

# Working more but staying poor

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*Families living in poverty increasingly contain adults with a strong attachment to the workforce. These families are not, however, the traditional target of public assistance programs. This policy brief highlights research results from a comprehensive portrait of working families living in poverty, both nationally and in the rural south, using data from the Annual Demographic Files of the Current Population Survey. Three issues are explored. First, what are the characteristics of working poor families and how have they changed over time? Second, what role does public assistance play in the coping strategies of working families? Third, how can public assistance programs be better tailored to address the needs of working poor families?*

## Introduction

The United States has experienced dramatic changes in its social welfare policies during the past two decades. In particular, the Tax Equity and Fiscal Responsibility Act (passed by Congress in 1982) and the Personal Responsibility and Work Opportunity Reconciliation Act (passed in 1996) resulted in the reduction of benefits under many social welfare programs. Implicit tenets driving these changes are that able adult family members, including single parents, should work to support their families and that by working their families should be able to escape poverty. However, the percentage of people in “working poor” families (meaning the family is below the national poverty line, and adult members average more than 1000 hours of work per year) has increased substantially over this same time frame.

In 1982, 28 percent of persons below the national poverty line were in families that met this definition of working. By 2002, this percentage had increased to 36. By contrast, over the same period in the rural south, traditionally the region with the highest rates of poverty, the share of the poor in working families has remained essentially constant at around 36 percent. Working poor both nationally and in the rural south are also notable for their relatively low rates of utilization of public assistance programs compared to poor families classified as non-working.

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### Characteristics of working poor families

A common problem faced when analyzing family well-being is deciding which member's characteristics will be used to represent the family. The current analysis assigns family headship to the most educated family member 18 to 65 years old, or the most educated member of any age if no one falls within this age group.

### Education

As expected, education levels for heads of working poor families are low relative to the general adult population. In 2002, 26 percent of

working poor families did not have an adult member who completed high school (figure 2). It is also interesting to note that the education level of working poor family heads generally increased from 1982 to 2002, but changes occurred mainly in the high school diploma and some college categories. The share of persons in families where the most educated adult did not have a high school degree declined only slightly between 1982 and 2002 from 27 to 26 percent, while the share of families where the most educated adult had a high school diploma declined from 43 to 40

percent. The biggest increase in education share came at the level of some college, increasing from 20 to 25 percent between 1982 and 2002. Over the same period, the share of persons in working poor families where the most educated adult had a college degree actually declined slightly from 10 to 9 percent.

- Increases in education levels for heads of working poor families have not been as large as those seen for the general population.

Education levels of working poor family heads have increased much

## What qualifies a "working" family?

The definition used has important implications for the incidence and composition of the working poor. This study uses a definition that explicitly accounts for workforce participation by multiple family members.

**Working families defined:** *Average annual hours worked per year across all adult family members (age 18 to 65) exceeds 1,000 hours.* Other methods of defining a working family have typically focused solely on the most active worker in the household. In order to see how the above definition compares to these single-worker definitions, three alternatives are generated based on ascending levels of workforce attachment.

### Alternative definition one:

- working at least 14 weeks for 35 plus hours per week, or
- working at least 27 weeks for 20 plus hours per week.

### Alternative definition two:

- working at least 27 weeks for 35 plus hours per week, or
- working at least 40 weeks for 20 plus hours per week.

### Alternative definition three:

- working at least 40 weeks for 35 plus hours per week.

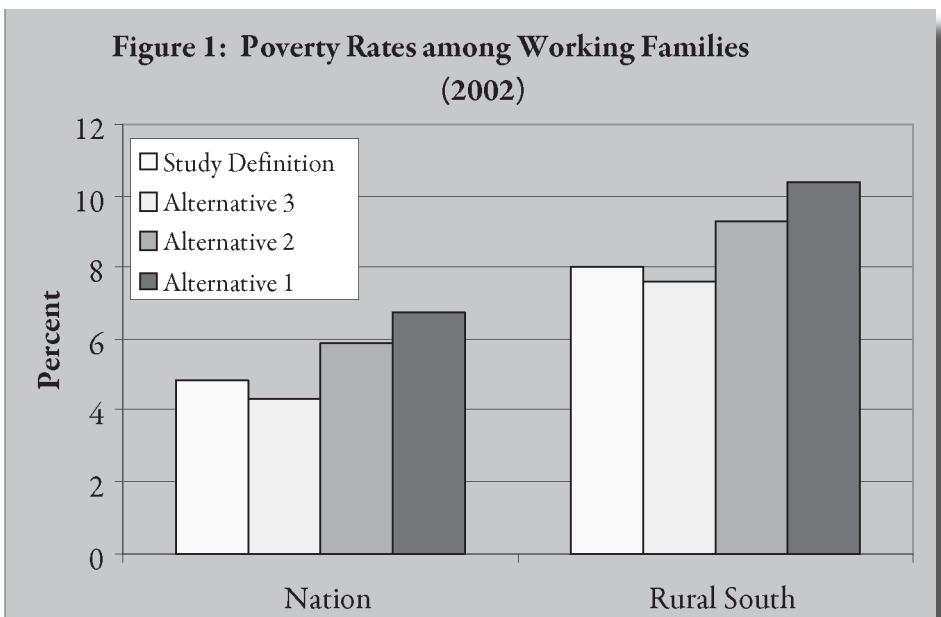
Figure 1 compares 2002 poverty rates under these 4 definitions, allowing the effects of workforce participation by multiple family members to be evaluated with measures focusing on a single worker. Poverty rates for persons in working families decrease with increased levels of workforce participation under the three alternative definitions. The rate of poverty under the study definition is close to that seen for families with at least one full-time worker, implying that it identifies families with strong workforce attachment among one or multiple adults.



more rapidly in the rural south than in the nation as a whole. In 2002, only 21 percent of working poor families in the rural south had no adult member with a high school degree, compared to 26 percent of the nation as a whole (figure 3). This represents a dramatic decline from 1982, when 37 percent of families had no adult member with a high school degree. As a result of rising education levels in the rural south, education levels among working poor family heads in the rural south are more similar to those seen in the nation as a whole in 2002 than in 1982.

- Increased education levels in working poor families is not a particularly positive trend, as it implies that increasingly a high school diploma leaves working families at substantial risk of being poor.

Declining incomes in families where the head has a high school



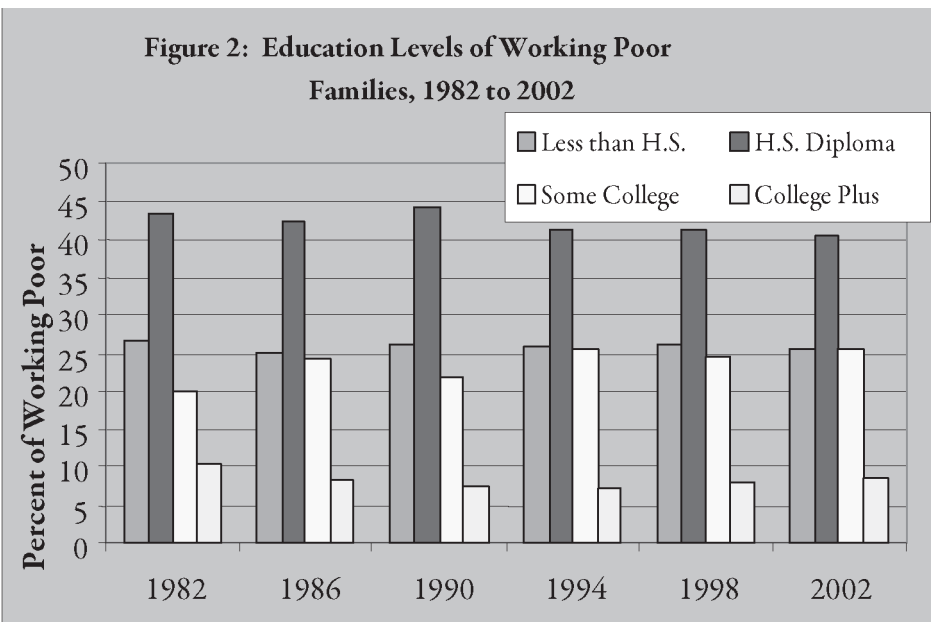
degree or less appear to be the driving force in mitigating the impact that significant increases in general education levels should have had on reducing the incidence of persons in working poor families.

- The rural south has experienced smaller increases in risks of poverty for working families with low education

levels because incomes associated with a high school degree or less were lower in the rural south than the nation as a whole in 1982 and subsequently decline less in real terms.

**Family Structure**

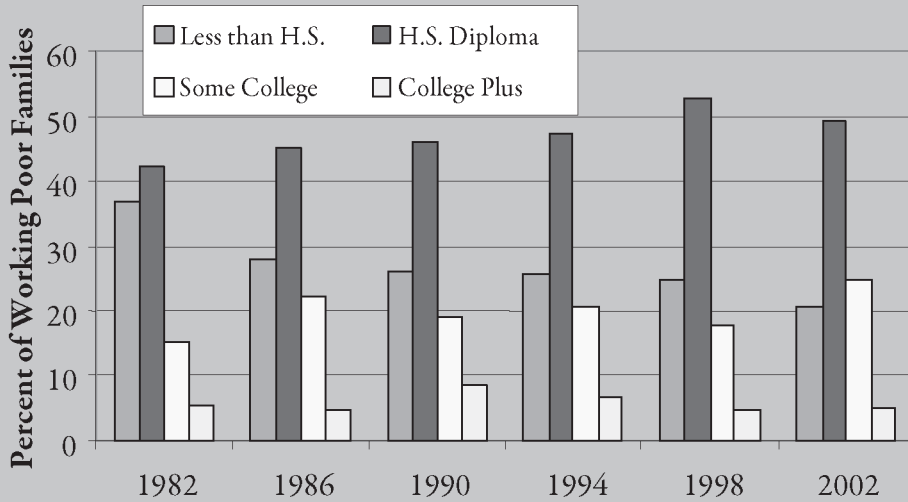
The most dramatic change in the composition of working poor families has been a decrease in the share of persons in two parent families and an increase in the share in single parent families. Between 1982 and 2002 the share of persons in working poor families that were headed by a single parent increased from 27 percent to 38 percent, while the share of persons in dual parent working poor families declined from 50 percent to 38 percent (figure 4). The overwhelming majority of these single parent families are headed by a female. Clearly workforce participation among single mothers does not automatically lead to the escape of poverty, as 15 percent of persons in working single parent families







**Figure 3: Education Levels of Working Poor Families in the Rural South, 1982 to 2002**



were below the poverty line in 2002, almost three times the national rate for persons in working poor families.

The rural south shows an even more dramatic shift in the family structure of the working poor. The share of working poor in two parent families declined from 57 percent in 1982 to 40 percent in 2002 (figure 5). Meanwhile, the share in single parent families increased from 22 percent to 38 percent.

- As a result of changes in family structure, the composition of working poor families in the rural south has become similar to the composition of working poor families in the nation as a whole.
- But workforce participation among single parents is even less of a guarantee of escape from poverty in the rural south than in the nation as a whole, as 24 percent of persons in single parent families in this region fall below the poverty line in 2002.

**Race and ethnicity**

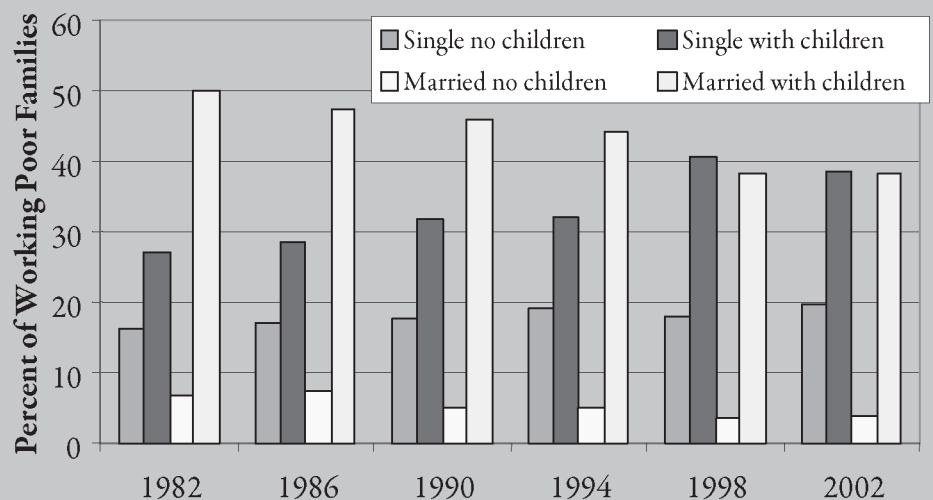
Nationally in 2002, 13 percent of persons lived in families headed by a Black, but for working poor families 21 percent of persons were in families headed by a Black (figure 6). This represents a slight increase over the 20 percent share in 1982. However, it is also a decline

from higher shares in the 1990s.

Since the rural south has a higher share of Blacks in the population than the nation as a whole, it is not surprising that the region also sees a higher share of working poor families headed by a Black. This share has, however, declined substantially since 1990.

Hispanics are one of the fastest growing population cohorts in the US. Not surprisingly, the share of persons in working poor families that are headed by a person of Hispanic origin showed a dramatic increase between 1982 and 2002. In 1982 only 12 percent of persons lived in working poor families that were headed by a Hispanic. By 2002 this share had increased to 29 percent. In the rural south this trend is even more pronounced, as the share increased from 5 percent in 1982 to 17 percent in 2002. Immigrants also comprise an increasingly important

**Figure 4: Family Structure of Working Poor Families, 1982 to 2002**

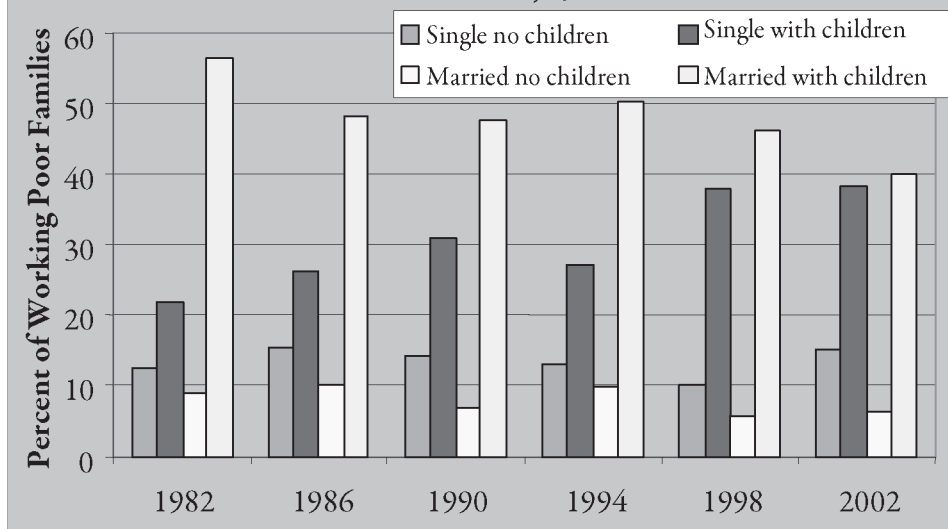




share of the working poor. Among persons in working poor families, the share where the head was born outside of the U.S. has also increased overtime to account for 29 percent of the working poor in 2002. The rural south has been less heavily influenced by international migration, as only 13 percent of persons lived in families where the head was born outside of the U.S in 2002.

In summary, the characteristics of working poor families have changed greatly over the last two decades. Education levels have generally increased, while the share of two parent families has declined and the share of working poor of Hispanic origin has increased. In the rural south, these same characteristics of working poor families have changed even more rapidly, leaving less distinction between working poor families in the rural south and those in the nation as a whole.

**Figure 5: Family Structure of Working Poor Families in the Rural South, 1982 to 2002**



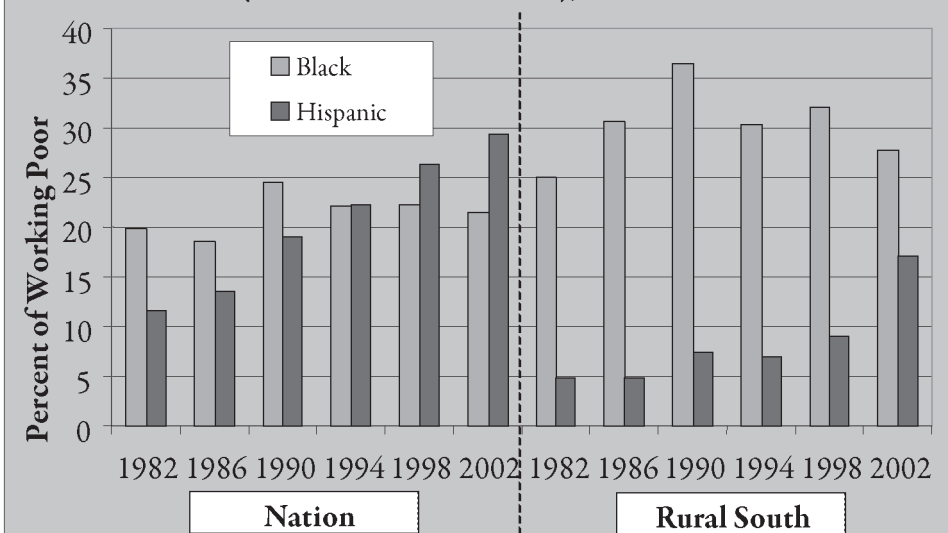
- This convergence of characteristics of working poor families in the rural south and the nation as a whole implies that the need for region specific policies may also be declining.
- At the same time, increased Hispanic and immigrant populations among the working poor pose new challenges

for the delivery of food assistance and other social assistance programs both nationally and in the rural south.

**Use of public assistance by the working poor**

One of the major characteristics of working poor families is that they are much less likely to receive public assistance than are non-working poor families. Nationally, in 2002 only 29 percent of persons in working poor families received food stamps and only 6 percent received cash public assistance under the Temporary Aid for Needy Families (TANF) program. Comparable national rates of Food Stamp and TANF program participation among non-working poor families were 40 percent and 17 percent, respectively. In the rural south, the use of public assistance among working poor families is more heavily weighted towards Food Stamps, as 34 percent of persons in working poor families in the rural south received Food stamps and only

**Figure 6: Race / Ethnicity of Working Poor Families (Nation and Rural South), 1982 to 2002**





4 percent received TANF payments in 2002. But like the nation as a whole, Food Stamp and TANF participation rates in the rural south are substantially lower among working poor than non-working poor families.

Rates of public assistance among the working poor have not, however, always been this low. National trends reveal a steadily rising rate of use of cash public assistance among the working poor from 9 percent in 1982 to 12 percent in 1998, followed by a precipitous decline between 1998 and 2002 (figure 7). This trend is even more pronounced in the rural south, as the rate of use of cash public assistance among the working poor rises from 4 percent in 1982 to 12 in 1998, before dropping back to 4 percent in 2002.

The use of public assistance by working poor families appears to have been more heavily impacted by welfare reforms in the rural south than the nation as a whole.

Declines in food stamp utilization among working poor families appear to have started earlier, around 1994, and have been much more moderate than declines in cash public assistance use (figure 8). In fact, increases in the rate of Food Stamp program utilization by working poor families between 1982 and 1994 slightly outweigh the subsequent decline seen from 1994 to 2002. As noted, the working poor show higher rates of Food Stamp use in the rural south than in the nation as a whole.

But as with cash public assistance,

declines in the rate of utilization of the Food Stamp program in the post-welfare reform era appears to be more pronounced in the rural south than the nation as a whole.

Further analysis suggests that similar overall rates of food stamp use by working poor families in 1982 and 2002 mask significant structural changes in the relationship between Food Stamp Program use and family characteristics. Of particular note, the differential propensity for Blacks to use the Food Stamp Program has disappeared, and Hispanic headed families show an increasingly negative propensity to use the Food Stamp Program relative to non-Hispanic families in recent years, most likely due to legal residency restrictions placed on program use.

Earned Income Tax Credits (EITCs) also play a major, and often overlooked, role in the well-being of working poor families. Unfortunately, information on EITC utiliza-

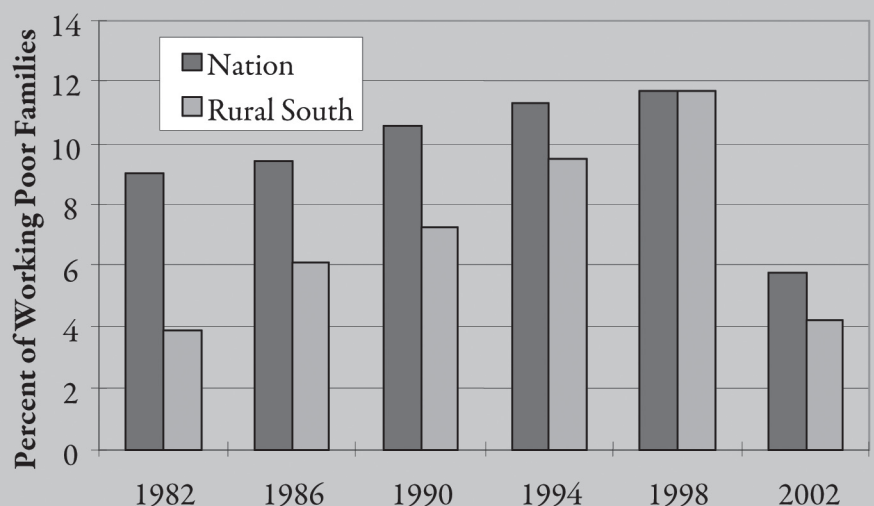
tion is not directly available from the Current Population Survey data. However, imputed rates of eligibility based on income levels and family composition suggest that EITCs have become the most important form of assistance to working poor families in terms of both the share of families covered and the size of benefits received. In 2002 the share of working poor families eligible for EITCs stood at 84 percent, with an associated mean value of imputed EITC payments of \$2,659. Data on national expenditures also indicate the EITCs have become the largest means-tested government transfer.

#### Policy implications

Two implications for improving the earnings capacity of the working poor are drawn from the analysis.

- First, the erosion of well-being in working families with low educational assets calls into question the effectiveness of workforce preparation programs

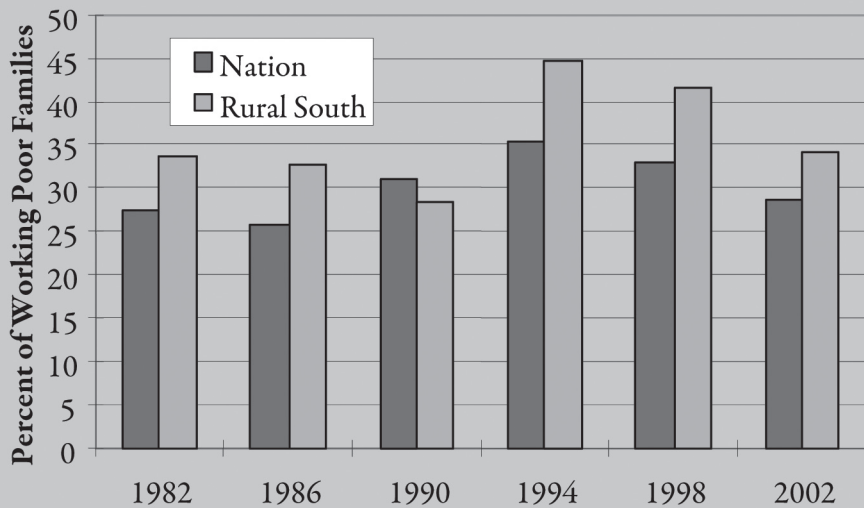
**Figure 7: Cash Public Assistance Use (Nation and Rural South)**







**Figure 8: Foodstamp Use (Nation and Rural South)**



that focus on the completion of a high school degree or G.E.D. Families, particularly in the rural south, increasingly need a member with some college to substantially reduce the risk of working poverty. Thus, community colleges are becoming an increasingly important component of efforts to improve the earnings capacity of poor and near-poor working families.

- Second, the increasing diversity of working poor families also creates challenges for workforce skill enhancement programs aimed at lifting working families above the poverty line. Hispanic families in particular often have language and legal residency barriers that limit their entrance into skilled workforce positions. Families headed by a Black also continue to show lower levels of well-being even after controlling for other family characteristics. This suggests that it is premature to roll-back

race conscious higher education and employment policies.

Four implications for improving the ability of social assistance programs to address the needs of the working poor are also drawn.

- First, federal and state transfers play a very important role in bringing many working families above the poverty line. As work becomes an increasing prerequisite for cash public assistance, efforts must be made to ensure that working families are not deterred from obtaining public assistance for which they are eligible.
- Second, research results show that propensities of working poor families to use both cash public assistance and the Food Stamp Program have declined after controlling for concurrent changes in family characteristics. Part of the decline in working poor family propensities to use the Food Stamp Program may

be linked to the increased use of short recertification periods. Continued efforts are needed to streamline program reauthorization procedures and establish office hours that better accommodate working family heads.

- Third, often overlooked is the newest component of the social safety net for working poor families, EITCs. These tax credits are the cornerstone of federal tax policies that subsidize the wages of low-skill workers and bring many working families post-tax adjusted income above the poverty line. For instance, in 2002 the rate of poverty among working families declines from 4.9 percent under the usual pre-tax income measures to 3.6 percent when tax credits are accounted for. A similar decline from 8.0 percent to 5.7 percent is found in the rural south. The success of EITCs in assisting working poor families needs to be more carefully documented and integrated into the portfolio of assistance efforts directed at the working poor.
- Finally, continued support for EITCs and other social programs is predicated on increased public awareness of the increasing hardship faced by many working families composed of low-skill adult workers and a willingness to commit public expenditures to assist them in raising themselves out of poverty.

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