent are noncitizens.

About one in five low-income family heads working full-time, full-year is a single parent living alone. Far more family heads are married (46 percent) or are living with other adults present (a combination of cohabiting couples, multifamily households, and singles or married couples living with other adults). However, the proportion of single-parent families living alone in these high-work, low-income families is higher than the proportion in high-work, middle-income families (16 percent). And most low-income families with heads working only moderate hours are single-parent (61 percent). Only 20 percent of moderate-work, low-income families are married-couple households.

Most low-income working families have one or two children. However, high-work, low-income families are more likely to have three or more children than high-work, middle-income families (40 versus 26 percent). Low-income, moderate-work families have fewer children than low-income, high-work families. This is in part because calculation of income relative to the poverty threshold takes into account the number of children in the family.

TABLE 3. Characteristics of Heads of Low- and Middle-Income Families by Work Status (%)

	Low-Income		Middle-Income
	High-work	Moderate-work	High-work
Race/Ethnicity			
White, non-Hispanic	60.1	55.8	74.5**
Black, non-Hispanic	18.5	27.1**	14.4**
Hispanic	18.6	13.7**	8.9**
Other	2.9	3.5	2.2
	100.1	100.1	100.0
Immigrant status			
U.S.-born citizen	69.7	80.4**	85.3**
Foreign-born naturalized U.S. citizen	8.8	5.6**	6.8**
Foreign-born noncitizen	21.5	14.0**	8.0**
	100.0	100.0	100.1
Family type			
Single parent alone	20.9	61.1**	15.5**
Married couple	46.4	20.0**	54.8**
Other adults present	32.7	19.0**	29.7**
	100.0	100.1	100.0
Number of children			
One	24.7	36.0**	37.1**
Two	35.8	31.9	37.2
Three or more	39.5	32.2**	25.7**
	100.0	100.1	100.0

Source: 2002 National Survey of America's Families.

Notes: Head is defined as the adult working the most hours. Weighted using the person-level weight of the adult most knowledgeable about the children. Significance tests in the second column are for high-work, low-income relative to moderate-work, low-income and in the third column are for high-work, low-income relative to high-work, middle-income. ** significant at the 95% level.

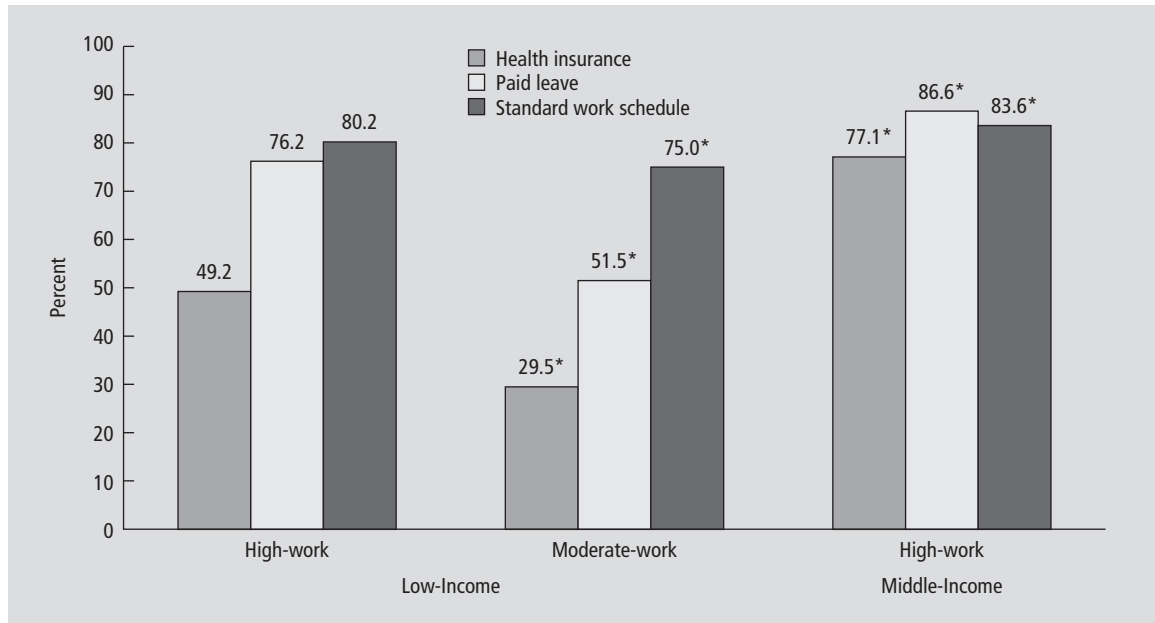
Job Characteristics of Workers in Low-Income Families

The jobs held by heads of low-income families offer fewer benefits and have less regular hours than jobs held by workers in middle-income families. Among heads of low-income families working full-time, full-year, only 49 percent have employer-sponsored insurance (figure 2). This compares with 77 percent of high-work, middle-income families with insurance coverage. Workers in low-income families working less than full-time, full-year are even less likely to have this benefit. Less than a third of those working moderate hours have employer-provided insurance.

Most full-time, full-year workers have at least one day of paid sick or vacation leave, but the proportion among low-income family heads is smaller than among middle-income heads, 76 percent compared with 87 percent. And about a quarter of these full-time, full-year workers with some paid leave in low-income families have 5 or fewer days of paid leave per year. Family heads working less than full-time, full-year are much less likely to have even one day of paid leave. This is the case for about half of moderate-work families.

Work schedule can reflect the quality or desirability of a job, especially in connection to ease of arranging child care. There is relatively little difference between low-income and middle-income full-time,

FIGURE 2. *Employer-Sponsored Benefits for High- and Moderate-Work, Low-Income Families and High-Work, Middle-Income Families*



Source: 2002 National Survey of America's Families.

Notes: Includes only those families with positive hours worked in the prior year. Weighted using the person-level weight of the head of the family.

* Significantly different from high-work, low-income at the 90% level.

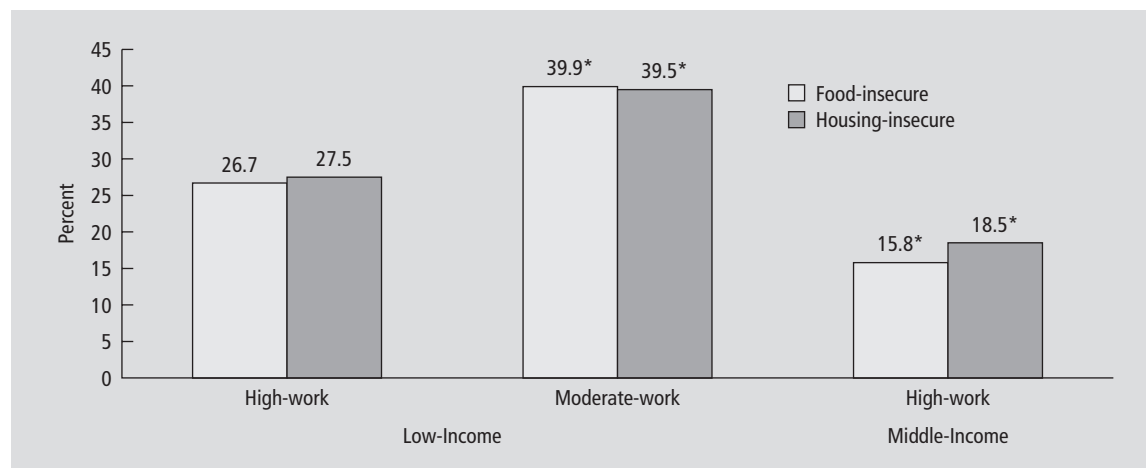
full-year workers in the share holding a job with hours primarily during the day (between 6 AM and 6 PM)—80 versus 84 percent. Somewhat fewer moderate low-income workers have these daytime schedules (75 percent). Schedules that might be most difficult, particularly for coordinating child care, are rotating shift schedules or employer-set irregular schedules (excluding employee-initiated flexible hours arrangements). The government periodically measures the prevalence of these shifts in the market, but does not report results by income or wages. In 2001, roughly 5 percent of all full-time wage and salary workers worked irregular, rotating, or split shifts. Among service occupation workers, 11 percent worked these changing hours (Bureau of Labor Statistics 2002).

Difficulties Confronting Low-Income Working Families

About one-quarter of low-income families with a full-time, full-year worker experience hardships related to food and housing. Figure 3 shows the incidence of food and housing insecurity for high- and moderate-work, low-income families and high-work, middle-income families. A family is “food-insecure” if it reports cutting or skipping meals because of lack of money, worrying that food would run out before it got money to buy more, or running out of food and not having money to get any more at any point in the prior 12 months. A family is “housing-insecure” if it reports there was a time in the prior 12 months when it was unable to pay the mortgage, rent, or utility bill in full because of lack of money.

More than one in four low-income families with at least one full-time, full-year worker are food-insecure; a similar proportion are housing-insecure. The rates of food and housing insecurity are significantly higher for these families than for working families with incomes between two and three times the poverty

FIGURE 3. Food and Housing Insecurity among High- and Moderate-Work, Low-Income Families and High-Work, Middle-Income Families



Source: 2002 National Survey of America's Families.

Note: Weighted using the person-level weight of the most knowledgeable adult.

* Significantly different from high-work, low-income at the 90% level.

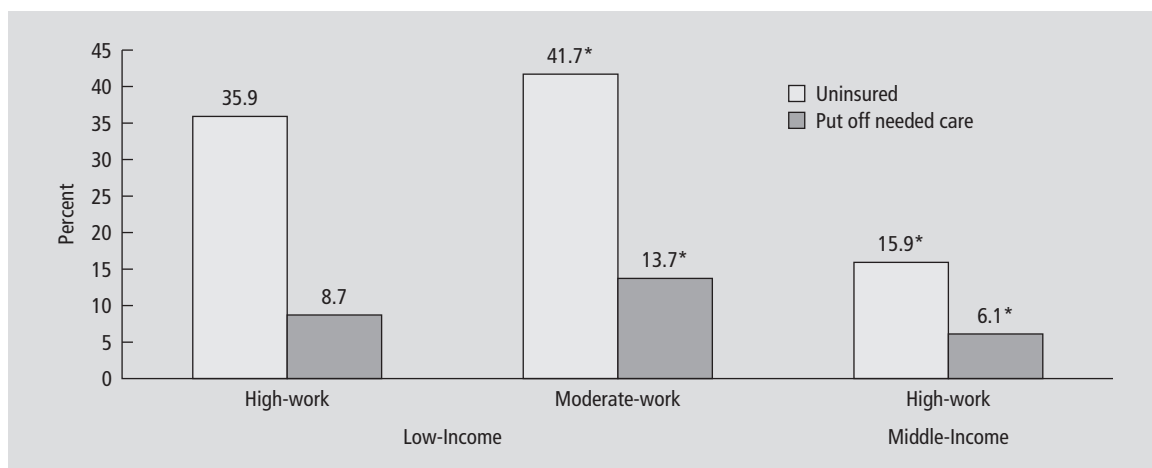
level: 27 percent of high-work, low-income families are food-insecure and 28 percent are housing-insecure, compared with 16 and 19 percent, respectively, of high-work, middle-income families.

Despite lagging behind their middle-income counterparts, low-income families with a full-time, full-year worker fare better than low-income families with moderate levels of work effort. Moderate-work, low-income families experience more food insecurity (40 versus 27 percent) and more housing insecurity (40 versus 28 percent) than high-work, low-income families.

Low-income, high-work families are more likely to experience hardships relating to health and health insurance than middle-income families. As shown in figure 4, compared to high-work, middle-income families, high-work, low-income families are more likely to lack some health insurance coverage (36 versus 16 percent) and to put off needed medical care (9 versus 6 percent). Here insurance coverage refers to the status of the adult most knowledgeable about children in the family at the time of the survey. A family “put off needed care” if anyone in the family postponed medical care last year for lack of health insurance or money. Moderate-work, low-income families experience higher rates of uninsurance (42 versus 36 percent) and are more likely to put off needed care (14 versus 9 percent) than high-work, low-income families.

Consistent with a wide range of other data, the 2002 NSAF data indicate that on average, children in lower-income households fare worse than children in higher-income households on a host of indicators. For example, among school-age children and adolescents, those living in families with income below 200 percent of the poverty level are less likely to be highly engaged in school activities and more likely to exhibit high levels of emotional and behavioral problems than children in higher-income families (Vandivere, Gallagher, and Moore 2004). In addition, a greater proportion of low-income children is in fair or poor health than higher-income children (8 versus 3 percent). Lower-income children are also more likely to live in stressful home environments and with parents reporting symptoms of poor mental health than higher-income children (Golden 2005).

FIGURE 4. Health-Related Hardships among High- and Moderate-Work, Low-Income Families and High-Work, Middle-Income Families



Source: 2002 National Survey of America's Families.
 Note: Weighted using the person-level weight of the most knowledgeable adult.
 * Significantly different from high-work, low-income at the 90% level.

Considerable research documents the adverse consequences of growing up in poverty for children (Duncan and Brooks-Gunn 1997). For example, Korenman and Miller (1997) find that children who experienced early poverty were more likely to be “stunted” (below the 10th percentile in height for their age) than children who never experienced poverty. Smith, Brooks-Gunn, and Klebanov (1997) focus on the effects of early poverty on children’s cognitive development and consistently find poverty and persistent poverty are associated with lower test scores between the ages of 5 and 8.

Among low-income families (in fact among all families), parental work can theoretically have positive and negative influences on the well-being of children. If work allows parents to provide greater material resources to their children, to improve a broad array of family circumstances, and to serve as positive role models, work can have positive effects on children. If the low-wage jobs typically held by low-income working parents are high-stress, lack many attributes that allow middle-class parents to balance work and family, necessitate placing younger children in questionable child care settings, and require older children to take on burdensome household duties and to be unsupervised, work can have negative effects on children.

There is a considerable amount of research on how parental work influences child well-being—too much to be rigorously reviewed here—and the findings are decidedly mixed. Some researchers find maternal work has negative consequences for young children (e.g., Han, Waldfogel, and Brooks-Gunn 2001; Parcel and Menaghan 1994; and Vandell and Ramanan 1992), while others report no negative effects for school-age children (e.g., Belsky 1990; Perry-Jenkins, Repetti, and Crouter 2000). Focusing on low-income families, Ross Phillips (2002) finds, in general, parental work is not strongly associated with child outcomes.

Research based on welfare reform experiments in which welfare mothers were moving to employment suggests young children benefited from their mothers going to work if family income increased (Morris

et al. 2001 and Gennetian and Miller 2002). Some studies report adolescents experienced a rise in school-related difficulties when their mothers left welfare and began to work (Gennetian and Miller 2002), while others report improved mental health among teens when their mothers went to work (Chase-Lansdale et al. 2003).

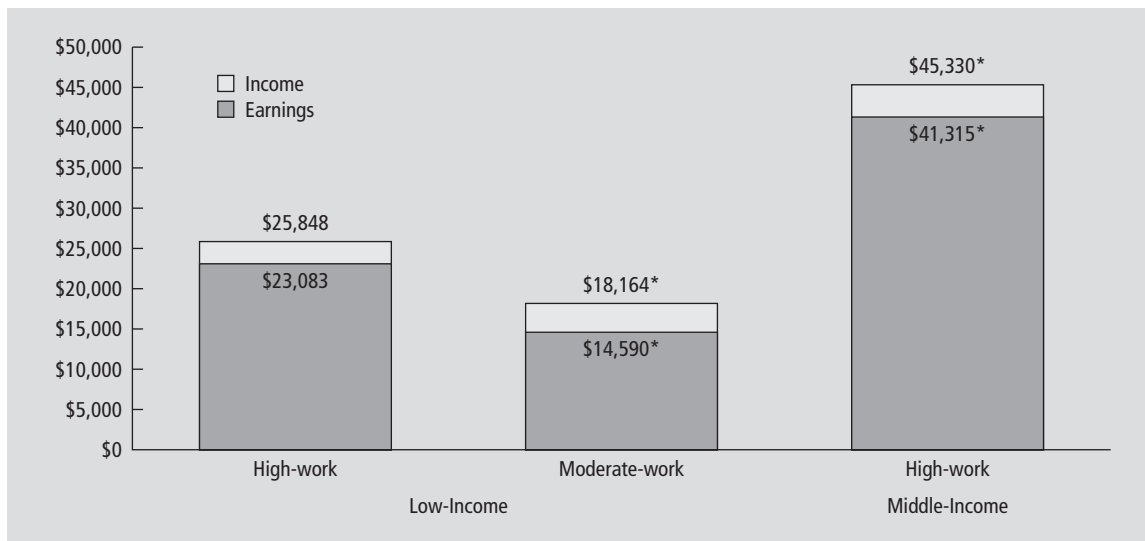
Income Sources of Low-Income Working Families

High- and moderate-work, low-income families get most of their income from earnings. The average pre-tax cash income of low-income families with a full-time, full-year worker is almost \$26,000 a year, 89 percent of which comes from earnings (figure 5).⁷ On average, their incomes place them about 33 percent above the poverty level. Even among families that work part-time or part-year—what we have categorized as “moderate-work” families—most income comes from earnings. Moderate-work, low-income families average just over \$18,000 a year in pre-tax cash income, with 80 percent coming from earnings. The incomes of these moderate-work families hover around the poverty level.

Given their earnings, most low-income families with a full-time, full-year worker benefit considerably from the EITC, although many are in the phaseout range. The EITC is the largest cash assistance program in the United States. It can provide a subsidy of up to \$4,200 for low-income working families with two or more children. Families with fewer children and adults with no children can receive smaller subsidies. The credit increases with earnings up to the defined maximum and phases out as a family’s earnings approach \$35,000.⁸

On average, high-work, low-income families can receive about \$2,000 a year in net federal income tax credits, which more than offset their payroll tax liability (about \$1,600 per year).⁹ Not surprisingly, moderate-work, low-income families enjoy the biggest benefits from the EITC because their

FIGURE 5. *Earnings and Income of Families by Work Status and Income Level*



Source: 2002 National Survey of America’s Families.

Note: Weighted using the person-level weight of the most knowledgeable adult.

* Significantly different from high-work, low-income at the 90% level.

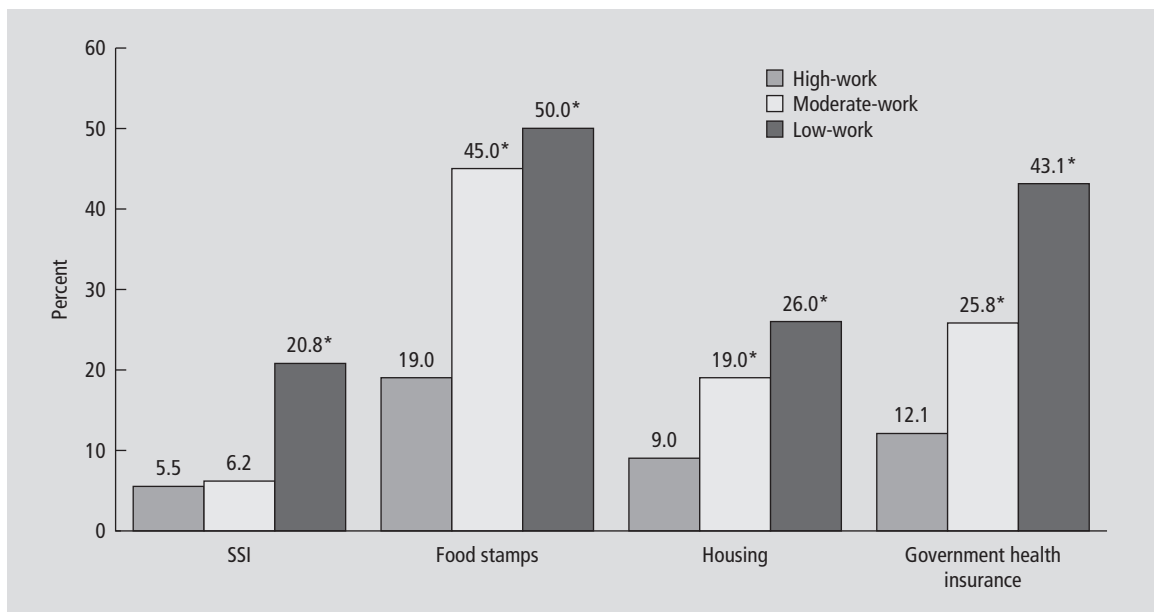
earnings fall lower in the phaseout range. The net federal income tax credits enjoyed by these families exceed \$2,500, and because they work less than high-work families, their payroll tax liabilities are also lower.

Welfare (the Temporary Assistance for Needy Families program, or TANF) is not a major source of support for high-work, low-income families or even for low- and no-work, low-income families. Only 5 percent of all low-income families with a full-time, full-year worker receive welfare. In addition, only a quarter of families that perform minimal or no work report receiving TANF benefits (Acs and Nichols 2005). In part, this low level of reliance on TANF reflects a major goal of federal welfare reform to move families from welfare to work.

Other public programs that assist low-income families are not a major source of support for most high-work, low-income families. Government public assistance programs targeted to low-income families and children include food stamps; the Women, Infants and Children (WIC) nutrition program; Supplemental Security Income (SSI) disability benefits; housing programs; and public health insurance programs. Eligibility for these programs typically focuses on the poorest families (with income below 100 percent of the poverty level). Therefore, many high-work, low-income families may be ineligible for these programs or eligible for such a small benefit that they choose not to participate.

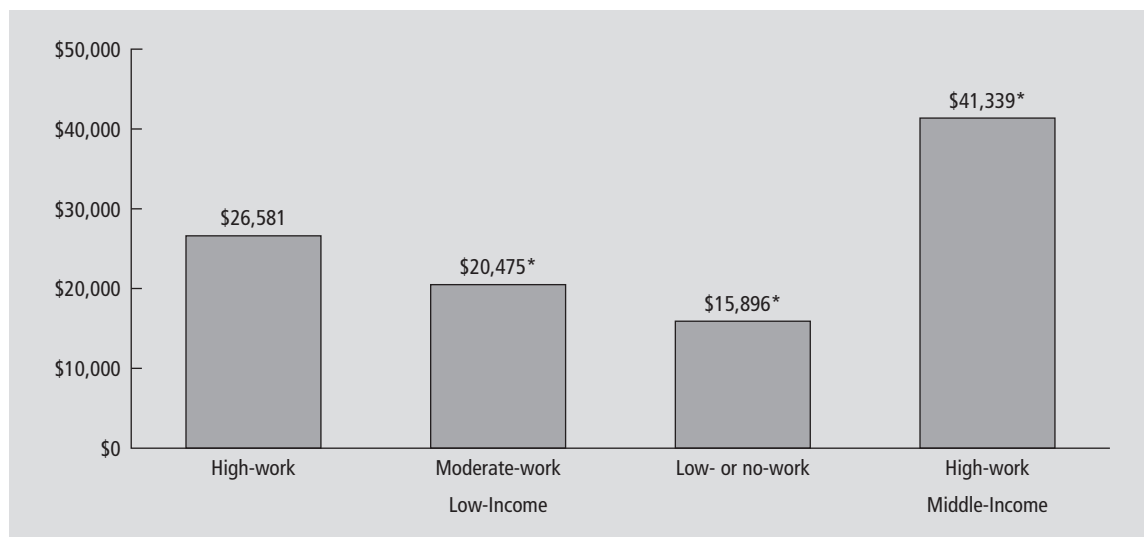
One in 20 high-work, low-income families receives SSI (figure 6). One in five receives food stamps, just under one in 10 receives housing assistance, and just over one in 10 participates in government-sponsored health insurance programs like Medicaid and the State Children’s Health Insurance Program (SCHIP). Since these public assistance programs are targeted at families lower down the income scale,

FIGURE 6. Public Assistance Receipt of Low-Income Families by Work Status



Source: 2002 National Survey of America’s Families.
 Note: Weighted using the person-level weight of the most knowledgeable adult.
 * Significantly different from high-work, low-income at the 90% level.

FIGURE 7. *Income after Taxes and Food Stamps by Work Status*



Source: 2002 National Survey of America's Families.

Note: Weighted using the person-level weight of the most knowledgeable adult.

* Significantly different from high-work, low-income at the 90% level.

we find more low-work, low-income families (with lower incomes than their high-work counterparts) receive these benefits. Indeed, among low-work, low-income families, 21 percent receive SSI, 50 percent receive food stamps, 26 percent receive housing assistance, and 43 percent are enrolled in government health insurance programs.¹⁰

After taxes and the cash value of food stamps are taken into account, substantial differences in income across work and income categories still persist. The mean “net income” (income after taxes and with the value of food stamps included) of low-income families with at least one full-time, full-year worker is \$26,581; the mean net-income for high-work, middle income families is about 50 percent higher (\$41,339, as shown in figure 7). The mean net income of moderate-work, low-income families is \$20,475, 25 percent lower than that of high-work, low-income families. The mean net income of low- and no-work, low-income families is 40 percent lower than that of high-work, low-income families.

Expenditures of Low-Income Working Families

Income alone, even after adjusting for taxes and food stamp receipt, cannot fully capture the economic circumstances of low-income working families. To obtain a richer understanding of their situations, it is important to also look at their expenses. How much of their incomes goes toward meeting basic needs, and how do their spending patterns compare to those of higher-income families? Addressing these questions is challenging because reliable data on the spending patterns by income level and employment status are limited.

Combining self-reported information on the amount of money families spend on housing, child care, and out-of-pocket health care from the 2002 round of the NSAF and data on family spending on other items like clothing from the Consumer Expenditure Survey (CEX), Acs and Nichols (2005) find that

in the absence of any unexpected expenses, the income of the average low-income family with a full-time, full-year worker is roughly in line with its expenses in any given year. Low-income families that do not have a full-time, full-year worker are not so fortunate—their basic expenses exhaust their incomes, on average, and one can only speculate on how they get by (borrowing money, not paying certain bills, etc.).

It is important to note that even if the incomes of low-income families with a full-time, full-year worker line up with their expenses, on average, it does not mean they are fully able to meet their needs. As the data on food and housing insecurity and forgone medical care suggest (see figures 3 and 4), some families may achieve the balance in expenditures and incomes at the cost of trimming expenditures that middle-income families would see as nondiscretionary.

Assessing what level of spending on necessities is “adequate” is inherently subjective, and we will not speculate on whether low-income families with at least one full-time, full-year worker can obtain adequate housing, child care, health care, and other items. However, it may be useful to compare the spending of low-income families with the spending of middle-income families. The more the spending of low-income families lags behind the spending of middle-income families on necessities like housing and child care, the greater the concern about adequacy for low-income families. High-work, low-income families spend 84 percent as much on housing and 85 percent as much on child care as high-work, middle-income families (Acs and Nichols 2005). Keep in mind that low-income families tend to be larger than middle-income families so their expenses have to cover more people. On the other hand, middle-income families are less likely to receive assistance paying for housing and child care from public sources than low-income families.

Finally, it is important to note that this comparison of income and expenses relies on averages. Some high-work, low-income families are doing considerably better than average while others are doing considerably worse. For example, about one-quarter of low-income families with a full-time, full-year worker are poor, and it is difficult to see how they can meet their basic expenses. In addition, some families have expenses that are much higher than average. For example, families in major urban areas will likely have higher housing expenses than those in less-developed areas. Further, health care spending is highly skewed, with a few unlucky families incurring enormous expenses.

How Do Low-Income Families Fare Over Time?

Up to this point we have focused on a snapshot of low-income families at one point in time. How these families fare from year to year remains an open question. One aspect of this question is whether families somewhat inevitably “grow out” of low-income status with age and experience. We have discussed evidence that shows low-wage workers, on average, experience wage growth over time. Low-income family heads also tend to be somewhat younger than middle-income families on average, although a fair percentage of these families have older heads. The low base wage of the jobs these workers hold suggests it could take many years for them to work their way above the low-income threshold, but for some low-income families this does happen.

Another aspect of how low-income families fare over time concerns their ability to react to and absorb events that negatively affect family income—in other words, how they manage and insure against risks. These risks include job loss and extended spells of unemployment, onset of disability, uncovered health expenditures, and divorce. Even including higher-income families, these negative impacts on income

are some of the major reasons leading to bankruptcy (Kowaleski 2000). It is also unclear how long it takes a high-work, low-income family to recover from an adverse event such as a job loss or a work disability. For example, over time the duration of unemployment spells has been increasing (Vroman 2005). While middle- and upper-income families may have assets, savings, and insurance to protect them from the dire economic consequences of such events, many low-income families do not (DeNavas-Walt, Proctor, and Mills 2004; Wolff 2004). In fact, over 25 percent of households have net worth less than what they would need to meet expenses for three months at the federal poverty level (Mensah 2005). As such, events that would be temporary setbacks for middle-class families can potentially unravel the lives of low-income families.

Conclusion

This paper illustrates that many children today are growing up in families with low incomes and with a parent working a substantial amount. The picture we have drawn here is one of low-income families with relatively high work effort at low wages, with jobs that often do not provide basic benefits, and with expenses roughly in line with their incomes. A subset of these families is experiencing material hardships related to food, housing, and health care, and many children in these families are not doing well on a range of measures. The economic circumstances of low-income families in part reflect their lower levels of educational attainment and poorer health (which could itself be a consequence of economic circumstances) than those families on the next rung up the economic ladder.

Families without a full-time, full-year worker, but with part-time or part-year work, are in a worse economic situation. These moderate-work, low-income families report higher levels of material hardship than low-income families with a full-time, full-year worker, and their incomes after taxes, cash transfers, and food stamps are 23 percent lower than those of high-work, low-income families.

This information can be useful in furthering discussions about low-income working families. There are many questions these discussions could address. For example, given the profile of these families and their diversity, should policymakers focus more narrowly on particular subgroups? Conversely, could more universal policies affecting all families regardless of income or work effort alleviate some of the difficulties these families face? Should specific issue areas, such as health insurance, paid leave, or child care, be targeted? Or should policymakers focus on interactions across these issues, since they are connected for many families? Given limited resources, what is the appropriate balance for policy between a focus on working families and helping families that have difficulty working, and to what extent might these be the same families? Finally, given the information on low-wage jobs and their characteristics, what role can and should the private sector (employers, civic associations, and unions) play in helping low-income families achieve more secure, stable lives? The facts laid out in this paper give a backdrop for beginning these discussions.

NOTES

1. This survey provides information on families' income and work status from 2001.
2. One limitation of focusing on families living with children is that we do not consider the work and circumstances of nonresident parents. Low-income noncustodial parents are a potential source of support for children and face similar work-related issues to those discussed in this paper (Sorensen and Zibman 2001).
3. A family is categorized as "moderate-work" if the adults average at least 1,000 hours in the prior year or total hours are at least 1,800 but no single adult works 1,800 hours. Families with some work hours but not meeting this criteria are categorized as "low-work." This definition is drawn from Acs and Nichols (2005).
4. This calculation excluded adults who reported their health limited work.
5. It is also higher than the minimum wage in the 12 states that have minimum wages above the federal minimum. The highest of these is \$7.35 in Oregon and Washington.
6. Based on data from table 2.6 in Mishel, Bernstein, and Allegretto (2005).
7. Pre-tax cash income includes earnings, cash transfers from public assistance programs like TANF, and private cash transfers from family and friends.
8. Specifically, a family with two or more children will be eligible for a large EITC until it reaches the defined maximum credit of \$4,200 (in 2003) when its income reaches \$10,500. After reaching the maximum credit, the family continues to receive the maximum credit until its income reaches a defined "phase-down point" (\$13,700 for a single parent with at least two children, \$14,700 for a married couple with at least two children). Beyond the phase-down point, the person's or couple's EITC gradually shrinks to zero when its income reaches the phaseout point (\$33,700 for a single parent with at least two children, \$34,700 for a married couple with at least two children).
9. Families do not report their EITC or tax liabilities directly in the NSAF data. These figures are the authors' calculations of what families are eligible for or owe based on individual level survey information and tax rules.
10. For more detailed information on public benefits and low-income working families, see Zedlewski et al. (2005).

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