Working, But Poor, In California

A Report By
The California Budget Project

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The California Budget Project

The **California Budget Project (CBP)** was founded in 1994 to provide Californians with a reliable source of policy expertise on state and local tax and budget issues. The mission of the CBP is to promote a better understanding of state fiscal policy issues in order to encourage the development of a healthy public sector based on a fair and equitable tax system. The CBP is supported by foundation grants, subscriptions, and individual contributions.

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This report is the product of a team effort on the part of the staff of the California Budget Project. **John Sladkus** and **Jean Ross** analyzed the data that serves as the basis of this report. **Kate Breslin** and **Scott Harding** researched the policy alternatives and prepared the initial drafts of this report. **Jean Ross** and **Kate Breslin** wrote the final report. **Jennifer Thacher** provided invaluable assistance as a fact checker, chart formatter, and proofreader. **Kim Wielinski** prepared the final manuscript for publication.

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WORKING, BUT POOR, IN CALIFORNIA

Executive Summary

Two popular myths endure about California's poor. One is that most poor people don't work or don't want to work. The second is that work will raise families out of poverty. As this report shows, California's changing economy presents a complex reality for working poor families. Despite the presence of one or more working adults in their households, over two million Californians live in poverty.

Working, But Poor, In California examines who the working poor are, where they live, and where they work. Economic and policy changes contributing to the prevalence of poverty among working families are examined. Finally, *Working, But Poor* presents a policy agenda that will ensure that work provides not only a job or a way off welfare, but the means to raise a family and secure a decent standard of living.

A Majority Of Poor Families Work

- **Nearly one out of five Californians lives below the poverty line.** In 1994, 18 percent of all Californians lived in poverty. Only six states have a greater share of their state's population living in poverty. Since 1980, California's poverty rate has increased 63 percent. Children are even more likely to live in poverty, with 27 percent of California's children living in poverty in 1994.

- **Half of all poor families include at least one adult with significant employment in the prior year.** Just under half of all poor families (48 percent) and just over half of those with children (51 percent) have one or more adults who worked the equivalent of at least a half time job for half of the prior year. An even larger number, 60 percent of all poor families, include one or more adults that worked at some point during the year.

- **One out of five working poor parents works full-time.** Many of the working poor labor long hours, yet live in poverty. One out of five adults in working poor families held a full-time job during the prior year. In many families, both parents worked. Due to a combination of low wages and less than full-time work, these families remain in poverty. In all, nearly two-thirds of the adults in working poor families (63 percent) worked during the previous year. In a small share of working poor families, 4 percent, both parents worked full-time but still had earnings below the federal poverty threshold. Among two parent families with children, the working poor averaged the equivalent of one and one-quarter full-time jobs worth of work during the prior year.

- **Poor families receive a majority of their income from work.** On average, poor families receive 58 percent of their income from wages and salaries. Working poor families receive a far greater share of their income from wages and salaries (88 percent). Public assistance provides, on average, 5 percent of the income of working poor families. One out of every five working poor families (19 percent) use welfare as a supplement to work or receive welfare

during the months when they are not in the workforce. A quarter of working poor households received food stamps during the prior year (25 percent). Many of the working poor probably qualify for food stamps but do not apply because they are not aware of their eligibility or because of the stigma attached to receiving public assistance.

The Faces Of The Working Poor

- **Nearly two out of three working poor families have children**. Families with children make up the majority of the working poor (63 percent). A full two-thirds of poor families with children are two parent households. Single motherhood, however, is correlated with poverty. Single mothers head one out of four working poor families with children (26 percent). In contrast, single mothers head 16 percent of all working families.

  Half of the single mothers heading working poor families never married, while the remaining half are divorced, separated from their spouses, or widowed. The never married make up a greater share of working poor families with children -- one out of eight -- than they do of all working families -- one out of fifteen.

- **Hispanics make up over half the working poor.** A majority of California's working poor families are Hispanic (53 percent). In contrast, Hispanics make up 22 percent of all of the state's working families. Among working poor families with children, an even greater percentage is Hispanic -- 66 percent.

- **Largest numbers of the working poor live in Los Angeles County**. Working poor families are more likely to live in Los Angeles County (37 percent) than are working families as a whole (27 percent). On the other hand, the working poor are less likely to live in the Bay Area, with only 12 percent of California's working poor residing in the Bay Area, as compared to 23 percent of all working families.

- **Nearly half of the adults in working poor families lack a high school degree.** Almost half (48 percent) of all adults in working poor families in California lack a high school diploma or GED. In an economy increasingly dominated by wage growth in jobs demanding high skills and higher education, the working poor are at a considerable disadvantage due to their relatively low levels of educational attainment.

- **The largest number of the working poor are employed in services.** The largest share of the working poor are employed in the service sector (37 percent). This is, however, identical to the percentage of all California workers in the service sector. The working poor are disproportionately represented in agriculture (13 percent as compared to 3 percent of all workers) and retail trade (17 percent as compared to 13 percent of all workers). Within the manufacturing sector, the working poor are more likely to work in the lower paid nondurable goods sector, as compared to the more highly compensated durable goods sector.

- **Most of the working poor lack health coverage.** Six out of ten working poor families lack health coverage from either private insurance or Medi-Cal, California's version of the state and federally funded Medicaid program. Ironically, a greater share of the nonworking poor have health coverage (64 percent) than do those that work. This discrepancy is primarily attributable to the larger share of the nonworking poor who receive coverage from Medi-Cal

(49 percent) as compared to the percentage who work and receive Medi-Cal (18 percent). For most of the uninsured working poor, the cost of health insurance is prohibitive. Purchasing a modest private health plan would consume 19 percent of the income of a family of four earning poverty level wages ($16,071).

- **1.4 million Californians live in working families just above the poverty line**. Four out of five families living just above the poverty level (those with incomes between 100 and 150 percent of the federal poverty threshold) include at least one adult who worked the equivalent of a half time job for half of the previous year (78 percent). Over four out of five adults in near poor families (81 percent) worked during the prior year. Near poor working families resemble their poor counterparts in many respects. Differences include the much lower likelihood that the near poor receive welfare as a supplement to work (only 9 percent received public assistance and 17 percent received food stamps) and a much higher share of near poor white families (37 percent). Over twice as many of the individuals in working near poor families lack health coverage (48 percent) as those in working families as a whole (19 percent).

Factors Contributing To The Persistence Of Poverty Despite Work

Poverty persists among working families as a result of changes in the economy and public policies. These trends have widened the gap between the rich and poor and diminished the opportunities available to many Californians.

- **Despite an improving economy, job seekers outstrip available jobs**. While California will add a projected 330,000 jobs in 1996, over a million remain officially unemployed; a million are not officially in the labor force, but want to work; and nearly half a million part-time workers want additional hours.

- **California's gap between rich and poor one of the widest in the nation.** Only four states have a greater disparity of income between the rich and poor. Moreover, between 1969 and 1989, inequality increased by a greater degree in California than in any state except Michigan. Analysts attribute the widening gap in incomes to the shift from manufacturing, which provided relatively well paid jobs to those with minimal education, to lower paid services. More recently, employment growth is polarized, with gains primarily in low paid, low skilled jobs on the one hand, and well paid jobs demanding high levels of education and experience on the other.

- **Most jobs that will be added require relatively low levels of education**. The U.S. Department of Labor projects that 60 percent of the jobs that will be added to the economy between 1994 and 2005 can be filled by individuals possessing no more education than a high school degree and short to moderate on-the-job training. In California, the largest number of jobs will be added in services, retail trade, and lower paid manufacturing occupations, such as apparel, that provide poverty or below poverty level wages.

- **Declining value of the minimum wage has eroded the standard of living for the working poor.** Even with the recent increase, the purchasing power of the minimum wage is below what is was during the 1960s and 1970s. The recent increase restores the value of the minimum wage to its 1983 level when the minimum wage was sufficient to lift a full-time worker out of poverty.

An Agenda To Make Work Pay

Working, But Poor, In California sets forth an agenda composed of strategies to reduce poverty among the working poor that have been tested in other states and which could be easily implemented in California. Proposed recommendations include the following:

- **Make the minimum wage a living wage.** Increase the minimum wage so that a full-time worker is not forced to raise a family in poverty and index it so that the purchasing power of the minimum wage is not eroded by inflation.

- **Institute a state Earned Income Tax Credit (EITC)**. Supplement the wages of low income working families with a state Earned Income Tax Credit, a refundable tax credit that provides income support to families with income from work, patterned after the federal EITC.

- **Make the unemployment insurance system work for the working poor**. When many of the working poor lose their jobs, they are ineligible for unemployment benefits because of low incomes and sporadic work history. Many are forced to turn to welfare for assistance. Revising the formula used to determine eligibility can make the unemployment insurance system work for the working poor.

- **Encourage education to boost earnings.** More highly paid growth occupations increasingly demand skills and educational levels in excess of those held by many working poor individuals. A strategy for improving the education of the working poor and of their children can help boost long-term earnings and break the cycle of poverty.

- **Promote access to health care.** Lack of access to health insurance is most prevalent among California's poorest working families. Many are eligible for Medi-Cal, but do not apply due to lack of awareness or the stigma of applying for public benefits. In the long-run, systemic reform is needed to assure that all California families receive the health care they deserve.

- **Increase the accessibility and availability of affordable child care.** Cost and availability of child care are major burdens for working poor families, especially those headed by a single parent. Efforts to expand the availability of subsidized care and make it more accessible to working families can help ensure that child care is not an impediment to a living wage.

- **Promote food stamps as a supplement to work.** Many of the working poor qualify for food stamps which stretch limited incomes and help ensure adequate nutrition. Participation in the food stamp program is low among working families, many of whom are unaware that those who work can often qualify for assistance.

INTRODUCTION

Two popular myths endure about California's poor. One is that most poor people do not work or do not want to work. A second is that work will raise a family out of poverty. As this report shows, California's changing economy presents a challenging reality for working poor families. Over two million Californians live in poverty despite the presence of one or more working adults in their household.[1] And wages, not welfare, account for the majority of income received by California's poor families.

Working, But Poor, In California examines the faces of California's working poor: who they are, how they live, and what can be done to assure that work provides a decent standard of living for California families. The persistence of poverty among families that work hard and play by the rules presents a challenge to Californians and their policymakers. Traditional approaches to reduce poverty have focused on those that do not work, yet a majority of California's poor families already include a working adult. Despite widespread public support for the notion that work should provide a minimally adequate standard of living, the number of working families that live in poverty continues to grow.

Poverty among working families results from a convergence of economic and policy trends. Structural changes in the economy, led by the shift from a manufacturing-based economy to one dominated by lower paid service jobs, changes in family composition, the declining value of the minimum wage, and erosion of employment linked benefits all contribute to the growth in the number of California's working poor.

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[1] This report defines working poor families as households with at least one adult between the ages of 25 and 64, a family income below 100% of the federal poverty level, and where either the head of the household or their spouse worked at least 520 hours over the course of a year. This translates into approximately 15 weeks of full-time work in one year, 26 weeks of half-time (20 hours) work, or 52 weeks at 10 hours of work per week. Two parent families where both adults are ill or disabled and single parent families where the head of household is ill or disabled were excluded from this analysis.

Despite the wealth and vitality of the state's economy, nearly one of out of five (18 percent) Californians lived in poverty in 1994.[2] Only six states and the District of Columbia had a larger share of their population living in poverty. Since 1980, the percentage of people living in poverty has grown more than five times faster in California than the rest of the nation.[3] California's rate of child poverty is even more troubling. More than one out of four (27 percent) California children under age 18 lived below the poverty line in 1994. While the percentage of children living below the poverty threshold stayed almost constant for the nation as a whole between 1985 and 1994, it increased by 25 percent in California over the same period.[4]

The impact of poverty, particularly on children, is severe. As a result of their lack of resources, poor families disproportionately suffer from a number of deprivations. Poor mothers are nearly three times more likely to receive inadequate prenatal care. The poor are more than twice as likely as the nonpoor to be the victim of violent crime. Half as many children from poor families graduate from college as those from nonpoor families. Children brought up in poor families are less likely to complete school and thus increase the chance that they will repeat the cycle of poverty for another generation.[5]

Welfare reform brings new urgency to the issue of poverty among working families. Across the political spectrum there is widespread agreement that those who are capable should work to support themselves and their families. Reflecting these concerns, recent federal legislation transforms the nation's welfare system, eliminating the entitlement to benefits and prohibiting assistance for most families that do not obtain work after two consecutive years on aid. Work is widely seen as the answer to welfare. However, it is less certain that work is the answer to poverty. For many Californians, even full-time work results in a life of poverty. The prevalence of work participation among families living in poverty suggests that employment alone is not a solution. In previous generations, economic growth could be relied upon to "lift all boats" -- to improve the well-being of those at the bottom, as well as the top. All indications suggest that this is no longer the case. Improving family incomes and reducing poverty among working families now requires a policy agenda that will ensure that work provides not only a job or a way off welfare, but also the means by which to raise a family and achieve a decent standard of living.

The Data Used For This Report

This report is based on data for California from the March Current Population Survey (CPS). The CPS is an annual survey of households conducted by the U.S. Bureau of the Census providing detailed demographic and economic information for households for the prior year. The CPS surveys income and household characteristics for the prior year.[6] Thus the 1993, 1994, and 1995 surveys examine family situations for 1992, 1993, and 1994, respectively.

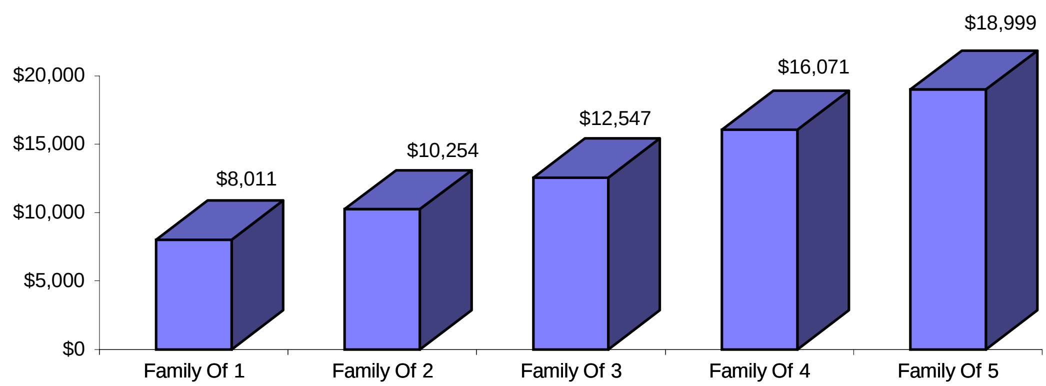
The sample used for this report includes households with at least one adult in their prime working years -- ages 25 to 64. The definition of family used in this report includes the head of

[2] Throughout this report the terms "poor" and "poverty" are used to refer to individuals whose household income is below the federally defined poverty threshold.
[3] California Budget Project, *How Does California Compare?* (July 1996).
[4] U.S. Bureau of the Census, unpublished data.
[5] Maya Federman, Thesia I. Garner, Kathleen Short, W. Borman Cutter IV, John Kiely, David Levine, Duane McGough, and Marilyn McMillan, "What Does it Mean to be Poor in America?" *Monthly Labor Review* (May 1996).
[6] This report uses pooled data from 1993, 1994, and 1995, adjusted to remove households surveyed in multiple years, in order to obtain a statistically reliable profile of California's working poor.

household; a spouse, if present; other adults residing in the household; and any children in the household. Poor families are defined as those whose total income from all sources falls below the federal poverty threshold. It should be noted that the CPS definition of income does not include the value of any food stamps or other non-cash assistance a family may receive. The poverty threshold is established based on income and family size. The federal poverty level in 1996 for different size households is as follows: $8,011 for one person; $10,254 for two; $12,547 for three; $16,071 for four; and $18,999 for a family of five.[7] This analysis excludes nonworking families if both parents in a two parent family or a single parent cites illnesses or disability as a reason for not working during the prior year.[8]

The families described in the report are drawn from actual households surveyed by the CPS. Their names and certain details of their lives have been added by the authors. However, basic information such as their income, work history, and demographic profile match real families. The amount received from the federal Earned Income Tax Credit (EITC) was adjusted to 1996 levels. Because of the increase in the federal EITC, this results in a substantial boost to most

Figure 1: Poverty Level Threshold By Family Size



Based on preliminary 1995 poverty levels adjusted to 1996 dollars.

family's incomes.

Official Definition Of Poverty Understates Its Depth In California

This report uses the federally determined poverty threshold as a measure of poverty because it is the most commonly accepted definition of poverty status. The poverty line is based on a formula that attempts to measure the level of family resources necessary to achieve a minimally adequate standard of living.[9] However, analysts raise a number of concerns with the current definition of poverty. Among their concerns is the fact that only minor changes have been made in the market basket of goods and measurements used to establish poverty thresholds since 1965. Other concerns with the current definition of poverty relevant to a discussion of the status of California's working poor include the failure of the current measure to adjust for variations in the cost of living and changes in work and family patterns.

[7] Based on preliminary 1995 poverty levels adjusted to 1996 dollars.
[8] Including these families has a very minor impact on the findings of this report.
[9] Constance F. Citro and Robert T. Michael, eds., *Measuring Poverty: A New Approach* (Washington, DC: National Academy Press, 1995). The poverty threshold is determined by family size and is indexed annually for inflation.

California's Cost Of Living Is High

Because the cost of living in California is substantially higher than most other parts of the country, most measurements of poverty -- which do not reflect regional costs of living -- fail to capture the depth of poverty in high cost states and localities. A particular concern is the state's high housing costs. Housing typically consumes the largest portion of household living expenses. The federal government suggests that households should pay no more than 30 percent of their gross monthly income for housing in order to have an affordable rent burden. In California, 80 percent of renter households with incomes of up to $11,324 paid in excess of 30 percent of their income on housing and 67 percent paid more than half of their income for housing in 1990.[10]

> ***California's Housing Affordability Gap***
>
> The most significant factor contributing to California's high cost of living is housing. Three-quarters (75 percent) of working poor families in California rent their housing. Because of the state's high housing costs they face a severe financial burden. California's statewide fair market rent for a two bedroom apartment ($787) is the fourth highest in the fifty states.[11] At this level, a family of four earning a poverty level income would pay 61 percent of its income in rent. This is far in excess of the recommended 30 percent, and would leave few resources available for food and other basic necessities.

Poverty Thresholds Fail To Reflect Changing Work And Family Patterns

The determination of poverty status has failed to keep pace with changes in the composition and work patterns of families.[12] The poverty standard was established at a time when relatively few women with young children worked. Consequently, the cost of obtaining child care was not included in determining what constituted a family's basic needs. For poor working families with children, the cost of child care presents a formidable burden. In Los Angeles County, for example, care for a child between the age of two and five in a family day care home averages $5,054 per year -- equivalent to 41 percent of the poverty level for a family of three.[13] Other work-related expenses, such as transportation and clothing, add to the financial burdens of the working poor.

In addition, the federal poverty measurement is based on the standard for a two-parent family and does not reflect the added burdens confronted by single parents. Poverty measurements, for example, do not distinguish between families where parents either pay or receive child support benefits. Nor does it reflect the number of children or potential workers present in a household. A single mother with two children in need of child care would have less discretionary income than a two parent family with one child. Yet, the poverty line for both families would be the same. A final weakness, significant in light of the large number of working

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[10] Edward B. Lazere, *In Short Supply: The Growing Affordable Housing Gap* (Washington, DC: Center on Budget and Policy Priorities, 1995).
[11] *Federal Register, Vol. 61, No. 35* (February 21, 1996). Fair Market Rents (FMR), according to the federal Department of Housing and Urban Development, are the amount that would be needed to rent privately owned, decent, safe and sanitary rental housing of a modest nature with suitable amenities. FMRs, which are updated annually, are the standard used in many federal low income housing programs.
[12] Constance F. Citro and Robert T. Michael, eds., *Measuring Poverty: A New Approach* (Washington, DC: National Academy Press, 1995).
[13] Child Care Resource and Referral Network, *Regional Market Rate Ceilings for California Child Care Providers: Mean Rates for Child Care* (July 1996).

poor without health insurance, is the failure of the current standard to adjust for the rising cost of health care.

What Might A Better Measure Of Poverty Show?

A recent National Research Council panel extensively researched the adequacy of poverty measurements and concluded by recommending the adoption of a new poverty standard. Among the Council's recommendations are adjusting the poverty threshold for regional differences in the cost of living, taking into account the amount of income available after basic expenses are met, and including the value of non-cash public benefits, such as food stamps. An index based on the panel's recommendations places California's poverty threshold at 17.8 percent above the national average.[14]

Until a better measurement is widely accepted, policymakers and analysts must rely on the current statistics in spite of the shortcomings. What these shortcomings mean for California is that the level of deprivation among families in poverty is far deeper than in parts of the country where the cost of living is much lower. Similarly, in a policy context, the impact of poverty on single parent households and households with children is even more severe than a cursory examination might suggest.

[14] Constance F. Citro and Robert T. Michael, eds., *Measuring Poverty: A New Approach* (Washington, DC: National Academy Press, 1995).

CHAPTER 1: THE MAJORITY OF CALIFORNIA'S POOR FAMILIES ARE WORKING FAMILIES

Popular stereotypes suggest that the poor live in poverty because they choose not to work or not to work full-time. Others believe that only those who rely on public assistance live in poverty and that work, in and of itself, insures a decent standard of living. In reality, the majority of poor families include at least one working adult. For these families, work provides insufficient wages or insufficient hours to lift a family out of poverty. Many poor families rely exclusively on earnings from work and struggle to get by on low-wages and or part-time work. Yet despite substantial work effort, these families still have earnings and income so low that they live in poverty.

This report defines working poor families as households with one or more adults who worked at least 520 hours during the previous year with incomes below the federal poverty threshold. This definition was chosen in order to focus on those families with a significant connection to employment. The definition of working used by this report includes anyone who worked at least the equivalent of a half-time job for at least half the year. In addition, this report uses the Bureau of the Census' definition of full-time work as at least 35 hours of work per week for at least 50 weeks per year. Finally, only households with at least one adult between the age of 25 and 64 are used in the analyses presented in this report.

- Over 4 million Californians, including 2 million children, live below the poverty line in families with at least one able-bodied adult between the ages of 25 and 64.

- Over 2 million Californians (2,093,000) live in families with incomes below the federal poverty threshold despite the presence of one or more adults with significant work effort in the household. Among them are 1,018,000 children under the age of eighteen.

- Wages and salaries provide, on average, 58 percent of the income of poor families, with public assistance providing 24 percent, and a variety of other sources making up the remainder.

- Some 783,000 poor families include at least one adult who worked at any time during the past year -- 60 percent of all families living in poverty.

- Just under half (48 percent) of all poor families and just over half (52 percent) of poor families with children meet the definition of working poor used in this report -- at least one adult who worked the equivalent of a quarter during the prior year.

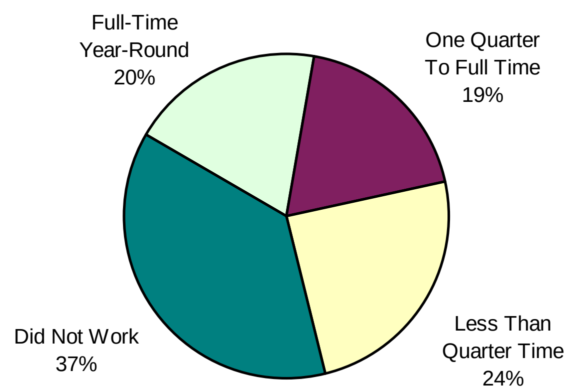
Many families cannot be easily categorized as either the working or nonworking poor. Most poor families that receive public assistance have recent work experience. This group includes families that use public assistance as a temporary safety net when a job is lost due to a layoff, disruption in child care, family illness, or other crisis. Many of these families receive public assistance for relatively short periods. In other families, a parent may be working but the family remains eligible for some level of assistance as a result of low earnings.

- Some 74,900 families report using public assistance as a supplement to wage income during the prior year. Among families whose income included both work and welfare, work provided an average of 63 percent of the family's total income with 32 percent coming from public assistance.

Work Effort Of Poor Families With Children

Children stand out as the poorest of California's residents, with over one out of four (27 percent) living in poverty. Approximately half of the children in poverty live in working poor families -- just over a million California children. California's poor families with children rely on wages and salaries as their primary source of income. Families with children make up 62 percent of the state's working poor. More than one out of every four (28 percent) working poor families includes at least one full-time worker and many have two working parents.

Figure 2: Work Effort Of Poor Adults With Children



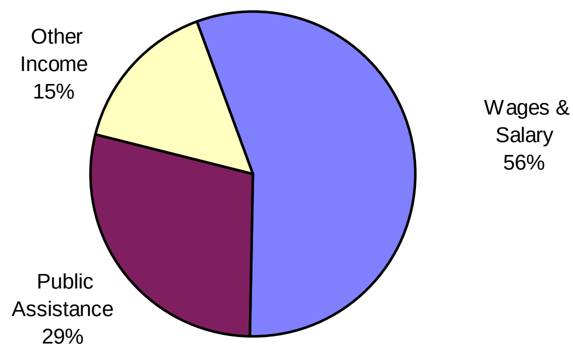
- One out of five (19 percent) families with children live in poverty. Over 392,500 poor families with children (51 percent) have a significant connection to the workforce -- meaning that one or more adults in the family worked at least one quarter time during the prior year.

- Earnings from wages and salaries provide, on average, 83 percent of the household income for working poor families with children.

- Two-thirds of working poor families -- 258,000 -- are two-parent families. In about one out of twenty (4 percent) families, both parents worked full-time. At least one parent worked full-time in 60 percent of two parent working poor families. In two-parent working poor families, the combined work effort of both parents averaged 50 hours per week and 53 weeks per year, equivalent to one and a quarter full-time jobs per family.

- Single parent working poor families, one out of three poor families, averaged 38 hours of work per week for 42 weeks per year.

Figure 3: Poor Families With Children Receive Most Income From Work
(Average Percent Of Income From Source)



Many Working Families Without Children Are Also Poor

Over a quarter of a million Californians without children are also working, but poor. This group includes single individuals, married couples, and unrelated individuals living in the same household. Relatively few working poor families without children are married, only 15 percent. Single men make up 48 percent of working poor households and single women the remaining 38 percent. The childless constitute just over a third of all working poor households (38 percent).

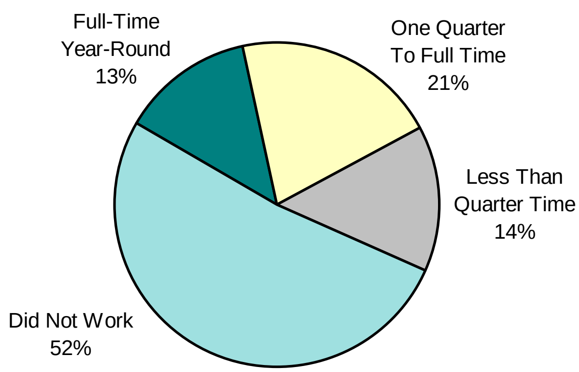
- Over a third of the adults in working poor households without children worked full-time (35 percent). Nearly four out of ten (39 percent) working poor households without children include at least one full-time worker. Some 3,700 of these households included two full-time working adults.

- Working poor families without children receive, on average, 89 percent of their total income from wages and salaries. Virtually none of their income comes from public assistance. This reflects the fact that families without children are not eligible for AFDC and therefore are not eligible to use welfare as a supplement to work.

- The low incomes of these households is, in part, attributable to the lack of year-round work. Heads of working poor households without children worked an average of 35 hours per week, but for only 40 weeks out of the prior year. In the small number of married households, spouses worked relatively few hours -- 17 hours per week and for only 16 work weeks.

- Childless working families are less likely to receive public assistance (1 percent) or to utilize food stamps (16 percent) than are poor families with children.

Figure 4: Work Effort Of Poor Adults Without Children



Most Poor Working Families Do Not Receive Food Stamps

Next to housing, food is generally considered the second most costly housing expense for low income households. For many poor households, the federal food stamp program enhances their ability to stretch their budgets and purchase nutritious food.[1] Researchers find that food stamps increase the nutritional well-being of poor families.[2] However, among working poor families with children only 31 percent received food stamps at any time during the prior year, even though many more likely qualify for some level of benefits. Some who are eligible based on their income are ineligible because they have too many to assets to qualify for food stamps. In addition, many of the working poor fail to utilize this valuable supplement, either because they are unaware of their eligibility or because of the stigma placed on utilizing public assistance.

- Only one out of four working poor families used food stamps at any point during the prior year. Of these, 15 percent used them for the entire year, with the remaining 10 percent using them for less than the full year.

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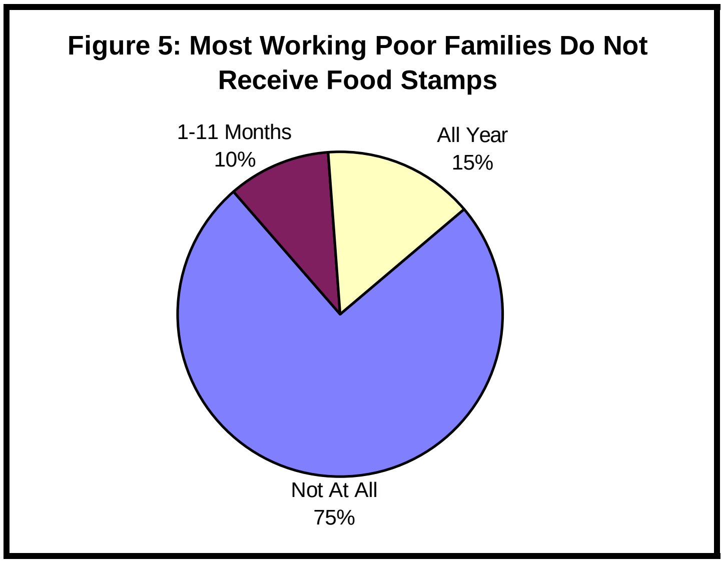
[1]The U.S. Department of Agriculture developed four food plans to measure standards of family food use and costs: thrifty, low-cost, moderate, and liberal. The Thrifty Food Plan (TFP) is the least expensive. The TFP is used to determine food stamp allocations. It is not based on actual food consumption patterns. Studies have indicated that the TFP cannot provide a nutritionally adequate diet, while increased food expenditures can result in higher nutritional quality for those households. See Mary Ellen Natale and David A. Super, "The Case Against the Thrifty Food Plan as the Basis for the Food Component of the AFDC Standard of Need," *The Clearinghouse Review*, Vol. 25, No. 2 (June 1991) "A Review of the Thrifty Food Plan and its Use in the Food Stamp Program," Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition of the Committee on Agriculture, U.S. House of Representatives (April 1985).

[2] Institute for Women's Policy Research, "Food Stamp Participation and the Economic Well-Being of Single Mothers" (February 1995).



- Only 17 percent of working poor families with children received food stamps for the entire year. Working poor families with children used food stamps for at least one month at nearly twice the rate as their counterparts without children (31 percent as compared to 16 percent).

Families Just Above Poverty Level Also Struggle

In addition to those living below the official poverty line, 2.3 million Californians live in families just above the poverty line -- between 100 and 150 percent of the poverty threshold. Nearly four out of five of the near poor (78 percent) belong to working families. The incomes of the near poor are so low that these families would be considered poor by almost any standard.[3] The near poor are similar in many respects to the working poor, with several significant differences highlighted below.

- An even greater share of families (77 percent) just above the poverty line have at least one adult who worked the equivalent of a calendar quarter during the prior year. Among families with children, the share of working families is even higher -- 81 percent.

- An average of 80 percent of the income of working families with incomes between 100 and 150 percent of poverty comes from wages. Only 3 percent comes from public assistance.

- Fewer families at this income level receive assistance from either welfare (9 percent) or food stamps (17 percent) during the prior year. Somewhat more families with children received public assistance at some point during the year -- 12 percent received public assistance and 20 percent received food stamps.

- Nearly half of those in working near poor families (48 percent) lack health insurance, some 817,000 Californians, including 303,000 children. Only 13 percent of the near poor receive Medi-Cal, and 39 percent have employer provided or other private coverage.

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[3] For a family of three, 150 percent of the 1996 poverty threshold is equal to an income of $18,821. As a comparison, the 1994 median income for California families with children with one adult between the age of 25 and 64 was $40,432.

Chapter 2: The Faces Of California's Working Poor

The working poor can be found throughout California in the inner-cities, suburbs, and in rural counties. Families of all races and ethnic groups are among the working poor. Many poor families have two parents, but single parent families are more likely to be poor. The largest share of the working poor are Hispanic -- one out of two working poor families are Hispanic, two out of three among those with children. Poor workers can be found in every industry, although the largest number are employed in the service sector. While the working poor have many similarities with the California population as a whole, they are also significantly different than their nonpoor counterparts.

- Nearly four out of ten (37 percent) working poor families live in Los Angeles County, as compared to 27 percent of all working families. Poor working families, particularly, those with children, are far less likely to live in the San Francisco Bay Area than are their nonpoor counterparts - 12 percent of the working poor live in the Bay Area as compared to 23 percent of all working families. Only 7 percent of working poor families with children live in the Bay Area, reflecting the area's extremely high cost of housing. Working poor families are also more likely to live in the Central Valley, from Bakersfield to Redding, than are their nonpoor counterparts.

  The overwhelming majority -- 95 percent -- of the working poor in California live in metropolitan areas of the state.[1] Just 4 percent of the state's working poor live in rural areas, identical to the share of working families overall. Working poor families are more likely to live in the inner-city, with 43 percent reporting they live in central cities, in contrast to 35 percent of all working families. Fewer of the working poor live in metropolitan areas outside the central city, only 47 percent as compared to 58 percent of all working families.

[1] As defined by the Census Bureau's definition of a Metropolitan Statistical Area (MSA). MSAs are areas with a concentrated population of at least 50,000 people and include complete counties.

- The largest number of workers in poor families work in the service sector, 37 percent. Retail trade (17 percent), manufacturing (15 percent), and agriculture (13 percent) also employ large numbers of the working poor. The working poor are three times more likely to be employed in agriculture than are California workers as a whole. The working poor are under represented in relatively higher waged industries of public administration (1 percent versus 5 percent), banking (2 percent versus 7 percent) and professional services (14 percent versus 24 percent) as compared to all working persons.

  While the share of working poor employed in manufacturing is nearly identical to the percentage of all workers, the poor are 50 percent more likely to be employed in the production of nondurable goods where wage levels are generally significantly lower. For the first six months of 1996, weekly wages in durable manufacturing averaged $565, while those in nondurable goods averaged $470.[2]

  Similarly, the working poor are concentrated in lower wage occupations. While a third of the California workforce is employed as managers or professionals, only 9 percent of the working poor are in these classifications. Moreover, nearly three quarters of managers and professionals among the working poor (73 percent) are self-employed where wages and benefits are not likely to compare to those in larger organizations.

  More than one out of four poor workers (27 percent) are in a service occupation, as compared to 11 percent of the workforce overall.

- Over half of the working poor families in California are Hispanic (53 percent). Just under a third are White (31 percent), and nearly one in ten (9 percent) are Black. Among working poor families with children, the share that are Hispanic is even higher - two out of three, while slightly more than one in five (21 percent) are white.

- Among working poor families with children, two out of three are two parent families (66 percent). However, one out of every four (26 percent) of these families is headed by a single

Sandra Myers
California's Working Poor

Sandra Myers (not her real name) is a single African-American mother with one young child, living in Oakland. Sandra worked full-time for 26 weeks of the year cleaning a Berkeley movie theater.

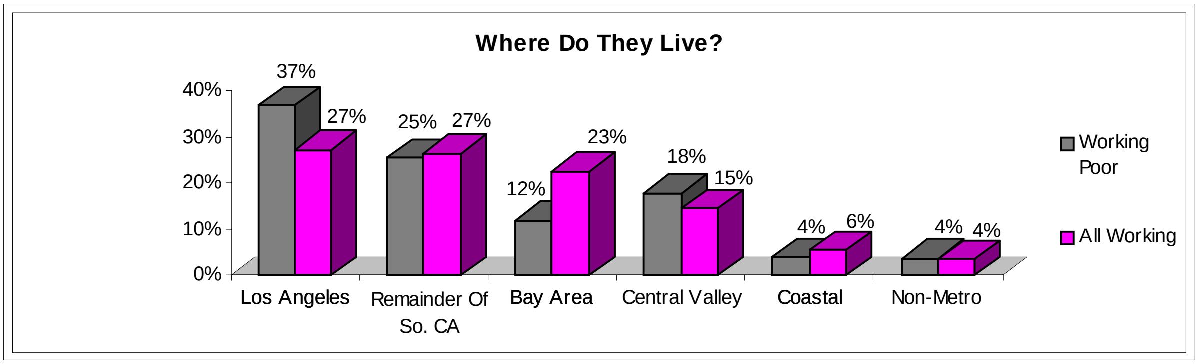
Sandra relied on Aid to Families with Dependent Children (AFDC) for part of the year and food stamps for the entire year. The family received Medi-Cal when they received AFDC. Sandra might have avoided going on to AFDC if she had been eligible for unemployment insurance. However, her earnings were too low for her to qualify for unemployment insurance benefits.

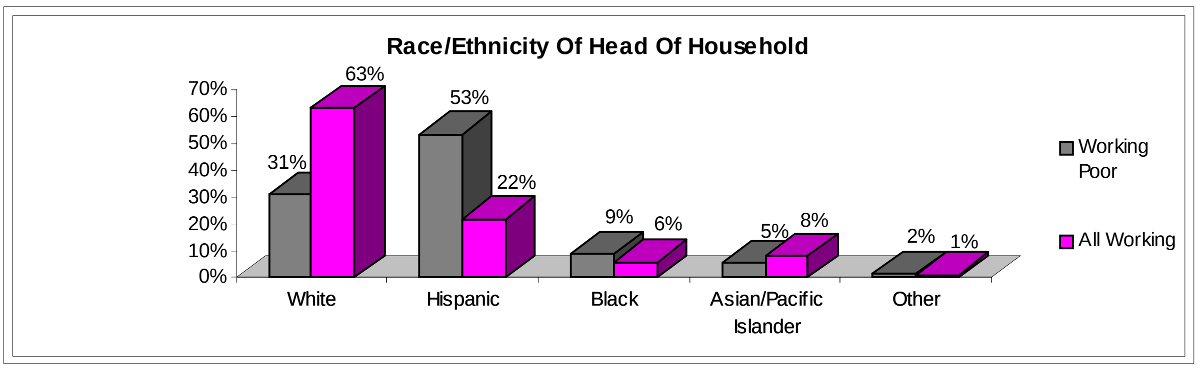
The Myers' 1996 Income

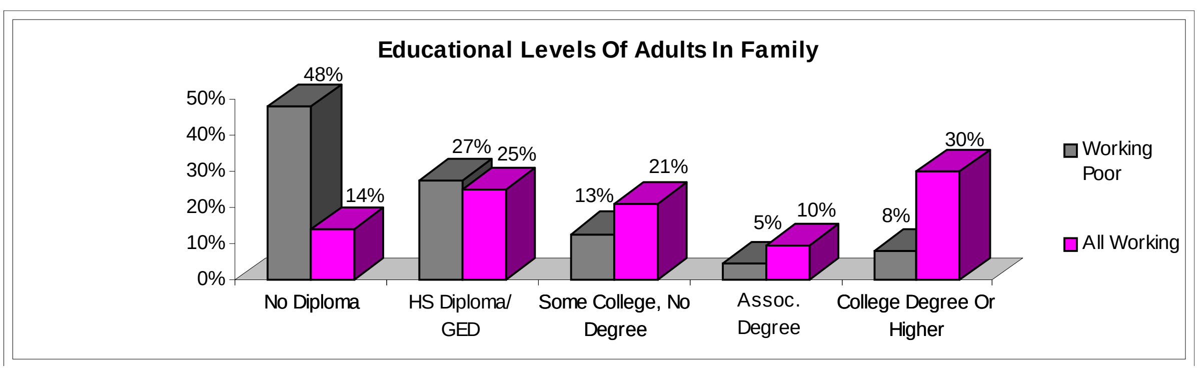
Earnings	$4,600
less payroll tax	($398)
AFDC	$2,416
Food Stamps	$3,000
EITC	$1,564
Total Income	$11,182
Poverty Line	$10,254
Amount Above/Below the Poverty Threshold	($928)

[2] U.S. Department of Labor, "Current Employment Statistics" (July 16, 1996).

Figure 6
How Do California's Working Poor Compare To Other Families?







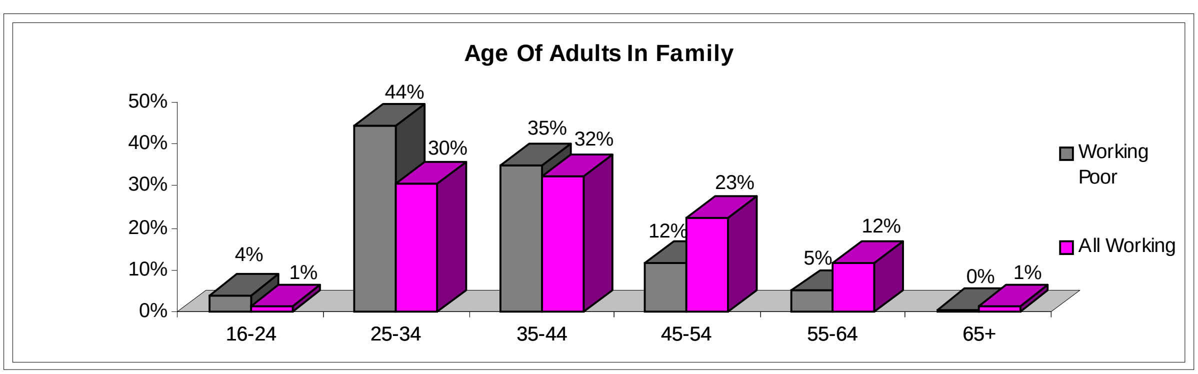
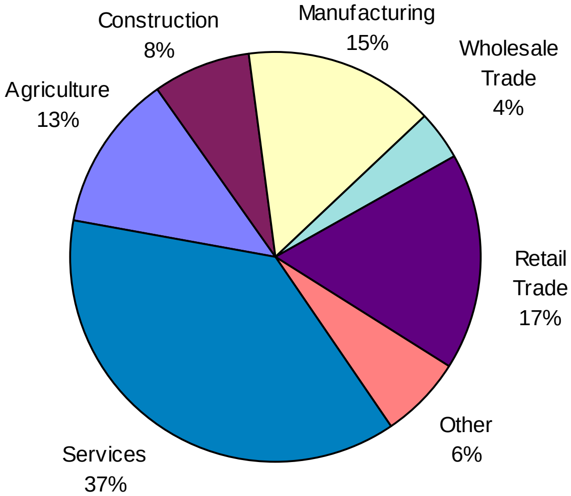
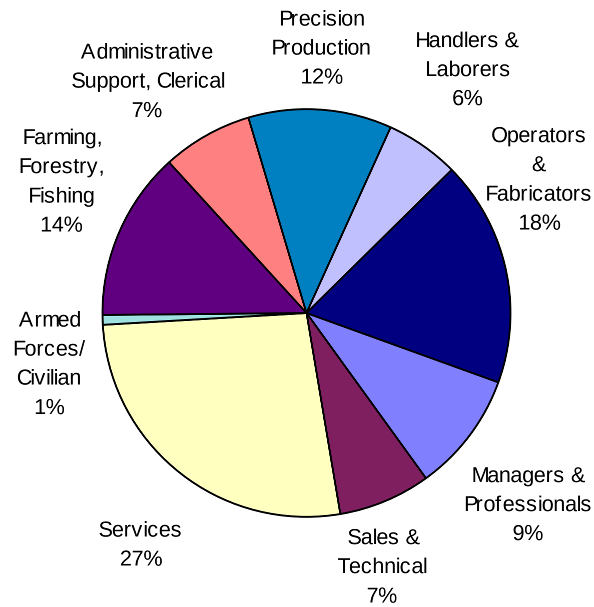


Figure 7
Who Are California's Working Poor?

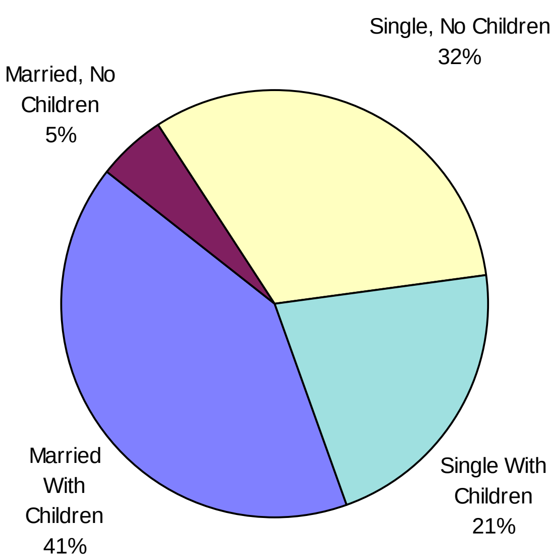
Where Do The Working Poor Work?
(Industry Of Adults In Working Poor Families)



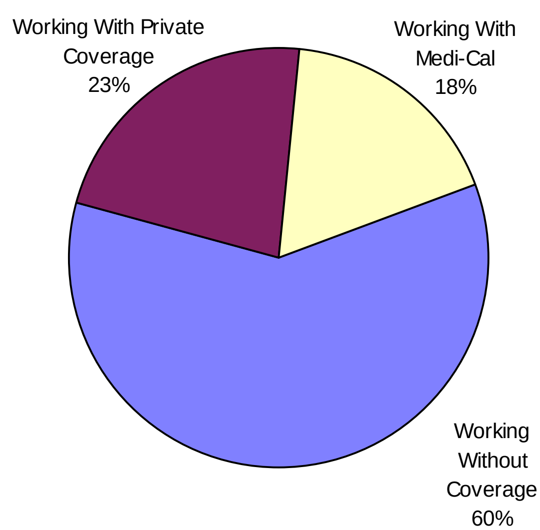
Where Do The Working Poor Work?
(Occupation Of Adults In Working Poor Families)



Composition Of Working Poor Families



How Many Have Health Coverage?



mother, sixty-three percent higher than the rate of single motherhood among all working families.

- Women head up 40 percent of working poor families, while only 30 percent of all working families have a female head-of-household.

- Nearly half of the adults in working poor families (48 percent) lack a high school degree, as compared to 14 percent of the adults in all working families. Nearly a third (27 percent) of the adults in working poor families have a high school degree and only 8 percent have graduated from college. While education alone does not guarantee economic well-being, higher levels of educational attainment are strongly correlated with higher incomes. The significant gap in levels of educational achievement appears to keep many of the working poor from attaining better paying jobs.

- Working poor families are more likely to be headed by a younger adult. Nearly half (46 percent) of working poor families are headed by someone under the age of 35, as compared to 32 percent of all working poor families. While some of these families may realize higher incomes as they grow older, recent research suggests that poor families are unlikely to move to higher income groups.[3]

- Of the 1.7 million poor Californians without health coverage, 1.2 million are workers and their families. Six out of ten persons in working poor families lack health coverage. Of those in working poor families without coverage, 532,000 are children. Three out of four poor children without health insurance live in working families.

- Only one out of five (21 percent) working poor families are homeowners, reflecting the high cost of homeownership in California. Of the remainder, 79 percent rent, and 3 percent neither pay rent or own.

[3] Sheldon Danzinger and Peter Gottschalk, *America Unequal* (Cambridge, MA: Harvard University Press, 1995).

CHAPTER 3: ECONOMIC & POLICY CHANGES HAVE INCREASED THE RANKS OF THE WORKING POOR

Both changes in the economy and public policies contribute to the rise in the number of working poor. Despite the strength of the state's current economic recovery, the largest numbers of new jobs now being created pay relatively low wages and the gap between high and low wage workers continues to grow. Growth in the number of working poor is compounded by the drop in the number of employers that provide health insurance and by changes in California's tax policies that increase the burden of taxation on low income families. While expansion of the federal Earned Income Tax Credit makes up part of the gap, California's working poor are falling further behind.

This report examines the status of the working poor during 1992 through 1994, a period spanning the end of the recession and beginning of the state's economic recovery. While economic conditions have improved, there are few indications that the working poor have shared equally in the benefits of an improved economy. Research on national trends suggests that low income workers are working more and that their numbers are increasing.[1] In addition, public policies, both at the state and federal level, have limited the benefits received by many of the working poor. Recent changes to the food stamp program enacted as part of federal welfare reform, deterioration in the purchasing power of the minimum wage, and reductions in public assistance all serve to reduce the resources available to California's working poor.

Economic Changes Contributing To Working Poverty

Analysts point to structural changes in the economy that limit the number of well paid jobs for workers with less formal education as a significant factor contributing to the growth of poverty

[1] Rebecca M. Blank and Rebecca N. London, "Trends in the Working Poor: The Impact of Economy, Family, and Public Policy" (May 1994). Paper prepared for the series *New Urban Poverty: Poverty and Urban Families* organized by the Center for Social Concern, University of Notre Dame.

despite work. The shift away from manufacturing's higher paid jobs and the growth of the lower paid service sector has diminished opportunities for many. A related trend is the bifurcation of occupational structure, with growth in employment concentrated at the top in highly skilled, highly paid jobs and at the bottom in low wage jobs with little room for advancement.[2] Other factors that limit the availability of better paid jobs for those without extensive education include technological developments which favor highly skilled employees, international competition, and declining rates of unionization that result in lower wages and larger disparities between low and high paid workers.[3]

In California, the number of persons seeking employment still far outstrips the number of available jobs. California lost nearly a million jobs during the recession of the early 1990s, the deepest in the state's history since the 1930s.[4] Approximately three quarters of these jobs were, according to the state's Department of Finance, directly or indirectly related to reductions in federal defense spending.

California's unemployment rate has fallen substantially from its peak of 9.7 percent during the fall of 1992. However, unemployment in the state is still significantly higher (at 7.1 percent) than the national average of 5.3 percent and is expected to remain so through at least 1998.[5] While forecasters project that California will add approximately 330,000 new jobs during 1996, the largest number in almost a decade, over a million Californians remain jobless.[6] In addition to those officially counted as unemployed, a million Californians were not officially in the labor force, but still indicated that they wanted a job.[7] Finally, large numbers of those with part-time jobs, some 476,000 California workers, indicate that they want to work more hours than their employer is able to provide.[8]

Suzanne Villa
California's Working Poor

Suzanne Villa (not her real name) lives in downtown Los Angeles with two young children and one in junior high. The Villa's rent a two bedroom apartment for $880, which is equivalent to about 61 percent of the family's monthly income. Suzanne works full-time and year-round, 52 weeks of the year as a sewing machine operator for a well-known clothing maker.

Suzanne is 30 years old and has only a sixth grade education. She would like to go back to school to obtain a GED, but a full work schedule and a lack of evening child care prevents her from attending night classes.

The family is not covered by Medi-Cal and because Suzanne has a savings account for her children's education, the family is ineligible for food stamps. In 1996, the Villas will receive a federal Earned Income Tax Credit of $2,316, which raises their income enough to bring the family above the federal poverty level.

The Villa's 1996 Income

Earnings	$17,500
less payroll tax	($1,514)
EITC	$2,316
Total Income	$18,302
Poverty Line	$16,071
Amount Above/Below the Poverty Threshold	$2,231

2 Sheldon Danziger and Peter Gottschalk, *American Unequal* (Cambridge, MA: Harvard University Press, 1995).
3 Lawrence Mishel and Gary Burtless, *Recent Wage Trends: The Implications for Low Wage Workers* (Washington, DC: Economic Policy Institute, 1995 [http://epn.org/epi/epwage.html]).
4 Department of Finance, *Governor's Budget Summary 1995-96.*
5 Bureau of Labor Statistics, *State and Metropolitan Area Employment and Unemployment June 1996* (Washington, DC: U.S. Department of Labor, 1996). Table 2.
6 Department of Finance, *Governor's Budget Summary 1996-97* (January 1996).
7 Employment Development Department, Local Area Unemployment Statistics Current Population Survey Data (June 1996).
8 *Ibid.*

The effects of the recession have lingered longer in many parts of the state. Many counties in the Central Valley have unemployment rates well into double digits, ranging from 11.5 percent in San Joaquin County to 15.7 percent in Merced County. Unemployment is high even in the more populous counties such as Fresno (12.4 percent) and Kern (12.5 percent). Not surprisingly, these counties also have the highest rates of welfare recipiency in the state and among the lowest incomes. Fresno County, for example, ranked 37th among the 58 counties in personal income in 1993 and third highest with respect to the share of the county's children on AFDC.

Growing Gap Between Rich And Poor

Over the past several decades, earnings for highly skilled and educated workers in California have risen, while earnings and prospects for workers with less education and lower skills have stagnated or dropped.[9] As a result, the gap between California's rich and poor is one of the widest in the nation. California's wealthiest 20 percent earn 11 times more than those in the poorest 20 percent of the population and the gap continues to grow wider. While income inequality in the state closely mirrored the national trend for many years, it has risen at a much faster rate in California than in the rest of the nation since 1987. Between 1969 and 1989, only Michigan had greater growth in household adjusted income inequality than California. This trend toward growing inequality points to an increase in the number of working poor. Researchers attribute the recent rise in inequality to a rapid decline in incomes among the poorest households, as well as growth among high income earners.[10]

- Between 1969 and 1989, peak years in the business cycle, the inflation adjusted income for a California household at the twentieth percentile fell by 5 percent, that for the median income household increased by 16 percent, and at the eightieth percentile rose by 26 percent.[11] In contrast, within the U.S. as a whole, incomes at the twentieth percentile ***rose*** by 11 percent, while those at the eightieth percentile grew by 38 percent.[12]

- Measured from recession to recession, median family incomes also declined. From 1976 to 1994, California incomes at the twentieth percentile were down by 22 percent, down 3 percent at the median, but up by 15 percent for those at the eightieth percentile.

- Inflation adjusted hourly wages for men at the twentieth income percentile declined by 30 percent when measured from recession to recession (1967 to 1994) and 21 percent from peak to peak (1979 to 1989).

- While the incomes of women at the twentieth percentile rose in inflation adjusted terms, the gap between high and low income earners increase even among women when measured from 1976 to 1994. After narrowing for over a decade, the gap between high and low income women began widening in the late 1980s and into the early 1990s.

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[9] Stephen Levy and Robert K. Arnold, *The Outlook for the California Economy: Summer 1996 Update* (Center for the Continuing Study of the California Economy, 1996).

[10] Deborah Reed, Melissa Glenn Haber, and Laura Mameesh, *The Distribution of Income in California* (Public Policy Institute of California, July 1996) and Corporation for Enterprise Development, *The 1996 Development Report Card for the States* (1996).

[11] This type of analysis compares the income of a person at the 20th percentile over time. The 20th percentile is the point where 19 percent of the households have lower incomes and 80 percent have higher incomes.

[12] The following discussion of income inequality is drawn from Deborah Reed, Melissa Glenn Haber, and Laura Mameesh, *The Distribution of Income in California* (Public Policy Institute of California, July 1996).

In addition to the economic factors discussed above, changes in family structure and, in particular, the rising number of families headed by single mothers, contribute to the inequality gap. With fewer marriages and couples marrying later in life, increasing divorce and separation rates, and an increasing rate of out-of-wedlock births, there has also been a shift from married couple households to more single parent and non-family households which generally have lower incomes.[13]

Nearly half (45 percent) of all poor families with children are headed by a single mother, as compared to 21 percent of all families with children. Even among those that work, families headed by women are far more likely to live in poverty than those with two parents or a male head of household.

- Among all working families with children, 16 percent are headed by a single mother. In contrast, 26 percent of poor working families are single mother households.
- Half of the single mothers heading working poor families never married, while the remaining half are divorced, separated from their spouses, or widowed. The never married make up a greater share of working poor families with children -- one out of eight -- than they do of all working families -- one out of fifteen.
- Single women, even those without children, are more likely to live in poverty than are married couples. While women head 26 percent of all working households without children, they make up 40 percent of those that are working, but poor.

Deborah Alvarez
California's Working Poor

Deborah Alvarez (not her real name) is a single mother, currently separated from her husband, with a 10 year-old daughter. Deborah's sister lives with the family in their apartment, to help out with the high rents in the Los Angeles area.

Deborah is 39 years old. She has a 10th grade education and works as a home health aide for elderly individuals. Deborah worked 52 weeks of the year, about 27 hours per week. She might have worked more, but she was unable to get additional daytime hours. Since the family does not have a car, and Deborah does not feel comfortable taking public transport across the city at night, she was unable to boost her income by accepting home health shifts that end at midnight. The Alvarez family received $3,120 in food stamps, and an Earned Income Tax Credit of $2,040, which helped to supplement the family's earnings.

The Alvarez's 1996 Income

Earnings	$6,000
less payroll tax	($519)
Food Stamps	$3,120
EITC	$2,040
Total Income	$10,641
Poverty Line	$12,547
Amount Above/Below the Poverty Threshold	($1,906)

Most Jobs Will Be Added In Lower Wage Sectors

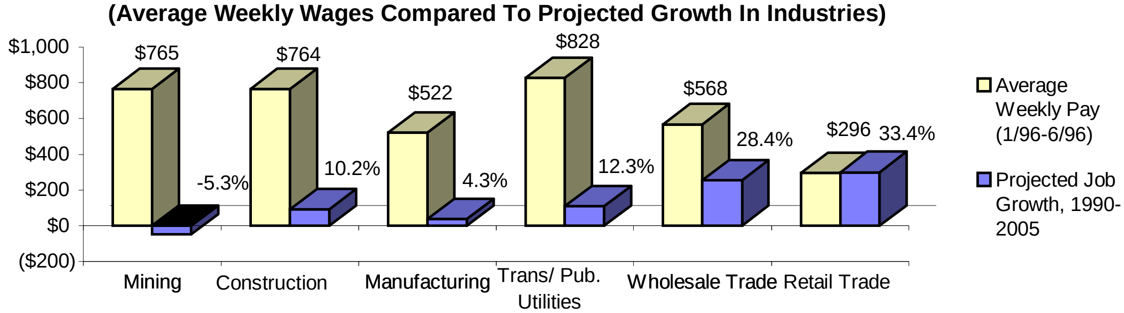
Employment projections give little reason to believe that the economy will address the changes leading to poverty among workers through growth alone. Nationally, the Department of Labor projects that 60 percent of the jobs that will be created between 1994-2005 will have no

[13] Daniel H. Weinberg, *A Brief Look at Postwar U.S. Income Inequality* (Washington, DC: U.S. Bureau of the Census, June 1996).

education requirements beyond a high school degree and can be fill based on prior work experience or short to moderate on-the-job training.[14]

Despite strength in many high wage industries, forecasters predict that most of the jobs created in California will be in relatively low wage industries. From January 1995 to March 1996, for example, the largest number of jobs were added in services, where many jobs tend to be part-time, low-wage, or both.[15] Services and retail trade are expected to add the greatest number of jobs over the next ten years; with both expanding by more than 33 percent over the decade. These two sectors alone are projected to add approximately 2.1 million jobs over 1990 employment levels, and will make up half of all California jobs by 2005.[16] In contrast, high technology firms shed approximately 41,500 jobs between 1984 and 1995 while doubling output.[17] The specific examples below illustrate the trends in the sectors employing large numbers of the working poor.

Figure 8: Highest Projected Job Growth Is In Low Wage Industries
(Average Weekly Wages Compared To Projected Growth In Industries)



Source: *Employment Development Department,* *Projections Of Employment* and *Bureau of Labor Statistics, unpublished data*
Notes:Transportation wages are not included in Tranportation & Public Utilties; EDD does not collect data on wages for services

- U.S. employment in the apparel industry has declined by 400,000 jobs since 1979, while California has added jobs. California now employs 16 percent of the nation's apparel workers, up from 8 percent in 1979. Employment in this industry is projected to increase by 19.6 percent between 1990 and 2005. Apparel is, however, a low wage industry, paying an average of $297 per week in California in 1996. At this rate, a full-year, full-time worker would earn $15,444, well below the poverty threshold for a family of four. Wage levels in this industry are slightly higher in the Los Angeles area, where most of the state's apparel jobs are located, ranging from $307 to $328 per week. Even this higher rate translates into an annual wage of approximately $17,056, barely above the poverty threshold.[18]

- Retail trade is anticipated to add 742,000 jobs to the California economy between 1990 and 2005, with the largest growth in eating and drinking establishments and food stores. Workers

[14] U.S. Department of Labor, Bureau of Labor Statistics, "BLS Releases New 1994-2005 Employment Projections (December 1, 1995).
[15] Stephen Levy and Robert K. Arnold, *The Outlook for the California Economy: Summer 1996 Update* (Center for the Continuing Study of the California Economy, 1996).
[16] Employment and Development Department, *Projections of Employment by Industry and Occupation California 1990-2005* (December 1993).
[17] Center for the Continuing Study of the California Economy, *California Economic Growth: 1995 Edition*.
[18] The following discussion of employment projections and wage levels is drawn from Employment Development Department, Projections *of Employment by Industry and Occupation, California 1990-2005* (December 1993), p. 9. Wage levels are from the U.S. Department of Labor, Current Employment Statistics for California (July 7, 1996). Full year earnings are based on 50 weeks of work per year.
[18] Employment Development Department, "California Labor Market Bulletin, Statistical Supplement" (February 1996).

in retail establishments receive an average of $296 per week, $15,392 per year, for their average of 30 hours per week of work, leaving the average earnings from a year-round job in retail trade below the poverty level for a family of four.

- Employment in durable goods manufacturing, which provides relatively well paid jobs to workers with minimal education, is forecast to decline by 43,000 jobs by 2005. In contrast to the high growth, low pay jobs, workers in these fields earn an average of $29,380 for full-time, full-year work.

- Nine of the fifteen occupations forecast to add the most jobs between 1993 and 2005 pay the average new employee less than $10 per hour. Seven out of the fifteen, accounting for 490,010 new jobs, pay less than $7.50 per hour. Waiters and waitresses are expected to post the largest growth, 109,830 jobs, and pay the average worker with three years' experience the minimum wage.[19]

- In contrast to the examples given above, the five occupations expected to lose the most jobs all pay over $10 per hour. Four out of five pay at least $18 per hour, equivalent to a full-time annual wage of $37,440.[20]

The Working Poor Often Lack Health Insurance

More than eight out of ten of California's uninsured are workers and their families.[21] The largest share of the working uninsured are in families living at or near poverty. Two-thirds of those without insurance of any form - public or private - are in families with earnings of less than $15,000 per year in 1993.[22] Over a third (35 percent)

Maria and Michael Bautista
California's Working Poor

Maria and Michael Bautista (not their real names), live with their four children in the City of Wilmington in Los Angeles County. Since their oldest child, Marilyn, is a senior in high school, and the other three are all over six, the Bautistas don't need to worry about paying for child care. However, Marilyn has sacrificed after school sports and other activities in order to be at home to take care of her younger siblings.

Both Maria and Michael work, though neither was able to find a full-time and year-round job. Maria, with only a first grade education, has been unable to find full-time work since 1992, when her steady job at the Long Beach Naval Station laundry ended. Michael, 40 years old, has a high school diploma and worked full-time for 32 weeks at a fast food counter in a strip mall. The family does not receive food stamps because they did not know that working families are eligible. They will receive the maximum Earned Income Tax Credit of $3,556, though their income is still more than $8,000 below the poverty level for a family of six.

The Bautista's 1996 Income

Earnings	$10,560
less payroll tax	($913)
EITC	$3,556
Total Income	$13,203
Poverty Line	$21,477
Amount Above/Below the Poverty Threshold	($8,274)

[19] Job growth as reported by the Employment Development Department in unpublished data. Wage levels as reported for Southern California counties in Employment Development Department, "California Labor Market Bulletin, Statistical Supplement" (February 1996).
[20] Ibid.
[21] E. Richard Brown, *Health Insurance Coverage in California, 1993: Uninsured and Medi-Cal Populations Increase, Job-funded Insurance Drops* (Los Angeles, CA: UCLA Center for Health Policy Research, April 1995).
[22] E. Richard Brown, "Health Insurance Coverage and the Uninsured in California" handout prepared for the Senate Budget and Fiscal Review Committee Retreat (February 2, 1996).

are in families living below the poverty line. Ironically, the nonworking poor are more likely to have health coverage, than are the working poor, since nonworking families are more likely to receive Medi-Cal. Only 40 percent of the working poor have coverage, as compared to 64 percent of the nonworking poor.

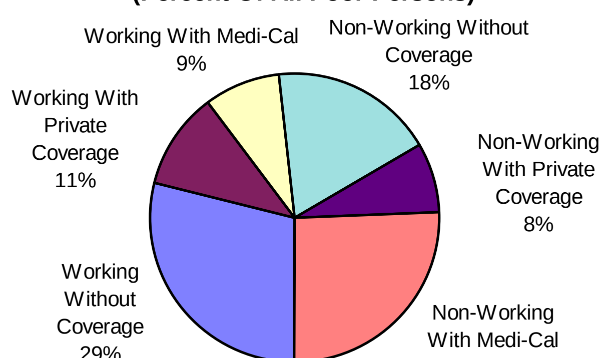
- The share of California workers covered by employer-provided health insurance fell from 56 percent in 1989 to 52 percent in 1993. If the share of the population covered by employer provided health insurance had stayed constant from 1989 to 1993, 1,288,000 more Californians would have had job-based coverage in 1993.[23]

- Over a third (38 percent) of those employed and earning less than $10,000 per year in 1993 had no employer provided health insurance. An equal percentage of those earning between $10,000 and $15,000 did not have employer provided coverage. In contrast, over nine out of ten California workers earning above $30,000 per year (92 percent) also received employer provided health coverage.[24]

- Most of the working poor cannot afford the cost of purchasing health insurance on their own. A single mother with two children would face an average annual premium of $2,072 for HMO coverage in the Los Angeles area or $1,992 in the Bay Area.[25]

- The number of Californians covered by Medi-Cal increased by 1,243,000 between 1989 and 1993. This increase is attributable to both the loss of coverage from other sources and the expansion of Medi-Cal eligibility for pregnant women and young children.[26]

Figure 9: Working Poor Less Likely To Have Health Coverage Than Non-Working Poor
(Percent Of All Poor Persons)



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[23] E. Richard Brown, *Health Insurance Coverage in California, 1993: Uninsured and Medi-Cal Populations Increase, Job-funded Insurance Drops* (Los Angeles, CA: UCLA Center for Health Policy Research, April 1995).
[24] Ibid.
[25] Based on the lowest cost basic HMO coverage available through the Health Insurance Plan of California, the state's small group plan for small employers.
[26] E. Richard Brown, "Health Insurance Coverage and the Uninsured in California," handout prepared for the Senate Budget and Fiscal Review Committee Retreat (February 2, 1996).

Among the factors contributing to the decline in health insurance coverage, particularly among lower paid workers, are the growth in part-time work; the relative decline in manufacturing employment; growth in retail and service employment, which are less likely to provide coverage; and the growth of low wage work overall. Lack of health coverage jeopardizes the health and finances of many poor families and also taxes the resources of the local safety net. When working poor families without health insurance need care, they are more likely to turn to the county health systems. Researchers estimate that public programs pay nearly four billion dollars for health care for workers and their families who lack health insurance in California.[27]

Recent improvements enacted at the federal level are not likely to increase coverage among the working poor. The federal measure, aimed at increasing the portability of insurance between jobs and providing access to coverage for those with pre-existing medical conditions, does little to address the high cost of health insurance for the working poor.

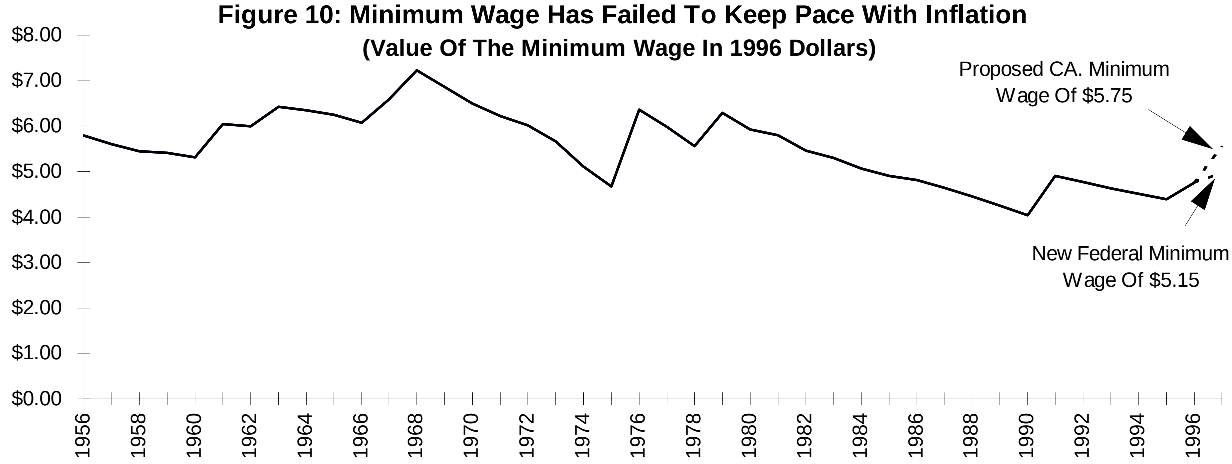
Government Policies Contribute To Poverty Among Working Families

The recent increase in the minimum wage represents a significant step in the right direction, however it is offset by developments such as the reductions in the food stamp program by welfare reform, which assists both the working and non-working poor. During California's fiscal crises of the 1990s, both safety net and tax programs assisting low income families suffered deep reductions.

Falling Value Of The Minimum Wage

The minimum wage continues to be a poverty wage. Until the recent increase, the purchasing power of the minimum wage was at its lowest value since 1955.[28] Even with the recent increase to $5.15, the minimum wage is still worth less than it was during most of the 1960s and

Figure 10: Minimum Wage Has Failed To Keep Pace With Inflation
(Value Of The Minimum Wage In 1996 Dollars)



[27] This figure includes 1.47 million employees or their dependents with Medi-Cal coverage and 4.6 million who received care through county indigent health services in 1992. E. Richard Brown, et al, *Health Insurance Coverage of Californians, 1989-1992* (UCLA Center for Health Policy Research, March 1994).
[28] The federal minimum wage will increase to $4.75 on October 1, 1996, and to $5.15 on September 1, 1997.

1970s, when earnings from full-time year-round work at the minimum wage was enough to lift a family of three above the poverty line. At $5.15, the minimum wage still leaves a full-time worker with an annual income below the poverty line for a family of three or more. While the proposed increase to $5.75 over two years in California makes additional headway, it too leaves wages from full-time minimum wage work below the poverty line for a family of three and below where it was in prior decades.

Much of the erosion of the value of the minimum wage occurred in the 1980s when nearly ten years passed without an increase. Before the minimum wage was raised to $3.80 in 1990, its purchasing power had dropped 27 percent since the last increase in 1981.[29] The increase in purchasing power of the 1991 increase still did not bring it up to its 1981 level in inflation adjusted terms. Had the 1981 minimum wage of $3.35 kept pace with inflation, it would be worth $5.80 today, significantly more than the new federal minimum or even that proposed in California.

A parent working full-time and year-round at the minimum wage cannot earn enough to bring a family of three above the poverty level without additional assistance. In fact, the minimum

Table 1: Minimum Wage Earnings And The Poverty Line

	Family Of 4	Family Of 3	Family Of 2	Family Of 1
Current Federal Minimum: $4.25				
Full-Time Minimum Wage[a]	$8,840	$8,840	$8,840	$8,840
1996 Poverty Level	$16,071	$12,547	$10,254	$8,011
Gap	($7,231)	($3,707)	($1,414)	$829
Minimum Wage As A Percent Of Poverty	55%	70%	86%	110%
October 1996 Federal Minimum: $4.75				
Full-Time Minimum Wage[a]	$9,880	$9,880	$9,880	$9,880
1996 Poverty Level	$16,071	$12,547	$10,254	$8,011
Gap	($6,191)	($2,667)	($374)	$1,869
Minimum Wage As A Percent Of Poverty	61%	79%	96%	123%
September 1997 Federal Minimum: $5.15				
Full-Time Minimum Wage[a]	$10,712	$10,712	$10,712	$10,712
1996 Poverty Level	$16,071	$12,547	$10,254	$8,011
Gap	($5,359)	($1,835)	$458	$2,701
Minimum Wage As A Percent Of Poverty	67%	85%	104%	134%
Proposed California Minimum: $5.75				
Full-Time Minimum Wage[a]	$11,960	$11,960	$11,960	$11,960
1996 Poverty Level	$16,071	$12,547	$10,254	$8,011
Gap	($4,111)	($587)	$1,706	$3,949
Minimum Wage As A Percent Of Poverty	74%	95%	117%	149%

[a] The federal minimum will increase to $4.75 on 10/1/96 and $5.15 on 9/1/97. The proposed California minimum of $5.75 would not apply until 3/1/98, at which point the poverty line will be higher due to the annual adjustment for inflation.

[29] California's minimum wage was increased to $4.25 in 1988. The federal minimum was increased to $3.80 in 1990 and to $4.25 in 1991.

wage is currently so low that many minimum wage workers qualify for food stamps and public assistance to supplement their earnings. Unless the minimum wage is regularly adjusted to keep pace with inflation, hundreds of thousands of California workers will keep slipping deeper into poverty as the value of their earnings erode due to inflation.

State Tax Policies

While California's tax system is widely considered among the most progressive in the nation, several recent changes negatively impact the state's working poor. Over the past six years, several provisions assisting low and moderate income taxpayers have expired or been suspended to raise revenues to address the state's budget gap. While California's working poor families pay no state income taxes, they pay significant shares of their income in sales, excise, and property taxes.[30] And, unlike many states, California does not provide a state Earned Income Tax Credit (EITC) which supplements the earnings of low income workers.

California's one refundable tax credit, the renters' tax credit, provides $60 to single and $120 to married taxpayers who rent.[32] As part of efforts to balance the state budget, the renter's credit was limited to lower income households in 1991 and 1992 and suspended entirely beginning in 1993. The current year's suspension of the renters' credit will increase the taxes of approximately 5.7 million Californians by $520 million on their 1996 tax returns.[33] The majority of households who formerly benefited from the renters' credit are poor or near poor -- 56 percent have incomes under $20,000.

Loss of the renters' credit is significant, since no other provision of the state's tax code specifically provides a majority of its benefits to low income households. In addition to the renters' credit, California formerly had a small, non-refundable credit for low income taxpayers. This credit was allowed to expire at the end of 1991. Costing just $21 million in lost revenues, this credit provided relief for two-parent families with incomes of up to $21,900.[34] The reduction in tax policies aimed at providing relief to the poor is in stark contrast to state tax policies for other groups over the same period. While programs targeted at low income families were eliminated, the state reduced the amount paid in taxes by business by $2 billion per year through the expansion or addition of various tax breaks.[35]

How Much Do The Poor Pay In Taxes?

The 20 percent of California families with the lowest incomes in the state have an average family income of $12,600. These families spend approximately 12 percent of their income on taxes according to a recent report. Even though California's progressive income tax imposes no liability on the working poor, they actually pay a greater share of their incomes in taxes than the middle 20 percent who pay 8.9 percent, or the wealthiest 1 percent, who pay 11.6 percent due to the high sales and excise tax burden on low income families.[31]

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[30] In 1995, a single earner family of three pays no state income tax on incomes of less than $19,700. A two-parent family of four does not pay tax until their income reaches $23,000.

[31] Michael Ettlinger, et al, *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States* (Citizens for Tax Justice and The Institute on Taxation and Economic Policy, June 1996).

[32] Refundable tax credits provide relief to families whose incomes are so low that they have no income tax liability.

[33] Franchise Tax Board, personal communication (January 12, 1995).

[34] Legislative Analyst Office, *Analysis of the 1991-92 Tax Expenditure Budget: Overview and Detailed Compendium of Individual Tax Expenditure Programs* (May 1991).

[35] California Budget Project, *Is This The Time To Grant A Corporate Tax Cut?* (July 2, 1996).

Food Stamp Benefits Reduced For The Working Poor

As part of the recent welfare reform measure, the food stamp program suffered a number of reductions that will limit the benefits available to the working poor. Adults without dependents who work less than twenty hours a week will be limited to three months of benefits within a three year period. Individuals who lose their jobs can receive an additional three months of food stamps once during a three year period. This provision may cause a hardship for seasonal workers who do not work certain months of the year, those who lose their jobs and experience longer spells of unemployment, and those who can only find less than twenty hours per week of work. In 1996, for example, 21 percent of California's unemployed over the age of 20 had been jobless for at least six months. The median length of joblessness among this same group is over thirteen weeks -- longer than the allowance provided by the new law for persons without children.[36]

All food stamp households, both working and nonworking, will see the amount they receive in food stamps reduced. For families with at least one worker, the reduction will average $356 in 1998, rising to $466 in 2002.[37] These losses are attributable to a reduction in the formula used to determine the amounts of benefits. Food stamps are a valuable and underutilized supplement for working poor families. As described in Chapter 1, many more working poor families are eligible for food stamps than currently make use of the program. Despite the value of food stamps as a supplement to work, welfare reform targeted this program for deep reductions. Nearly half of the total savings achieved through welfare reform come by reducing assistance provided in the form of food stamps. Most legal immigrant families will lose food stamps entirely, and the poorest of the poor -- those with incomes below 50 percent of the poverty line -- will absorb the deepest reductions.

AFDC Benefits Have Been Cut Consistently, Reducing Assistance For Poor Workers Trying To Escape Welfare

Reductions in the benefits provided by the Aid to Families with Dependent Children (AFDC) program make it more difficult for families to use welfare as a supplement to earnings. While California improved provisions that allow recipients to combine welfare and work -- known as income disregard rules -- the level of AFDC benefits has declined since 1989. Adjusting for inflation, grant levels have declined 34 to 37 percent since 1989.[38] Income disregards allow families to keep a portion of what they earn, rather than suffer a dollar-for-dollar reduction in benefits for the wages they receive. However, as benefit levels are reduced, the amount a family can earn while still receiving benefits declines.

Prior to enactment of the new federal welfare bill, welfare recipients could keep all of their wages from work for the first four months of employment. During months four through twelve, federal law allowed them to keep the first $30 of their monthly earnings plus one-third of their remaining income without suffering a reduction in their grant. After a year, families lose a dollar

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[36] Employment Development Department, "Local Area Unemployment Statistics Current Population Survey Data" (June 1996).
[37] Center on Budget and Policy Priorities, *The Depth of the Food Stamp Cuts in the Final Welfare Bill* (August 12, 1996).
[38] This reflects only grant reductions that have been implemented. If reductions that have been legislated but not adopted are included, the purchasing power of grants is down by 34 percent in high cost areas and 37 percent lower in low cost areas. Implementation of these additional reductions would have required the state to obtain a federal waiver. However, under the new federal welfare reform measure, these reductions can be implemented immediately.

of benefits for each dollar of income earned, which eliminates the financial incentive to increase earnings. California eliminated the time limit on the so-called “thirty and a third” disregard in 1993 as part of the “Work Pays” Demonstration project. This improvement allows AFDC recipients who find jobs to keep approximately a third of what they earn indefinitely, as long as their wages are below the welfare eligibility threshold. In addition, in 1992, California eliminated the rule limiting the amount that families in the AFDC-U program could work and still retain eligibility for benefits. The AFDC-U program is designed for two parent families with one who is recently unemployed This change was particularly beneficial to two-parent families who enter the AFDC-U program due to the unemployment of a breadwinner.

Both of these changes help make the current AFDC program more supportive of families who are trying to leave welfare for work. However, a fundamental problem remains: families lose eligibility for assistance at a level far below the poverty line. Between 1990 and 1996, California limited or suspended the adjustment in the AFDC needs standard so that it failed to keep pace with inflation. The standard of need is important, as it determines the point at which recipients who combine welfare and work lose eligibility for benefits.

Chapter 4: Strategies To Support Work And Reduce Poverty

Since most of California's poor live in families with at least one worker, any effective strategy to reduce poverty must address the status of the working poor. As documented in the previous chapters, large numbers of California families live in poverty despite substantial work effort by one or more adults. Left unchecked, current economic and policy trends are likely to increase, rather than reduce, the number of workers and their families living in poverty. The persistence of poverty among working families has profound implications for the ability of California to effectively reform welfare. While the primary goal of welfare reform is moving families off of welfare and into the workforce, an equally important goal must be the reduction of poverty among the working poor. In the absence of a strategy to make work pay, welfare reform will, at best, do little more than cycle non-working, poor families into the labor market and increase the number of working poor.

Welfare reform requires that families work, but does little to address the availability of jobs for those that leave welfare or the conditions they face once they enter the workforce. Previous attempts to move welfare recipients into the workforce suggest that many, if not most, are destined to become part of the working poor. Over two-thirds (69 percent) of the participants in Riverside County's GAIN program, widely heralded as one of the most successful welfare-to-work programs in the country, who found work earned less than $10,000 per year.[1] Even with the addition of food stamps and the EITC, this is barely enough to support a family of three at the poverty level. In addition, only 28 percent of those who found work through Riverside County's GAIN program received health benefits through their jobs. Because of low wages and a lack of benefits, most families who leave welfare remain just a paycheck or two away from public assistance.

The first step toward "making work pay" is to ensure, at a minimum, that full-time work provides sufficient income to lift a family out of poverty. This can be achieved through a

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[1] James Riccio, Daniel Friedlander, Stephen Freedman, *GAIN: Benefits, Costs, and Three-Year Impacts of a Welfare-to-Work Program* (Manpower Demonstration Research Corporation, 1994).

combination of increasing the minimum wage and expanding public income support programs, such as the Earned Income Tax Credit. Welfare and the unemployment insurance system can be used as a supplement to low wages from employment or as a safety net for workers who lose their jobs. Second, public policies can help insure that poor families have access to services such as health coverage and child care, which are fundamental to their full participation in the workforce and the maintenance of healthy families.

The following chapter sets forth the beginnings of a policy agenda to help reduce poverty among California's working poor. In some instances, these policies may be costly. However the cost of doing nothing will be far greater in the long term as the problems of poverty and inequality continue to worsen. Today's improving economy offers Californians the opportunity to take steps to "make work pay" for thousands of families.

Recommendation: Make the Minimum Wage A Living Wage

On August 20, 1996, President Bill Clinton signed into law a measure increasing the minimum wage by $0.50 on October 1 of this year and by an additional $0.40 on September 1, 1997, bringing the federal standard to $5.15 per hour. For the 235,000 California workers who earn less than the current minimum wage ($4.25 an hour) and the 1.3 million who earn between $4.25 and $5.00, this action is an important first step toward making work pay.[2] However, even at the new rate of $5.15 per hour, full-time minimum wage work leaves a family of three or more persons well below the poverty level, at $10,712. In addition, while 53 percent of California workers earning between $4.25 and $5.00 per hour have full-time jobs, many workers are involuntarily unemployed and underemployed because of contingent or seasonal work.[3]

Most of the workers who benefit from increases in the minimum wage are in working poor and near-poor families. An analysis of the impact of the 1990 and 1991 increases in the minimum wage found that nationally, approximately one-third (33 percent) of those who benefited directly

Table 2: How Much Would Raising The Minimum Wage Help Poor Families?

Poverty Level For Family Of 4 In 1996: $16,071[a]
Poverty Level For Family Of 3 In 1996: $12,547[a]

	October 1996 Federal Minimum	September 1997 Federal Minimum	California Proposal
Hourly Wage	$4.75	$5.15	$5.75
Full-Time Year-Round Earnings	$9,880	$10,712	$11,960
Amount Below Poverty			
Family Of 4	($6,191)	($5,359)	($4,111)
Family Of 3	($2,667)	($1,835)	($587)

[a] The official federal poverty level will be higher in 1997 when the federal increase is implemented and in 1998 when the California proposal would be fully implemented.

lived in poor or near poor families. Just over a third (36 percent) of those who benefited were the sole wage earner in their households and the wages from minimum wage work constituted one-

[2] Economic Policy Institute, unpublished data, (October 31, 1995). Note: The Bureau of Labor Statistics notes that the presence of workers earning less than the minimum wage is not necessarily a violation of the Fair Labor Standards Act, as there are exemptions to the minimum wage provision of the law. Waiters and waitresses, for example, often earn less than minimum wage, with their wages supplemented by tips. For those who earn less than the current minimum wage, an increase in the minimum wage may result in an increase as employers compete for employees.
[3] Ibid.

half of the total family income. Approximately 70 percent of those affected by the increase were at least twenty years of age, and half (51 percent) were 25 years of age or older.[4]

Opponents of an increased minimum wage and traditional economic studies assert that increasing the minimum wage reduces the number of jobs available to minimum wage workers. While additional research is needed, a growing body of economic literature suggests that increases in the minimum wage have little or no negative impact on employment levels and may, in fact, increase employment. Economists David Card and Alan Krueger recently analyzed the employment impact of the 1990 and 1991 federal minimum wage increase, the 1988 California increase, and the New Jersey increase to $5.05 per hour in 1992.[5] Krueger and Card's analyses, unlike many previous studies, track employment trends in carefully matched areas over the same period of time. In every instance, Krueger and Card found no evidence that employment declined in response to either national or state level increases in the minimum wage. In the case of the 1988 California increase, Krueger and Card found that workers in retail trade and the restaurant industry experienced the biggest gains and that teenage employment actually grew in the period immediately following the increase.[6]

The recent federal increase returns the purchasing power of the minimum wage up to its 1983 level. The purchasing power of the minimum wage in 1996 dollars peaked at $7.23 in 1968. Californians have the opportunity to vote on whether to increase the minimum wage to $5.00 on March 1, 1997, and $5.75 on March 1, 1998. Without regular revisions, inflation will erode the value of the recent increase, pushing families who depend on minimum wages back into poverty. Indexing the minimum wage to growth in inflation would help ensure that minimum wage earners do not lose ground every year. Particularly if combined with a state Earned Income Tax Credit, an increase in the California minimum wage could help working poor families to rise above poverty and meet their basic needs.

Recommendation: Create A State Earned Income Tax Credit To Supplement The Earnings Of The Working Poor

Seven states -- Iowa, Maryland, Minnesota, New York, Rhode Island, Vermont, and Wisconsin -- currently have state Earned Income Tax Credits that complement the federal credit

Table 3: A Combined Strategy: State Earned Income Tax Credit & Increased Minimum Wage (for a wage earning family with two or more children)

Income Source	$4.75 Minimum Wage	Add State EITC[a]	$5.75 Minimum Wage	State EITC & $5.75 Minimum Wage
Earnings	$9,880	$9,880	$11,960	$11,960
Taxes [b]	($855)	($855)	($1,035)	($1,035)
Federal EITC	$3,556	$3,556	$3,482	$3,482
State EITC		$533		$522
Total Income	$12,581	$13,115	$14,408	$14,930

[a] State EITC @ 15% of federal EITC
[b] Payroll taxes include 7.65% FICA and 1% state disability insurance tax.

[4] David Card and Alan B. Krueger, *Myth and Measurement: The New Economics of the Minimum Wage* (Princeton, NJ: Princeton University Press, 1995).
[5] Ibid.
[6] Ibid.

and boost the incomes of the working poor. Four of these states -- Minnesota, New York, Vermont, and Wisconsin -- have refundable credits. One advantage of an EITC over many other policy tools is the ability to carefully target benefits where they are most needed. While the federal benefit provides a minimal credit to workers without children, some states limit benefits to families with children.

An EITC uses the tax system to target assistance to low income households with earnings from work. The amount of benefits provided by the credit is based on a family's size and its income. As an income support mechanism, the EITC acts by partially shifting the burden of raising the working poor out of poverty from employers to the public coffers. A California EITC would offset the burden of payroll taxes and provide relief from the relatively high sales and excise tax burden that falls on poor families.

A state Earned Income Tax Credit, patterned after the federal EITC and targeted to families eligible for the federal credit, would be relatively easy to implement and would allow millions of low income workers in California to escape poverty. A critical component of the federal EITC is refundability. A refundable credit is paid to a family regardless of whether or not they owe income tax. The credit is first used to reduce liability, with any remainder returned to the family in the form of a refund. For California, refundability is particularly critical, as the state's personal income tax threshold is so high that poor families are not likely to have an income tax liability.

Administration of an EITC is also relatively cost effective. Estimates suggest that the administrative expenses for the federal credit are approximately one percent of the program's costs, extremely low compared to administrative costs of other income support programs such as AFDC and food stamps.[7] By patterning a state EITC on the federal credit, California can take advantage of opportunities to insure compliance with applicable regulations in cooperation with the federal government. Similarly, outreach efforts can be coordinated to make sure families who are eligible for the credit actually claim the credit.

For policymakers contemplating a state EITC, there are several important considerations:

- **Should the credit be refundable?** A refundable credit is more costly, but refundability is essential in order to provide assistance to the poorest working families.

- **Should families without children qualify for the credit?** Cost of an EITC can be reduced by excluding childless households. However, a large number of the working poor do not have children, yet struggle very hard to get by. The federal EITC provides a small credit to childless families who earn less than $9,500 in 1996.

- **How large should the credit be?** A state credit patterned after the federal credit, but providing benefits only to families with dependents, would cost approximately $185 million in 1997-98 for each 5 percent increment. In other words, a state credit equal to 10 percent of what a family receives from the federal credit would cost $370 million and one equal to 20 percent of the federal credit would cost $740 million. The size of the credit presents a direct trade-off between the benefits provided to poor families and the cost to state coffers. A state EITC equal

[7] Robert Greenstein, *The Earned Income Tax Credit: A Target for Budget Cuts?* (Center on Budget and Policy Priorities, 1995).

The Federal Earned Income Tax Credit:
A Policy That Helps To Make Work Pay

One benefit provided to the working poor, the federal Earned Income Tax Credit (EITC), has been expanded repeatedly over recent years. The EITC was established in 1975 and is designed to offset the impact of payroll taxes and Social Security taxes on low-wage workers, supplement the earnings of low income families, and complement efforts to help families make the transition from welfare to work. Expansion of the federal EITC in 1993, along with other previous expansions, helped to partially offset the declining value of the minimum wage. The EITC has become one of the most important supports for low income workers. Available only to those who work, the EITC is a credit on one's federal income taxes that varies by earnings and family composition. The EITC is a refundable credit, so working families with incomes too low to owe income tax still receive the credit as a refund.

Nearly three million California families utilize the EITC. The amount of credit a family receives depends on family size and income. The credit varies with income in three ranges: (1) the phase-in range where EITC benefits increase with earnings; (2) a flat range where the maximum EITC amount remains constant; and (3) the phase-out range where benefits decline as earnings increase. In 1996, a family with two or more dependents can receive a maximum EITC of $3,556. The credit declines as household income rises above $11,610, with an eligibility cap of $28,495. A family with one dependent is eligible for a maximum credit of $2,152, with an income cap of $25,078. The EITC provides a maximum credit of $323 for childless workers, equal to their share of payroll taxes -- 7.65 percent -- with an income limit of $9,500.[8]

Over the past two years, efforts to balance the federal budget included deep cuts in the EITC. The proposal passed by the Senate Finance committee would have reduced benefits by $41.5 billion over seven years. Proposed reductions included repeal of the final phase of the three-year expansion of the credit enacted in 1993. Other proposed changes included counting child support payments as income for purposes of calculating the EITC and increasing the percentage by which the credit is phased out as earnings increase, thereby discouraging additional work.

Even with the significant contribution made by the federal EITC, low wage workers and their families are often still poor. As shown, a family of four with a full-time, year-round minimum wage worker would still have an income below the federal poverty level, even with the maximum federal EITC. A state EITC could help close a portion of this gap for families that work, but still have relatively low incomes.

[8] Iris J. Lav and Edward B. Lazere, *A Hand Up: How State Earned Income Credits Help Working Families Escape Poverty* (Center on Budget and Policy Priorities, 1996).

to 10 percent of the federal credit would provide a maximum benefit of $356 to a family with more than one child in 1996.

- **Should the size of the credit vary directly with family size?** The amount of the federal credit varies by whether a family is childless, has one child, or more than one child. California's state tax system provides a dependent credit for each child. If policymakers wanted to target additional assistance to larger families, the state credit could be structured to increase with each additional child.

Because of the large number of low income working families in California, both poor and near-poor, a state EITC would be costly. The impact of instituting a state EITC can be minimized by balancing the cost of providing a new tax subsidy with limits on or elimination of tax expenditures that are ineffective or of a lesser policy priority.

Recommendation: Make The Unemployment Insurance System Work For The Working Poor

Fewer and fewer of those who lose their jobs receive unemployment insurance, due to changes in the economy and in work patterns. On average, only 38 percent of California's unemployed receive unemployment benefits.[9] Coverage has diminished among the unemployed as a result of the increase in part-time, temporary, and lower wage work. Since temporary and part-time workers are often ineligible for unemployment insurance, these changes leave an increasing segment of the workforce unable to receive unemployment insurance benefits.[10]

The unemployment insurance system is jointly administered by the federal government and the states, with states having the flexibility to establish their own policy priorities. In general, states determine eligibility, benefit levels, and the duration of benefit recipiency. Unemployment insurance provides a temporary and partial replacement of earnings lost due to involuntary job loss. The system also serves an economic purpose by maintaining the purchasing power of unemployed workers in times of economic downturn.

California provides benefits to workers with relatively low earnings compared to the standards used in many states. While California's earnings standards are relatively low, many of the working poor may not qualify due to the requirement that a person earn at least $1,300 during at least one quarter of the prior year, or $900 with total base period earnings equal to 1.25 times the amount earned in the highest quarter. In order to meet the $1,300 threshold, a worker earning the minimum wage would have to work 23.5 hours for each week of a 13 week quarter. Workers whose schedules are part-time or seasonal may have difficulty meeting this criterion and would be left without assistance if they are laid off or lose their job for another qualifying reason.

A second problem for the working poor is the low level of benefits paid to those with low earnings. Since benefit levels are based on earnings, those with low earnings receive a minimal amount in benefits. Weekly benefit payments can be as low as $40. An individual working 40 hours per week at the minimum wage for an entire year would receive $82 a week in unemployment benefits, equal to 48 percent of their prior wages.

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[9] Advisory Council on Unemployment Compensation, *Defining Federal and State Roles in Unemployment Insurance* (Washington, DC: January 1996).
[10] Advisory Council on Unemployment Compensation, *Unemployment Insurance in the United States: Benefits, Financing, Coverage.* (Washington, DC: February 1995).

One of the consequences of the limited availability of unemployment insurance for low-wage workers is an enhanced reliance upon other forms of income support, most notably AFDC. In California, the AFDC-U program provides cash assistance to two parent families with an unemployed breadwinner. For those families who lose earnings because they are laid off from their job or for another qualified reason, several policy changes could help insure that the current unemployment insurance system is more effective at addressing the needs of the working poor.

- **Establish a moveable base period.** Many of the working poor often do not qualify for unemployment benefits because their earnings are sporadic or, in the quarters used to establish eligibility, are not high enough to qualify for benefits. Eligibility for benefits is based, in part, on a minimum amount earned in the "base period." California's base period includes the first four of the last five completed calendar quarters and leaves out the most recent three to six months of a worker's earnings. In many cases, the most recent earnings can be high enough to qualify for benefits, while prior quarters do not, or recent earnings may qualify for a higher amount of benefits than would be provided by the current schedule.[11] A number of states have implemented a moveable base period that makes the base period more flexible by including the most recent months of work, allowing more low-wage workers to qualify. Nationally, estimates show that the moveable base period increases eligibility by six to eight percent, while estimates suggest the potential for a 14 percent increase in eligibility in California.[12]

- **Institute a dependent allowance.** Thirteen other states provide a supplemental benefit to unemployed persons with dependents. For an adult with two dependents, a dependent allowance of $25 per dependent would raise the benefits received by a formerly full-time minimum wage worker by 61 percent, to $132. A dependent allowance targets the increase in benefits to those with the added expenses of raising a family.

- **Increase the benefits paid to low wage workers.** Low wage workers who lose their jobs may receive as little as $40 per week in benefits. Increasing the benefits paid to low wage workers will replace a greater share of lost wages and help insure that families can meet their basic expenses until they are able to find another job.

Unemployment insurance is a self-funded system. In other words, the amount available for benefits is determined by the amount paid into the system in payroll taxes. One method for financing improvements in unemployment benefits would be an increase in the taxable wage base.[13] Together with payroll tax rates, the taxable wage base determines the amount available for providing benefits through the unemployment insurance system.[14] California's taxable wage base is low, set at the minimum federal level, and covers only the first $7,000 of an employee's salary. With a low base amount, employers with a higher percentage of low-wage workers pay more in taxes as a percentage of their total payroll costs than do employers with higher paid workers. Consequently, a low taxable wage base imposes a disproportionate share of financing the unemployment insurance system on employers of low-wage workers, who disproportionately

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[11] National Employment Law Project, "Statement to the California State Legislature, Joint Hearing of the Senate Health and Human Services and Industrial Relations Committees on 'Welfare Reform and the Job Connection" (May 8, 1996).
[12] Ibid.
[13] The taxable wage base is the pay upon which employers are taxed. In California, employers pay tax on an employee's first $7,000 of earnings.
[14] Advisory Council on Unemployment Compensation, *Defining Federal and State Roles in Unemployment Insurance* (Washington, DC: January 1996).

tend to be small businesses.[15] The taxable wage base in 12 other states, including the neighboring states of Nevada and Oregon, is at least twice as high as California's. Eighteen states index the level of their base to average wage levels.[16]

Recommendation: Encourage Education To Boost Earnings

Close to one half (48 percent) of adults in working poor families in California lack a high school diploma or GED. Much has been written in recent years about the correlation between the growing wage gap, poverty, and workers' level of educational attainment. The risk of living in poverty decreases as one's level of education rises. Nationally, one in six workers with less than a high school diploma live below poverty, compared to a 7 percent poverty rate among high school graduates who had not gone on to college. College graduates tend to fare even better: just 4 percent of workers with an Associate Degree and 2 percent of those with a four year degree lived in poverty.[17]

Many analysts attribute the growth in wage differentials among workers with different levels of educational attainment, in part, to changes in the economy that result in increased demand for more educated and more highly skilled labor.[18] Improving the level of educational attainment among youth from poor families will help provide access to higher paying employment opportunities. Providing opportunities to obtain a higher education or to participate in vocational education is an essential long-term and short-term strategy for assisting poor workers and their families to escape poverty.

Federal welfare reform allows certain educational activities to count toward meeting the measure's work participation requirements. Education represents a long term investment in the ability of poor families to gain self-sufficiency through jobs that provide more than poverty level wages. As policymakers implement welfare reform in California, it is essential, as a part of a long term strategy to reduce poverty, that they allow welfare recipients to count education as a work related activity.

Recommendation: Improve Access To Health Care

Cost presents a formidable barrier to obtaining health insurance for poor families who lack employer provided health coverage. Over 537,000 children in working poor families have no health insurance. These families have income, but cannot afford to purchase coverage. Few of the working poor have sufficient resources to purchase coverage on their own. A family of four earning poverty level wages would spend 19 percent of their income purchasing health coverage out-of-pocket.[19] While reforms aimed at making insurance more portable between jobs or affordable to the self-insured will assist many of the uninsured, it is unlikely that these reforms will have a significant impact on families whose primary problem is poverty.

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[15] National Employment Law Project, "Statement to the California State Legislature, Joint Hearing of the Senate Health and Human Services and Industrial Relations Committees on 'Welfare Reform and the Job Connection" (May 8, 1996).
[16] Advisory Council on Unemployment Compensation, *Defining Federal and State Roles in Unemployment Insurance* (Washington, DC: January 1996).
[17] Monica D. Castillo, *A Profile of the Working Poor, 1994* (U.S. Department of Labor, June 1996).
[18] Isabel V. Sawhill and Daniel P. McMurrer, *Declining Economic Opportunity in America* (Washington, DC: Urban Institute, 1995).
[19] Based on the lowest cost standard HMO plan offered by the Health Insurance Plan of California, the state's insurance plan for small employers, in the Los Angeles area, for a head of household aged 30 to 39.

The state and federal government have extended Medi-Cal coverage to children and pregnant women with family incomes up to 185 percent of the poverty line. The persistence of large numbers of uninsured poor children suggests that many families are either unaware of their eligibility for Medi-Cal, hesitant to apply due to the stigma attached to receiving government assistance, or unable to afford their share of costs.

While expansions in the Medi-Cal program have assisted some poor workers in obtaining health insurance coverage, more needs to be done to address the growing number of uninsured individuals and families. The need for systemic reform of the health care system, most preferably at the national level, is widely documented and will do the most to improve access and affordability in health care. In the meantime, a number of policies can help insure greater coverage of the working poor.

- **Extending transitional Medi-Cal.** Extending health insurance coverage to the working poor takes on a particular significance in the context of welfare reform. Families currently receiving welfare automatically receive coverage through Medi-Cal. For families with children, the loss of health coverage can be a disincentive to finding employment. Federal law guarantees families that leave welfare for work an additional year of coverage. California added a second year of coverage as part of this year's budget accord.[21] Maintaining and expanding transitional coverage can help alleviate the employment disincentive and prevent families who do get a job from returning to welfare when a family member falls ill.

- **Increase awareness of the availability of Medi-Cal.** Many families are probably unaware that they or their children are eligible for Medi-Cal. Schools, churches, community organizations and the media can help inform poor families of their potential eligibility and how to apply for benefits. For some of the working poor, the Medi-Cal application process presents a barrier to coverage. Allowing families to apply for coverage through schools, community clinics, and elsewhere in the community will help insure that those who are eligible for Medi-Cal receive coverage.

- **Extend employer provided coverage.** Employers are least likely to provide health coverage to the very workers who cannot afford to purchase coverage on their own. While job based coverage has eroded at all income levels, the lack of employer provided coverage is most severe for low wage workers. Extending job based coverage is central to the range of health

Who Among the Working Poor Are Eligible For Medi-Cal?

- Pregnant women and infants in families with incomes up to 185 percent of the poverty line.
- Children age one to six in families with incomes up to 133 percent of the poverty line.
- Children age six to twelve in families with incomes of up to 100 percent of the poverty line.
- Families with children with incomes of up to 133 percent of the June 1991 AFDC payment for their family size ($694 for a family of three) are considered *medically needy* and are eligible for full Medi-Cal coverage. Those with incomes above this level are eligible for coverage, but must pay a share of costs.
- Pregnant women and children up to age twenty-one in families with incomes up to 133 percent of the June 1991 AFDC payment for their family size ($694 for a family of three) are considered *medically indigent* and are eligible for full Medi-Cal coverage. Those with incomes above this level are eligible for coverage, but must pay a share of costs.[20]

[20] Legislative Analyst's Office, *Analysis of the 1996-97 Budget Bill* (1996).
[21] AB 3483 (Chapter 197 of 1996).

care reform proposals that have been the subject of public debate. Efforts to make insurance more affordable and available to small businesses, and to require that employers cover their workforce, are needed in order to insure that coverage is available to a greater share of the working poor.

Recommendation: Promote Food Stamps As A Supplement to Work

Relatively few of the working poor receive food stamps, despite having incomes below the eligibility threshold. Many do not qualify because of the program's strict assets limits. Others do not apply because they are unaware that they are eligible, because of the stigma attached to receiving public assistance, or because of the difficulty involved in applying for benefits.

In order to qualify for food stamps, a family cannot have more than $2,000 in countable assets. This threshold was last increased in 1985 and leaves out many families who are able to maintain a small cushion against uncertainties or who wish to save for a home or their children's education.[22] If the value of a family's car exceeds $4,600, the car's dollar value over $4,600 counts against the $2,000 asset limit for food stamp eligibility determination.[23] Moreover, since vehicles are counted at their market value, rather than a family's equity in the vehicle, a family could be disqualified on the basis of owning a car for which they are still paying off a large loan.

- **Index asset thresholds for inflation.** Indexing the amount of assets a family can possess and still qualify for assistance would make the food stamp program more accessible to the working poor. While this may contradict the spirit of the recent reductions in the food stamp program, it is a strategy that encourages work and helps insure that those who work are not left in poverty.

- **Better public education and accessibility.** Many poor families believe that they are not eligible for benefits if they have earnings from employment. Outreach and education are needed in order to make families aware of their potential eligibility. A more difficult problem to address, but one that may be significant for the working poor, is the difficulty in applying for benefits. Those who work during the traditional work day may not be able to take time off to go through the application process. Increasing the effectiveness of the food stamp program as a support for working families requires outreach and innovation.

Recommendation: Make Child Care Affordable And Accessible

Among families who pay for child care, working poor families spend one third of their income on child care. This compares to 13 percent of family income spent on child care among families with incomes between poverty level and $25,000, and six percent among families with annual incomes above $25,000.[24] Without access to child care, the parents of young children may not be able to afford to work. While low income families are more likely than higher income families to rely on relatives, and less likely to rely on center-based care arrangements, many do not have this option.[25]

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[22] Isaac Shapiro and Robert Greenstein, *Making Work Pay: The Unfinished Agenda* (Center on Budget and Policy Priorities, 1993).
[23] The vehicle allowance was increased by $50 to $4,650 effective October 1, 1996 as part of federal welfare reform.
[24] Deborah Phillips and Anne Bridgman, eds., *New Findings on Children, Families, and Economic Self-Sufficiency* (Washington, DC: National Academy Press, 1995).
[25] Deborah A Phillips, ed., *Child Care for Low income Families* (Washington, DC: National Academy Press, 1995).

For families with children in need of child care, the cost can be prohibitive. Though low income families may meet eligibility requirements for subsidized child care, it is often unavailable. In addition to cost, availability is a key issue for working poor parents who are more likely to work non-standard hours and have changeable schedules. Subsidized care at a child care center or a home is often unavailable outside of the traditional Monday through Friday work week and work day.[26]

Subsidized child care is provided in California through the Department of Education (SDE) and Social Services (DSS). Eligibility for SDE income-based subsidies is set at 84 percent of the state median income, making all of the working poor eligible. However, eligible families may wait months for subsidized care. SDE reports that just under 20 percent of the approximately 1.6 million children eligible for subsidies were actually served in 1994.[27] While welfare recipients are eligible for transitional care when they leave the AFDC program for work, many fail to receive this transitional care due to lack of knowledge of the program.

Welfare reform will likely result in significant changes in California's subsidized child care programs. Preliminary estimates suggest that California will receive $897 million in additional child care funds through 2002. However, there could be significant funding shortfalls if the state expects to meet work participation requirements mandating that large and increasing percentages of the welfare recipients work. A requirement that 70 percent of federal child care dollars must be used for families on welfare or at risk of going on to welfare poses a threat to working poor families, who will likely find it more difficult to secure subsidized child care due to competition from those leaving welfare.

The cost of unsubsidized child care in California varies widely, with higher costs in urban and suburban areas than in rural areas. Costs are generally higher too, for younger children, particularly infants. For example, in Los Angeles County, full-time monthly child care for a child between two and five years of age would cost about $439. In Fresno County, the same care would average $345.[28] At this rate, a minimum wage worker with one child, in Los Angeles County, would need to work 20 hours per week just to pay for child care, thus leaving little income for rent, clothing, and other household expenses.[29] In light of the cost of day care, policy measures designed to increase incomes of poor families with young children must address the issue of affordability, as well as availability, of quality child care.

- **Expand access to subsidized care**. Accommodating anticipated increases in the number of children eligible for subsidized child care will require an increased financial commitment by all levels of government.

- **Establish a centralized registry.** One relatively cost effective means of improving access to affordable child care would be the establishment of a centralized registry of available openings in child care centers, by region. Under the present system, a family in need of care must contact individual day care providers to determine whether an opening exists. Centralizing basic information on the eligibility of subsidized openings would make it easier for parents to find suitable day care.

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[26] Deborah Phillips and Anne Bridgman, eds., *New Findings on Children, Families, and Economic Self-Sufficiency* (Washington, DC: National Academy Press, 1995).
[27] Child Care and Development Programs Advisory Council, "Child Care and Development Programs Fact Sheet" (State Department of Education, October 1995).
[28] California Child Care Resource and Referral Network, *Regional Market Rate Ceilings for California Child Care Providers* (July 1996).
[29] This example uses the new federal minimum wage of $5.15 per hour.

- **Facilitate child care options that accommodate alternative schedules.** Low-wage workers often work unconventional or shifting hours. Access to quality child care during nontraditional hours is essential so that these parents have the option of entering or remaining in the labor market.

Recommendation: Use Welfare Reform As An Opportunity To Support Work

The enactment of welfare reform at the federal level will require policymakers to rethink California's welfare system. In order to meet the law's strict work participation requirements, policymakers must develop strategies that use welfare as a support to work, while not ignoring the needs of those who are unable to obtain employment. Moreover, the measure's provisions limiting assistance to no more than two consecutive years or five years over the course of a lifetime will increase the importance of attaining self-sufficiency quickly for families that are leaving the welfare rolls.

In restructuring California's welfare system to meet the requirements of the new federal law, policymakers should maintain and expand the features of the current system which encourage the integration of work and welfare for families who are trying to become self-sufficient. This can be accomplished by maintaining and expanding earnings disregards that allow families who work to keep a portion of their benefits, and by providing transitional support services, such as health and child care to families leaving welfare for work.

Alicia and Dennis Shen
California's Working Poor

Alicia and Dennis Shen (not their real names) are the parents of two children: a toddler and a child in fifth grade at the local public school in Los Angeles. They rent a two-bedroom apartment and rely on public transportation, since they have no car.

Alicia, who graduated from high school, worked full-time for just eight weeks of the year as a receptionist at a beauty salon. Alicia stayed at home the rest of the year to take care of her children. Though the family is eligible for subsidized child care, they have been on a waiting list for over a year.

Though he worked full-time for 40 weeks of the year, Dennis' earnings as a non-union construction laborer were not enough to lift the family out of poverty. In the weeks that he didn't work, Dennis actively looked for another job, but was unable to find work in a county where the unemployment rate is over 8 percent. The family has no health coverage, and does not receive food stamps or any other form of public assistance.

The Shen's 1996 Income

Earnings	$10,449
less payroll tax	($904)
EITC	$3,556
Total Income	$13,101
Poverty Line	$16,071
Amount Above/Below the Poverty Threshold	($2,970)

Recommendation: Make Sure Families Receive The Child Support They Deserve

One out of three working poor families with children are headed by single parents. Many of these families would not be in poverty if they received the child support owed by a noncustodial parent. Over 3.1 million California children fail to receive child support from their nonresident parent. In total, over $3.2 billion in unpaid child support, $5 billion with interest, is owed to California children.[30] The following would make the child support system more effective for working poor families.

- **Require counties to refer delinquent cases to the Franchise Tax Board for collection.** Requiring counties to refer all delinquent child support cases to the Franchise Tax Board would help make the system more uniform and allow improved tracking when nonpaying parents move from one county to another. Currently, the 58 district attorneys have the option, but are not required, to refer child support cases to the Franchise Tax Board. A pilot project using the Franchise Tax Board's automated systems and collections powers in six California counties was assessed as an efficient method of collecting delinquent child support.[31]

- **Establish an administrative process for establishment of child support orders**. Moving the process of establishing child support orders out of the courts and into an administrative process that is run by the state would be particularly helpful for those without legal representation. Low income families may lack legal representation due to the cost of obtaining the services of an attorney. Changing the process to an administrative procedure may encourage more poor custodial parents to seek and obtain child support.

[30] Franchise Tax Board, *Child Support Collection Program Evaluation Report* (January 1995) and National Center for Youth Law, Child Support Reform Initiative, and Children Now, *Past Due Child Support Collections in California* (1996).
[31] Franchise Tax Board, *Child Support Collection Program Evaluation Report* (January 1995).

CONCLUSION

The forces that contribute to the persistence of poverty, despite work, will not disappear without action. In previous generations, economic growth helped narrow the gap between the rich and poor and to move those on the lowest rungs of the earnings ladder upward toward the middle class. More recently, changes in the economy have only widened disparities, leaving an increasing number of families struggling just to “get by.” The policies proposed in *Working, But Poor, In California* can ensure that those who work to support themselves and their families are not forced to live in poverty. These proposals are not new. Each has been tried in other states. We can learn from and draw on a wealth of experiences to create an agenda designed to meet the specific needs and conditions faced by California’s working families.

There is strong support across the political spectrum for policies that help lift working families out of poverty. Implementing these strategies requires a renewed spirit of cooperation and partnership between the public and private sectors and California’s poor families. California’s improving economy and fiscal situation provides the opportunity and the resources to move forward. This task is made more urgent by the need to restructure the state’s welfare system to meet the requirements of new federal legislation, including the requirement that most welfare recipients enter the workforce within two years. A commitment to action can ensure that work provides not only an alternative to welfare, but an alternative to poverty for California’s families.