

EXECUTIVE SUMMARY

SUPPORTING WORK IN ILLINOIS

The Challenges Ahead



Kinsey Alden Dinan ■ Nancy K. Cauthen | March 2007

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In Illinois, as in other states across the country, even a worker employed full-time does not always earn enough to support a family. More than a third of Illinois' children—1.2 million—live in low-income families, yet half have parents who work full-time; another 30 percent of these children have parents who work part-time.¹ Millions of parents who work for low wages cannot make ends meet without the help of public “work supports”—benefits such as earned income tax credits, health insurance coverage, child care assistance, and food stamps.

To encourage employment as the primary path to financial security for all who can work, a comprehensive work support system should accomplish two goals:

1. **Provide adequate family resources.** If parents work full-time, their earnings, combined with public benefits, should provide the resources necessary to cover basic family expenses.
2. **Reward progress in the workforce.** When parents' earnings increase, their families should always be better off.

Using results from the Family Resource Simulator, a tool developed by the National Center for Children in Poverty (see box), we find that Illinois' policies are generally successful in meeting the goal of providing adequate family resources. Rewarding progress in the workforce, however, remains a challenge. Small increases in family income can trigger sharp reductions in benefits, leaving families no better off—or even worse off—than before.²

Work Supports Critical to Low-Wage Workers

For Chicago, the Family Resource Simulator shows that a single-parent family of three needs about \$36,000 a year to cover basic expenses, including housing, food, health care, child care, and transportation.³ That's more than double the poverty level and the equivalent of full-time earnings at about \$17 an hour. In a two-parent

NCCP's Family Resource Simulator—A Tool for Assessing Work Support Policies

The Family Resource Simulator is an innovative policy analysis tool that simulates the impact of federal and state work support benefits on the budgets of low- to moderate-income families. The results illustrate how a hypothetical family's resources and expenses change as earnings increase, taking public benefits into account. The Family Resource Simulator makes it easy to assess how effective a state's policies are at encouraging and rewarding work. To use the Family Resource Simulator, see www.nccp.org.

family of four in which both parents work full-time, each parent needs to earn more than \$9 an hour just to cover necessities. This leaves many low-wage workers facing a large gap between their earnings and the cost of basic family expenses.

To help low-wage workers provide for their families, Illinois provides a number of important work support benefits. In 2006, Illinois became the first state in the country to remove income limits from its public health insurance program for children, and it has substantially increased the income limits for parents' coverage over the past several years. Illinois also provides child care subsidies to all eligible applicants, has a small but refundable state earned income tax credit (EITC), and recently approved a substantial increase in its minimum wage. In addition to these state policies, federal work support programs that assist low-income families include the federal EITC, food stamps, and Section 8 Housing Choice Vouchers.

These policies can make a tremendous difference in the lives of Illinois' low-income families. Consider, for example, Angela, a single parent living in Chicago with two children, one preschool-aged and one school-aged. Angela works full-time at \$8 an hour, yielding annual earnings of close to \$17,000. Without work supports,

Angela would face a gap of about \$18,000 between her earnings and the cost of family necessities. But if her family receives EITCs, food stamps, public health insurance, and a child care subsidy, Angela can make ends meet. (This example assumes that the family does not receive a housing voucher; such vouchers are available to few low-income families in Chicago.)

As Earnings Increase, Family Resources Fluctuate

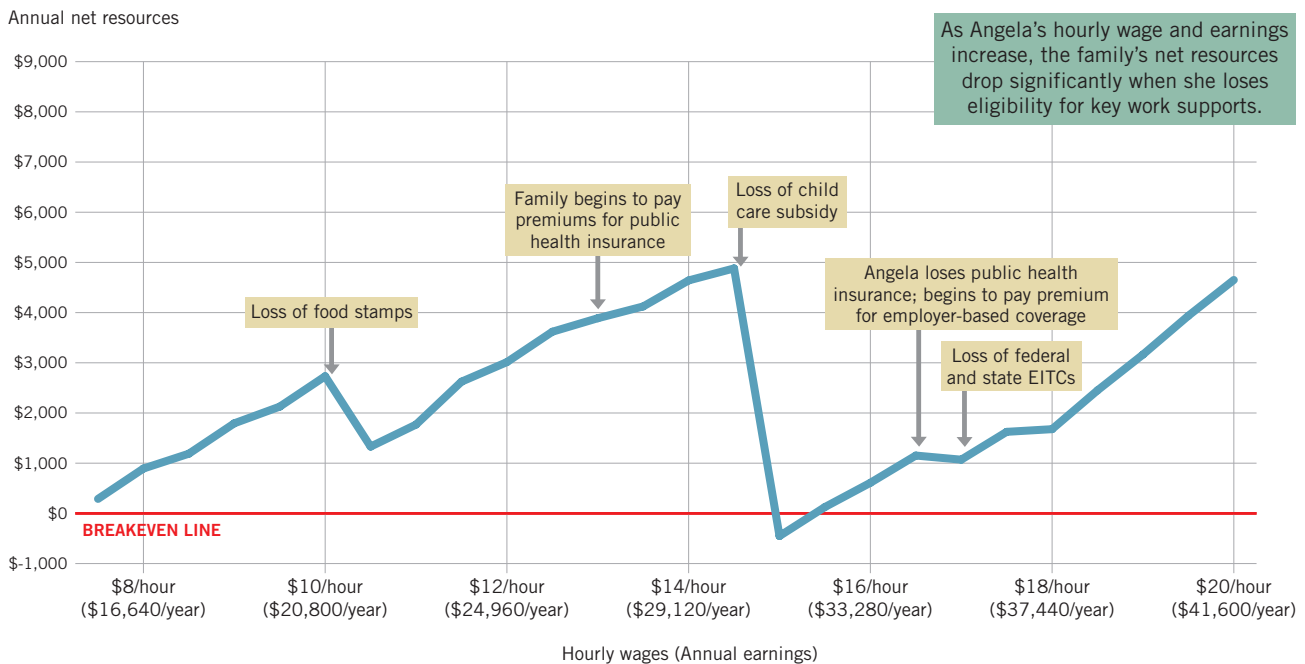
Eligibility for work support programs is typically based on income, so as earnings rise, families begin to lose eligibility for benefits. In some cases, eligibility rules mean that even a small raise can lead to a substantial benefit loss, which is often referred to as a “cliff.” As a result, parents can work and earn more with no financial benefit for their families. Indeed, as parents’ earnings rise, their families may actually be worse off.⁴

For example, under federal rules, when a family’s total income exceeds 130 percent of the official poverty level, the family loses its entire food stamp benefit. For many families, this results in a substantial loss and leaves the

family with fewer total resources, despite increased earnings. The Family Resource Simulator also shows that when a worker’s income rises enough to make the family ineligible for a child care subsidy, the family loses several thousand dollars worth of benefits. Thus an increase in earnings causes a loss in “net resources,” meaning the family’s resources after paying for basic expenses. Returning to the example of Angela, the figure shows how increases in her earnings would affect the net resources available to her family. Note that the loss of her child care subsidy leaves the family in the red, with resources insufficient even to cover basic necessities.

The most striking part of this scenario is that as earnings *double* from \$8 to \$16 an hour, the family actually loses ground. Put another way, as wages rise, losses in benefits lead to a high “marginal tax rate,” so that the family experiences little net gain, or even significant loss, as earnings increase substantially. When a raise causes the family to lose food stamp benefits or a child care subsidy, the marginal tax rate is well over 100 percent, meaning that the increase in earnings leaves the family worse off than before.

Angela’s Net Resources as Earnings Increase⁵



Annual net resources: Annual resources minus annual expenses.

Annual earnings: Assuming full-time work (40 hours/week, 52 weeks/year).

Breakeven line: The point where the family’s resources, including earnings and benefits, equal the family’s basic expenses. When net resources are above this line, the family has resources left over after basic expenses are paid; when net resources are below this line, the family faces a deficit.

Source: NCCP analysis of raw data derived from the Family Resource Simulator. Results based on receipt of the following work supports: EITCs, food stamps, public health insurance, and child care subsidy; housing subsidy is *not* included.

The same basic findings hold throughout the state. In the six localities analyzed for this report—Aurora, Chicago, Peoria, Rockford, Springfield, and Jefferson County—it takes far more than full-time employment at poverty-level wages for a single parent to provide for a family of three. In all six localities, a single parent with an \$8 an hour job is unable to make ends meet without tax credits, food stamps, public health insurance, and child care assistance. In Aurora, even these supports are not enough. Moreover, for both single- and two-parent families, while work supports can help close the gap between low wages and the cost of family necessities, benefit cliffs and high marginal tax rates mean that working more does not always provide increased financial security.

The inability to gain financial ground through hard work and higher earnings can have serious consequences for low-income families. Workers are forced to choose between their long-term success in the workforce and their family's immediate financial stability.

Moving Policies Forward

Illinois can implement a number of policy reforms to ensure that families get ahead when they work and earn more. The largest benefit cliff that families face is the loss of child care subsidies. To address this cliff, Illinois could raise the income eligibility limit for subsidies and adjust the co-payment schedule, or it could create a refundable child care tax credit to offset the high cost of unsubsidized care.

Illinois could also take advantage of the federal food stamp option that allows states to extend food stamps to working families with income somewhat above 130 percent of the poverty level, with benefits phasing out gradually as income rises. This would reduce the size of the food stamp cliff for some families, without additional cost to the state.⁶

Illinois policymakers have made low-wage workers and their families a priority. If parents work full-time, the state's work support policies can generally close the gap between low wages and family expenses. The challenge now is ensuring that progress in the workforce yields clear and consistent benefits. Illinois has already taken an important step in this direction by implementing a public health insurance program for all children that includes premiums that rise with income. Policies like these can create a work support system designed to truly make work pay.

Endnotes

1. These statistics refer to the employment level of the parent in the household who maintained the highest level of employment in the previous year, with "full-time" defined as working at least 50 weeks and for at least 35 hours during the majority of those weeks. "Part-time" is defined as working less than that. Source: NCCP analysis based on the U.S. Current Population Survey, Annual Social and Economic Supplements, March 2004, 2005, and 2006, representing information from 2003, 2004, and 2005.
2. The Illinois Family Resource Simulator applies federal and state tax and benefit rules that were in effect as of July 2006.
3. The results presented in this report are based on analysis of data from NCCP's Family Resource Simulator <www.nccp.org/modeler/modeler.cgi>. Results are based on the following assumptions: family has one preschool-aged child and one school-aged child; children are in center-based care settings while their parent(s) work (the older child is in after-school care); family members have access to employer-based health insurance when not enrolled in public coverage. For more information about how the Family Resource Simulator estimates the cost of family expenses, see Appendix B in the full report.
4. For more discussion on these issues, see Cauthen, N. K. (2006). *When work doesn't pay: What every policymaker should know*. New York, NY: National Center for Children in Poverty, Columbia University Mailman School of Public Health <www.nccp.org/pub_wdp06.html>.
5. See Endnote 3.
6. Food stamps are available to families whose "gross" income is below 130 percent of the federal poverty level if their "net" income (i.e., after subtracting deductions for certain necessities, such as housing and child care) is below poverty. Families experience a "cliff" when their gross income exceeds 130 percent of poverty before their net income reaches the poverty level. A federal option allows states the ability to waive the gross income limit under certain circumstances.

See the full report at <www.nccp.org/pub_swi07.html> for more details,
including results for single- and two-parent families living in six Illinois localities.