

WORKING, BUT POOR, IN CALIFORNIA

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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 good 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 a 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 it 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.