

State Policies That Work

IMPROVING THE ECONOMIC SUCCESS OF FAMILIES



A Series of Policy Briefs from the Policy Matters Project

Brief No. 1

INTRODUCTION

The well being of young children and their families is significantly related to the economic success of parents. States wishing to improve children's long-term prospects for success must consider the enactment of policies that actually work to strengthen the economic viability of parents.

Family Economic Success (FES) refers to the ability of working age (18-65) adults and families (up to 200 percent of federal poverty level) to earn enough pay and benefits to provide for their basic needs and to accrue long-term assets such as homes and retirement savings. This brief focuses on policies with research evidence supporting their effectiveness at attaching families to the workforce, improving family income and earnings, building assets, and creating an economic safety net for families.

This brief is a companion to a complete policy and research paper that reviews factors affecting the economic success of families and offers a beginning framework for state FES policy. The complete paper is one in a series of papers available from CSSP at www.cssp.org. Policy and research papers and companion "Policies That Work" briefs are available for six core outcomes: family economic success, school readiness, healthy families, educational success, youth engagement, and strong family relationships. Interested readers may obtain these publications from the CSSP website (www.cssp.org) or by calling the Center at 202-371-1565.

POLICIES IN THIS BRIEF:

WORK ATTACHMENT POLICIES

HEALTH INSURANCE COVERAGE	2
CHILD CARE SUBSIDIES	2
HOUSING LOCATION	3

WORK PREPARATION POLICIES

STATE TANF OPTIONS	4
STATE WIA OPTIONS	5

INCOME SUPPORT POLICIES

STATE TAX POLICY	6
STATE MINIMUM WAGE	7
CHILD SUPPORT	7
HOUSING SUBSIDY	8
FOOD SECURITY	9

ASSET DEVELOPMENT & PROTECTION POLICIES

ASSET PROMOTION	10
HOME OWNERSHIP	11
PREDATORY LENDING	11
UNEMPLOYMENT INSURANCE	12
CONCLUSION	14
ACKNOWLEDGEMENTS	15
ENDNOTES	16

WORK ATTACHMENT POLICIES

Federal welfare reform enacted in 1996 signaled a fundamental shift from cash assistance to emphasizing the importance of work for low wealth families and communities. Most forms of public assistance now center on a family's ability to seek, earn, and retain employment. While this emphasis has successfully led to more widespread employment, it has also led to growing numbers of working poor.

No family of full-time wage earners should be poor. Therefore, work attachment policies should have as their primary objectives to both enhance employment security and make employment financially worthwhile.

POLICY 1

Health Insurance Coverage

States have expanded health insurance coverage for children through Medicaid and other programs since enactment of SCHIP. However, adults in low-income families often qualify for coverage only if their income falls below the outdated welfare income eligibility limits used prior to the 1996 federal welfare reform law.

Health insurance coverage, especially private insurance coverage, is significantly related to whether families face health, food, housing and child care security. The lack of insurance significantly predicts problems in family well-being and the onset of critical hardships. Moreover, the perils associated with the lack of health insurance are concentrated among working poor and moderate income working families not eligible for Medicaid and not receiving private employer-sponsored care. And for many who do receive private insurance coverage, monthly premiums and co-pays are on average \$350 per month.¹

1.1 Financial Eligibility for Health Insurance. Given that adult participation in health care coverage and services often affects rates of child participation, states should mix the various sources of health care coverage (Medicaid, CHIP, state-funded programs, and private coverage incentives) to ensure continuous coverage for all family members (child and parents) at 250% or more of the federal poverty level.² The current distribution of health insurance need and the distribution of state eligibility levels suggest 250% of the federal poverty level is a reasonable benchmark for health insurance coverage.³

1.2 Immigrant Coverage. States can extend public health insurance coverage to immigrant families ineligible for federal assistance. This would be an important policy option to consider given the significant and growing number of working poor immigrant families in the United States.

POLICY 2

Child Care Subsidies

With greater emphasis placed on work, greater numbers of low-income women have returned to the workforce. These returns to the workforce have created greater need and demand for quality child care by all working families.

The availability, then, of child care subsidies and quality care is a critical work attachment need for many families.⁴

2.1 Income Eligibility for Subsidies. State eligibility levels vary considerably, ranging from 122 percent to 325 percent of the federal poverty level.⁵ Currently, only one state has a legal entitlement that guarantees child care for eligible working families needing child care assistance. Because of the increasing work demands placed on low income families and the high cost of child care, at a minimum, states should expand income eligibility for child care assistance up to 75 percent of the state median income and guarantee availability of subsidies for all working families.

2.2 Subsidy Parent Co-payments. Full-day, full-year care for one child can cost parents up to \$10,000 per year – more than tuition at many state higher education institutions.⁶ Although subsidy programs reduce the cost to families, some states charge large parent co-pays.⁷ All states should keep parent co-pays for child care (irrespective of the number of children in care) below ten percent of family income and waive co-payments for families below the poverty line.

POLICY 3 **Housing Location**⁸

The location of low-income housing near areas of high job growth and high economic opportunity enhances the economic prospects available to low-income families.⁹ However, studies have shown that a high proportion of rental property owners consider some of their units off-limits to voucher holders,¹⁰ especially during tight rental markets.¹¹ One goal of housing location policy should be to encourage the development of housing for low-income families in locations that make employment achievable.

States should adopt Consolidated Plans and Qualified Application Plans that – whether through Low-Income Housing Tax Credits, HOME, or Community Development Block Grants – create, preserve, and locate quality public housing stock in low-poverty, high-opportunity areas. The following measures should create equitable access to quality housing, economic opportunities, and resources for low-income families:

3.1 Developer Incentives. States should provide incentives to developers who locate family-sized units in high-growth areas.

3.2 Zoning Requirements. States should adopt “fair share” zoning requirements.

3.3 Residency Preferences. States should prohibit residency preferences at Public Housing Authorities (PHA). Residency preferences are especially restrictive for those attempting to move from one PHA area to another where preferences exist. In such cases, a voucher holder moving from area A would be placed at the bottom of the housing list in area B, where other voucher holders are given preference simply due to current

residence status. States should treat all vouchers equally across jurisdictions and particularly in areas where there is more opportunity for better jobs and housing.

3.4 Housing Search and Counseling Assistance. States should provide funding support for housing search and mobility counseling.

3.5 Anti-Discrimination Laws. States should prohibit discriminatory housing practices against housing assistance recipients by defining “source of income” as a protected category.

WORK PREPARATION POLICIES

One of the first objectives to be achieved by work-related public policy is the preparation of a state’s workforce. State policy should aim to increase both the education and skill levels of the low-income workforce. State options regarding two federal laws, Temporary Assistance to Needy Families (TANF) and the Workforce Investment Act (WIA), hold promise for meeting this objective

POLICY 4

Temporary Assistance to Needy Families (TANF)

Federal TANF decisions notwithstanding, states can take a number of steps to better prepare their workforce for full-time, family-supporting work. The Center for Law and Social Policy found that states experience the greatest success at helping parents work more and earn more over the long term when they focus on employment but make substantial use of education and training. These accomplishments persist even when the worker begins with less than a high school diploma.¹² However, only 10 percent of TANF recipients were in job skills training¹³ and less than one percent of TANF funds were allocated to education and training investments.¹⁴ Given the evidence supporting the effectiveness of combining a focus on work with education and training supports, several recommendations appear warranted.

4.1 Education and Training Requirement. State TANF policies should ensure that educational and vocational training are not counted against the statutory time limits on eligibility.

4.2 Time Limits for Working Families. Time limits for financial assistance should be suspended while a parent works full time, even if some financial assistance is still being provided. Efforts to maintain full-time work should not be penalized.

4.3 Education and Training for Families Not Receiving Cash Assistance.¹⁵

Research indicates that extended training is often necessary to secure a job that pays enough to allow independence from financial assistance. States should fund more than twelve months of education and training support to families not receiving cash assistance but needing work preparation assistance.

4.4 Cash Benefit Levels. State cash benefit levels should be set at a level that, when combined with other key benefits, raises working families at least to the poverty level.

4.5 Eligibility of Legal Immigrants. Most legal immigrants who entered the United States after August 1996 are banned from federally-funded TANF benefits for 5 years. Once they pass the 5-year period, states may (but are not required to) offer them benefits. In addition, states may use state TANF funds to provide legal immigrants with TANF benefits during the 5-year ban.¹⁶ To better support legal immigrant families towards self-sufficiency, most of whom have at least one full-time wage earner, states should use state TANF funds to provide TANF benefits during the 5-year ban.

POLICY 5 **Workforce Investment Act**

States also have an opportunity to improve work-related outcomes for families with the policy decisions they make in implementing the Workforce Investment Act (WIA). WIA boards “oversee” the entire workforce system in a state. While WIA implementation is in its early stages, four state policy options to improve work preparation supports for low-income workers can be taken by states.

5.1 Total WIA Training Investment. Evidence suggests that higher overall investments to support worker skills training leads to better employment outcomes. Florida, for example, requires 50% of its WIA-related funds be spent to support such training.

5.2 Training Investments Targeted to Low-Skill Workers. In addition to increasing overall investments in worker training, states should be sure to preserve significant percentages of funding to serve low-skilled workers.

5.3 Inclusive Eligibility. States should enact policy requirements that set inclusive eligibility for those receiving training. Specifically, states should customize and target training to meet the needs of “hard-to-employ,” entry level, and low-wage individuals.

5.4 WIA and TANF Integration. State WIA policies should include efforts to unify the existing workforce system by requiring a number of suggested partners to participate with WIA boards, including TANF agencies. Eight states require unified workforce plans involving, at minimum, WIA and TANF agencies.¹⁷

INCOME SUPPORT POLICIES

In 1995, 57.6 million people were poor based upon earnings alone. However, the provision of government benefits – including food stamps, housing assistance, school lunch support, and the earned income tax credit – reduced the number of poor people to 30.4 million.¹⁸ The income maintenance system is tremendously important to people who would not otherwise be able to feed, clothe, house, and physically care for themselves. Despite the potential success of the economic safety net, however, many problems remain for poorer families. Consequently, income support policies should have as their main objectives (1) to encourage, support, and reward employment and (2) to provide income support adequate for lifting families above their needs and out of poverty.

POLICY 6 State Tax Policy

One way for states to support working families in their efforts to earn enough income for their needs and to progress toward greater economic success is to enact tax policies that allow families to retain more of their earnings. Unfortunately, most states failed to lower tax burdens on low-income families during the economic expansion of the late 1990's and maintain a regressive tax system through sales taxes. In fact, the reliance on regressive tax structures is increasing in many states while use of more equitable, progressive tax alternatives are declining or remaining level for most states.¹⁹ Consequently, states should structure the mix of personal income and sales tax and tax credit policies in a way that relieves the overall tax burden on poor and near-poor families, provides net subsidies to these families, and encourages work.²⁰

6.1 Personal Income Tax Rates. The effective state income tax rates for working poor and near-poor families (50%, 100%, and 200% of poverty) should be proportional to the rate for high-income families (300% of poverty). In other words, working poor and near-poor families should not pay proportionally more in income tax than more affluent families.

6.2 Sales and Excise Taxes. Evidence suggests that states can significantly lighten the financial burden of low income families by lowering the percentage of state revenue raised from sales and excise taxes, taxes which disproportionately affect poorer taxpayers. In 2000, states on average derived 47 percent of their revenue from sales and excise taxes, compared to 36 percent from personal income and 7.5 percent from estate and corporate taxes.²¹ Bringing reliance on sales and excise taxes for state revenues to levels commensurate with revenue from income taxes (approximately 35 percent nationally) would benefit low-income families.²² Lowering reliance on regressive sales taxes may also improve the effectiveness of other policies designed to make families economically self-sufficient and less dependent on government assistance.

6.3 Earned Income Tax Credit (EITC). Research demonstrates that enactment of an EITC can significantly improve the economic fortunes of low-income families.²³ Refundable EITCs are superior to non-refundable credits if the goal is to provide a net subsidy to families. Further, states with EITCs refundable at 20% or more of the federal credit are more likely to impact child poverty and increase family income. States should enact refundable EITCs at 20 percent or more of the federal credit.

POLICY 7 State Minimum Wage Laws

Another way states can help families earn more and meet their basic needs is to increase state minimum wage levels beyond the federal minimum. Despite continuing debates about the impact of increasing the minimum wage, it is widely held that a 10 percent increase in the minimum wage generally results in about a one percent decrease in employment.²⁴ Some research evidence even suggests that increases in the minimum wage (1) have positive benefits for both minimum wage earners and those just above the minimum wage, (2) have benefits beyond their costs, and (3) can be enacted without significant job loss during economic downturns.²⁵ At current levels, no minimum wage worker is able to afford even “modest” two-bedroom housing in any county in the U.S.²⁶ And yet, only eleven states and the District of Columbia have minimum wages above the federal minimum.

7.1 Minimum Wage Level. States should enact state-enhanced minimum wages exceeding the federal minimum. Such enhancements are more likely to improve the ability of working families to meet their needs through earnings. Twelve states have minimum wage laws above the federal wage of \$5.15 per hour. Of these, nine have minimum wage levels above \$6.00 per hour.²⁷ Eleven states either have no minimum wage laws or set wage levels below the federal wage level for some workers, failing to offer basic wage protection to its working families.

7.2 Minimum Wage Adjustments. States should index their minimum wage levels to inflation. Without indexing wage rates, the increasing cost of living will erode the real wage of low-income earners. For example, the inflation-adjusted real value of the federal minimum wage in the 1990s was approximately 20 percent lower than its value in 1979 – despite four increases in the federal minimum wage.²⁸ Twenty-one states currently have minimum wage laws indexed to the federal wage rate and/or inflation.

POLICY 8 Child Support

Child support payments are critically important to the financial health of families and potentially to encouraging non-custodial parents to return to the workforce. The child support program is one of the largest human service programs in the country. Its reach is extensive, with the majority of state child support caseloads being comprised mostly of welfare leavers and low-income

mothers, fathers, and children not receiving welfare.²⁹ Child support payments comprise nearly twenty-six percent of total family income among low-income families, second only to earnings.³⁰ Consequently, states should consider two child support policy options.

8.1 Child Support Pass-through. States should allow more child support money to reach custodial parents by enacting full pass-through options. Pass-through options provide better economic supports to children and their custodial parents by ensuring that child support payments are not kept by the state but forwarded to the custodial parent. Moreover, evidence suggests that non-custodial parents who pay child support and believe child support distribution rules to be fair are more likely to be involved in the parenting of dependent children.³¹

8.2 Child Support Disregards. States should disregard all child support income in its determination of eligibility for other benefits programs. Including child support income in eligibility determination effectively nullifies the benefits of pass-through options and may result in families being denied much-needed supports.

POLICY 9 **Housing Subsidy**

Recent evidence indicates that recipients of government funded housing subsidy have better work-related outcomes than low-income persons without such support.³² Beyond improving work retention and attachment, the provision of housing assistance increases the available income of families and provides housing security. Moreover, housing vouchers – which enhance family choice and mobility in choosing housing locations – have greater potential for producing better social outcomes like higher educational achievement, reduced teen pregnancy, lower violence and crime activity, and reduced child health concerns.³³ Given the growing evidence documenting the relationship between housing subsidy and location policies and family well being, states should pursue two options for subsidizing the housing needs of low-income families:

9.1 Limit Resident Contributions to Housing Costs. The nationally accepted standard for housing costs as a percent of total income is 30%; however, in many places, families pay as much as 50% of their income in housing costs. State housing policies should mirror this standard and authorize the use of housing subsidies that limit resident contributions to 30% of family income.

9.2 Target Families with the Greatest Housing Needs. States should target families with the greatest housing needs and the lowest incomes for housing assistance. Several mechanisms, including raising subsidy values to 110% of fair market rent levels, expanding project-based housing stock, and preserving family-sized units for very low-income families, could be used to implement these policy options.³⁴

POLICY 10 Food Security

Hunger poses a major threat to the stability and well-being of millions of American families. The Food Stamp program is a federal-state partnership designed to provide a nutritional safety net for families up to 130% of the federal poverty level. The 1996 Welfare Reform law granted states waiver authority to change nearly any feature of the food stamp program to strengthen the nutritional safety net for poor families, with the exception of some provisions to ensure fiscal responsibility and to preserve the program as a nutritional safety net. Moreover, food stamp provisions of the 2002 Farm Bill accord states more flexibility, additional simplification in administering food stamp programs, and ten new or expanded options.³⁵ Given the broad range of options available to states, the current recommendations limit their focus to options affecting benefit structure and benefit delivery. Specifically, states can improve the effectiveness of their benefits structure by:

- 10.1 Coordination of Benefits.** States should make benefits more accessible to families by coordinating and standardizing Food Stamp eligibility with SSI, TANF, child care, and Medicaid benefits. In fourteen states, the application used for cash assistance is also an application for Food Stamps, Medicaid, and child care. Only three states limit joint applications to Food Stamps and cash assistance – Hawaii, North Dakota, and Wisconsin.³⁶
- 10.2 Extend Benefits to Immigrant Families.** States should fund food stamp replacement programs for legal immigrants ineligible for the Food Stamp program. Federal legislative changes as a result of Welfare Reform effectively denied federal Food Stamp benefits to certain legal immigrants, resulting in growing numbers of immigrant families living in hunger or experiencing food shortages. Twelve states have initiated programs to extend food assistance to legal immigrants who would otherwise be eligible for Food Stamp benefits.³⁷
- 10.3 Extend Benefits to High Unemployment Areas.** States should waive three-month time limits for unemployed, childless adults in high unemployment areas. Waivers for able-bodied adults without dependents (ABAWDs) are currently enacted in all but six states.³⁸
- 10.4 Income and Resource Definitions.** Aligning income and resource definitions for TANF, Medicaid and food stamps makes it easier for eligible families to receive needed services and preserve assets while receiving benefits. States may opt to use either TANF or Food Stamp vehicle rules when one or the other results in lower asset attributions to a family. Thirty-three states currently use the more family-supportive TANF asset limits instead of the more restrictive Food Stamp limits. An additional seven states make all or some of their families categorically eligible for Food Stamps without regard to their assets. Nineteen states

exclude all vehicles in asset calculations. Eleven states continue to use the more restrictive Food Stamp asset limits, ten of which include the value of both vehicles.³⁹ At minimum, states should exclude the value of one car and align asset tests with the least restrictive state program.

10.5 Transitional Benefits. Many families leaving cash assistance for work continue to experience economic and food hardships. Evidence suggests that a state providing transitional benefits to families leaving cash assistance makes the family's transition to greater independence more successful. At present, only New York offers transitional benefits.

These provisions make access to and maintenance of benefits easier for families and provide relief to those families experiencing temporary transitions or hardships. Regarding benefit delivery, states should adopt:

10.6 Semi-Annual Reporting. Nineteen states have adopted semi-annual reporting periods for determining household eligibility rather than the burdensome monthly requirements. Another six states require quarterly eligibility re-determination.⁴⁰ There is no evidence to suggest that monthly eligibility requirements improve accountability and, in fact, there is some evidence that monthly reporting requirements increase state error rates.

10.7 State Supplements WIC. WIC is a federal grant program, not an entitlement, with a specific amount of funds allocated to states each year. States use their own funds to supplement federal funding and serve more recipients. At present, eleven states provide supplemental funding for WIC programs.⁴¹

ASSET DEVELOPMENT & PROTECTION POLICIES

The primary objectives of the asset development and protection policies are to promote the acquisition of financial assets among low-income families and to protect families from catastrophic events and predatory practices that erode their assets.

POLICY 11 Asset Promotion

Two excellent ways for states to promote the acquisition of assets among low-income families are to establish individual development accounts for such families and to raise asset disregards in key government benefits programs.

11.1 Individual Development Accounts. Individual Development Accounts (IDAs) are becoming increasingly popular for promoting the accumulation of assets in the form of homes, businesses and education.⁴² States should assist families out of long-term poverty by enacting IDA programs with savings limits of \$5,000 to \$10,000 or more and by providing a match to family contributions.

11.2 TANF Asset Disregards. Evidence suggests that lower asset disregards prematurely penalize families for making the correct financial decision to save and for seeking higher-paying work opportunities. State TANF policies should assist working families by entirely excluding the value of at least one car and setting a limit on countable assets at \$5,000 or higher.⁴³

POLICY 12 Home Ownership

Another way to promote the development of assets is through home ownership. In particular, homeownership is especially important for asset accumulation among populations that tend to have lower levels of wealth, such as African Americans and Hispanics. While home equity represents, at the median, 40% of the net worth of white families, it represents 57% of the net worth of African-American homeowners and 71% of the net worth of Hispanic families.⁴⁴ Despite this, minority populations have lower overall homeownership rates than white families. States should consider two policies to foster home ownership among low-income persons.

12.1 Home Buyer Assistance Programs. First-time buyer assistance programs targeted to low-income families can help improve the homeownership prospects of low-income families.

12.2 Home Ownership Counseling. Home ownership counseling services could help prevent low-income, elderly, and minority families from falling prey to predatory sub-prime lending practices and prevent subsequent loan defaults. A lack of financial training and education, along with the absence of basic forms of asset protection like health and life insurance, can expose workers to serious and preventable misfortune, limit their opportunities to accumulate assets, and hinder overall economic success.

POLICY 13 Predatory Lending

Asset protection is vital to safeguarding the wealth families have built. Consequently, it is important for government to police against events or private practices that, in effect, strip families of their accumulated wealth. For this reason, states should pass anti-predatory lending legislation and stronger unemployment insurance policies.

According to the Coalition for Responsible Lending, predatory lending practices cost consumers an estimated \$9.1 billion annually. Recognizing the need to protect homebuyers, homeowners and other consumers from these deceptive, manipulative and costly practices, a number of states have passed legislation to curb predatory lending. North Carolina's predatory lending legislation is widely regarded as a model for effective state policies. It protects consumers by including provisions to:

13.1 Establish Limits on Loan Interest Rates. Over time, high interest rate loans become a financial burden to low-income families. Limiting sub-prime interest rates protects unsuspecting and uninformed consumers, often elderly and minority families, from unscrupulous lending practices.

13.2 Ban Negative Amortization, Pre-payment Penalties, Premium Credit Insurance, and Loans to Persons with Excessive Debt. Predatory lending agencies employ a number of tactics that hide the total cost of loans. Prohibiting such practices, through predatory lending or usury statutes, protects families from fraud and losing their equity and assets.

13.3 Consumer Counseling. Most victims of predatory lending are either unaware that they qualify for prime lending rates or generally are financially uninformed. States should require consumer financial counseling and education for persons seeking “high cost” loans.⁴⁵

POLICY 14 Unemployment Insurance⁴⁶

Protecting workers’ wages is also an important policy strategy for states to pursue. By protecting the wages of unemployed workers, state policy helps shield assets from being exhausted in times of crisis and economic downturn. Four options for improving the effectiveness of UI are available to states.

14.1 Wage Replacement Levels. There is broad consensus that UI wage replacement benefits should replace 50% or more of lost weekly earnings for full-year, full-time minimum and median wage workers. Moreover, state UI benefits should exceed poverty level income for families with children.⁴⁷

14.2 Benefits Duration. Nearly all states provide wage replacement benefits over a 26-week period. However, Washington and Massachusetts provide benefits for 30 weeks. Alaska, California, New Jersey, and Connecticut extend UI benefits by an additional 13 weeks, the District of Columbia by 10 weeks, and Oregon by 6 weeks when unemployment reaches specified levels. To protect workers during economic recessions and periods of high unemployment, states should extend UI benefits for an additional 13 weeks above the typical base period of 26 weeks.

14.3 Alternative Base Periods. UI reforms are needed to reflect the changing dynamics of the labor market. Specifically, states should adopt alternative base periods for calculating eligibility based on earnings. Many states exclude a worker’s most recent quarter of work in determining eligibility – a policy decision that disproportionately impacts low-wage, low-skill workers and families. Twelve states currently use an alternative base period that includes hours worked and wages earned during the most recent quarter.⁴⁸

14.4 Part-time Worker Coverage. States could also provide more equitable UI coverage by making part-time workers and those seeking part-time work eligible for benefits. While in all but eight states a worker earning minimum wage and working full-year at 20 hours per week is eligible for UI, individuals seeking part-time work are ineligible for UI in 31 states. Failure to extend UI benefits to part-time workers disproportionately affects low-income and women workers who comprise about 70% of the part time workforce.⁴⁹

JOB CREATION POLICIES

Job creation policies seek to stimulate the demand side of the labor market. Such policies use public funds either to encourage private employers to create additional wage-earning jobs in the private sector or to create publicly funded jobs in the public or nonprofit sectors for those who cannot otherwise find employment. Of the many types of job creation policies, two seem to have sufficient scope and directly target low-income workers: public sector employment and wage subsidies.

POLICY 15 Public Sector Employment

Public sector employment⁵⁰—using public funds to create wage-paying jobs in nonprofit and public agencies—is one useful tool for closing the skills gap and matching jobless workers with available jobs in their communities. Public sector employment initiatives typically share a set of common elements. They pay participants wages that are counted as taxable income—meaning that wages are subject to FICA payroll taxes and enable participants to qualify for the federal Earned Income Tax Credit. Public or nonprofit agencies develop jobs that engage participants in useful work and provide close supervision at the work site. Some programs place participants with for-profit employers, typically on the condition that they retain successful participants in unsubsidized jobs following a specified period of subsidized employment. Many programs seek to enhance participants’ skills by offering access to vocational training and education on the job or after work hours.

These initiatives usually impose limits on the number of months an individual can spend in a publicly funded job, even as they attempt to help participants move into unsubsidized employment. Examples of current public sector employment initiatives include the Philadelphia Transitional Work Corporation’s Philadelphia@Work program, Washington State’s Community Jobs Initiative (CJI), which uses TANF funds to place hard-to-employ welfare recipients, and Vermont’s Community Service Employment (CSE) program.

POLICY 16 **Employer-Based Wage Subsidies**

Wage subsidy programs⁵¹ represent a “market-based” solution to creating jobs for the disadvantaged by providing direct subsidies to private employers. These initiatives typically address market imperfections that either depress the level of overall job creation or lower the rate of employment for economically disadvantaged individuals or communities. Wage subsidies can be delivered to employers via direct subsidies or tax-based subsidies and can take a variety of forms, including general wage subsidies not necessarily targeted at disadvantaged workers, categorical entitlement wage subsidies that target specific groups and are available to all employers meeting certain hiring criteria, and categorical discretionary wage subsidies targeting specific groups for employment but awarded at the discretion of a labor market agency. Examples of current wage subsidy programs include Oregon’s JOBS Plus Program.

CONCLUSION

Fostering family economic success is a complex and challenging issue, but one that should be a priority for all state policymakers. Ultimately, success in this arena will be determined not only by public policies, but also by larger economic forces. Despite the challenges and uncertainties, wise investments in good policies can make a real difference in raising living standards and improving life chances.

In this brief, a combination of work, income, and asset-related policies for providing poor and near-poor families with the opportunity to support themselves and their children is presented. By adopting an appropriate combination of these policies and implementing them effectively, states can help families overcome persistent hardships, reduce the ever-widening income and assets gap, and better position themselves to achieve family economic success.

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ENDNOTES

- ¹ Boushey, Heather, Chauna Brocht, Bethney Gundersen and Jared Bernstein (2001). *Hardships In America: The Real Story of Working Families*. Washington, D.C.: Economic Policy Institute. See also Bauman, Kurt (1998). "Direct Measures of Poverty as Indicators of Economic Need." Washington, DC: U. S. Bureau of the Census.
- ² This recommended benchmark is taken from the *Policy Matters* "Healthy Families" paper. Health insurance coverage is a policy that impacts each of the six core results of the *Policy Matters* project.
- ³ For example, Missouri and Vermont offer Medicaid insurance coverage to all children ages 0-19 up to 300% of the federal poverty level. Minnesota extends Medicaid eligibility to 280% of FPL for children 0-1 year and to 275% for children 1-19 years of age. Rhode Island extends Medicaid eligibility to 250% for all children ages 0-19. Eligibility levels for children enrolled in separate CHIP programs ranges from a high of 350% in New Jersey to a low of 133% in Wyoming. Eight states maintain CHIP eligibility levels at 250% or higher, with 20 states setting CHIP eligibility levels at 200% of the federal poverty level. Though Massachusetts sets its CHIP eligibility level at 200% of federal poverty, the state uses state-sponsored coverage to extend eligibility to 400% of federal poverty. Source: Kaiser Family Foundation's State Health Facts Online. Available at <http://www.statehealthfacts.kff.org>.
- ⁴ While quality, availability, and affordability of child care are all important, the present paper focuses on the affordability of care because of its immediate relationship to the economic success of families. Each of these themes are examined in greater detail in the *Policy Matters* "School Readiness" paper.
- ⁵ Schulman, K., H. Blank, and D. Ewen (1999). *Seeds of Success: State Prekindergarten Initiatives*. Washington, D.C.: Children's Defense Fund.
- ⁶ Schulman, K. (2000). *High Cost of Child Care Places it out of Reach for Many Families*. Washington, D.C.: Children's Defense Fund.
- ⁷ Thirty-seven states currently maintain parent co-payments at ten percent or less of family income for families up to 150 percent of the federal poverty level. Only four states charge no co-pay to a family of three at the federal poverty level, assuming only one child in care; source: Schulman, K., H. Blank, and D. Ewen (2001). *A Fragile Foundation: State Child Care Assistance Policies*. Washington, D.C.: Children's Defense Fund.
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- ²² While we recommend that states directly reduce their reliance on sales taxes as a more direct support to families, they may also provide relief to low income families through low-income tax credits, exempting essential consumption items like clothing and food, and by issuing sales tax rebates.
- ²³ The EITC is a tax reduction that supplements the income of low- and moderate-income working families. The federal government administers the EITC through the federal income tax system. A growing number of states have also enacted state EITCs as a way to reduce child poverty, reward families moving from welfare to work, and increase the disposable income of families struggling to make ends meet. Six states offer non-refundable credits. Thirteen states have refundable EITC laws with refund percentages ranging from a low of four percent in Wisconsin to a high of 43 percent of the federal credit, also in Wisconsin. Wisconsin’s EITC program offers a refund of 4% to families with one child, 14% to families with two children, and 43 percent to families with three children. Most states offering a refundable EITC set percentages at 10-15% of the federal credit. See Bennett, Neil G. and Hsien-Hen Lu (2001). “Untapped Potential: State Earned Income Credits and Child Poverty Reduction” (Research Brief 3). New York: National Center for Children in Poverty.

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- ²⁷ The twelve states with minimum wage levels above the federal minimum are: Alaska (\$5.65), California (\$6.75), Connecticut (\$6.70), Delaware (\$6.15), District of Columbia (\$6.15), Hawaii (\$5.75), Maine (\$5.75), Massachusetts (\$6.75), Oregon (\$6.50), Rhode Island (\$6.15), Vermont (\$6.25), and Washington (\$6.72).
- ²⁸ Mishel, Lawrence, Jared Bernstein, and John Schmitt (2001). *The State of Working America, 2000-2001*. Washington, D.C.: Economic Policy Institute, p. 6.
- ²⁹ Only about 20 percent of state child support caseloads are current TANF assistance recipients. See Written testimony of Vicki Turetsky, Senior Staff Attorney, Center for Law and Social Policy, before the Subcommittee on Social Security and Family Policy, Senate Finance Committee, U.S. Senate. Submitted for the record on October 11, 2001.
- ³⁰ Ibid, p. 5. Earnings comprise 38%, child support 26%, cash assistance 20%, and other income 16% of family budgets among poor families receiving child support. See also Sorenson, Elaine and Chava Zibman (2000). "To What Extent Do Children Benefit from Child Support?" Washington, D.C.: The Urban Institute.
- ³¹ Written testimony of Vicki Turetsky, Senior Staff Attorney, Center for Law and Social Policy, before the Subcommittee on Social Security and Family Policy, Senate Finance Committee, U.S. Senate. Submitted for the record on October 11, 2001.
- ³² Ong, Paul (1998). "Subsidized Housing and Work among Welfare Recipients," *Housing Policy Debate*, 9 (4):775-794; and Sard, Barbara and Jeff Lubell "The Value of Housing Subsidies to Welfare Reform Efforts." Washington, D.C.: Center on Budget and Policy Priorities.
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- ³⁶ Source: State Policy Documentation Project. Data are available at: <http://www.spdp.org>.
- ³⁷ The twelve states are: California, Connecticut, Illinois, Maine, Maryland, Massachusetts, Nebraska, New Jersey, New York, Rhode Island, Washington, and Wisconsin. Source: Food and Nutrition Service, www.fns.usda.gov/fsp/rules/Memo/PRWORA/02/StatePrograms.htm.
- ³⁸ Source: Food and Nutrition Service, www.fns.usda.gov/fsp/rules/Memo/02/abawdch1.htm. The six states without ABAWDs are Delaware, Kansas, Massachusetts, North Carolina, Ohio, and Oklahoma.
- ³⁹ Food and Nutrition Service (April 2002). "Food Stamp Program: State Options Report." Washington, D.C.: Author.

- ⁴⁰ Food and Nutrition Service (April 2002). "Food Stamp Program: State Options Report." Washington, D.C.: Author.
- ⁴¹ For state-by-state data on supplemental funding in FY 1998, see Table 1 in U.S. General Accounting Office (March 2000), *The Special Supplemental Food Program for Women, Infants, Food Assistance: Financial Information on WIC Nutrition Services and Administrative Costs*. GAO/RCED-00-66 (report is available on the GAO Web site: <http://www.gao.gov/>).
- ⁴² Twenty states offer statewide IDA programs to TANF-eligible families. Of those, eight states have no limit on the total amount a family can contribute to an IDA and ten have limits of \$5,000 or more. Five states match a family's contribution to an IDA. Source: State Policy Documentation Project. Those states are Indiana, Kentucky, Maine, New York and Washington.
- ⁴³ Currently, 21 states exclude the entire value of at least one vehicle (Michigan excludes the value of all vehicles and Ohio has no asset limit) and nine states establish a limit on countable assets of \$5,000 or more. Source: State Policy Documentation Project.
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- ⁴⁵ Goldstein, Deborah (1999). *Understanding Predatory Lending: Moving Toward a Common Definition and Workable Solutions*. Cambridge, MA: Joint Center for Housing Studies, Harvard University.
- ⁴⁶ For a thorough treatment of unemployment insurance and a report on state systems see Emsellem, Maurice, Jessica Goldberg, Rick McHugh, Wendell E. Primus, Rebecca Smith, and Jeffrey Wenger (March 2002). "Failing the Unemployed: A state by state examination of unemployment insurance systems." Washington, D.C.: Economic Policy Institute, Center on Budget and Policy Priorities, and National Employment Law Project.
- ⁴⁷ Presently, benefit levels in 14 states fail to replace 50% of a median-wage worker's income. In two states, California and Illinois, benefit levels fail to replace even 50% of a minimum-wage worker's income. And in eight states, the maximum benefit amount does not equal or exceed poverty for a one-parent family of three. See *Failing the Unemployed*, p. 9.
- ⁴⁸ Those states include: Maine, Massachusetts, Michigan, New Hampshire, New Jersey, New York, North Carolina, Ohio, Rhode Island, Vermont, Washington, and Wisconsin. See *Failing the Unemployed*.
- ⁴⁹ Emsellem, et al. (March 2002).
- ⁵⁰ For more on this topic, see Johnson, Cliff, William Schweke, and Matt Hull, "Creating Jobs: Public and Private Strategies for the Hard-to-Employ," prepared for the Annie E. Casey Foundation by the Center on Budget and Policy Priorities and the Corporation for Enterprise Development.
- ⁵¹ For more on wage subsidies, see Bartik, Timothy (2001). *Jobs for the Poor: Can Labor Demand Policies Help?* New York, NY: Russell Sage Foundation.

About the Policy Matters Project

Policy Matters is an initiative of the Center for the Study of Social Policy in collaboration with the National Center for Children in Poverty (NCCP) and Child Trends. The *Policy Matters* project is designed to develop and make available coherent, comprehensive information regarding the strength and adequacy of state policies affecting children, families, and communities. The project seeks to establish consensus among policy experts and state leaders regarding the mix of policies believed to offer the best opportunity for improving child and family well-being. A series of policy briefs, policy papers, guides for self-assessment, and 50-state comparative reports are envisioned. The project focuses on six core results: school readiness, educational success, family economic success, healthy families, youth development, and strong family relationships. These six core results comprise one composite family-strengthening policy agenda, emphasizing the importance of both individual results and the interaction of multiple results.

About the Partners

The Center for the Study of Social Policy is a non-profit, non-partisan policy organization located in Washington, D.C. The Center's mission is to promote policies and practices that improve the living conditions and opportunities of low-income and other disadvantaged persons. The Center works in partnership with federal, state, and local governments and communities to shape new ideas for public policy, to provide technical assistance to states and communities, and to develop and lead networks of innovators.

The National Center for Children in Poverty (NCCP) identifies and promotes strategies that prevent child poverty in the United States and that improve the lives of low-income children and their families. NCCP designs and conducts field-based studies to identify programs, policies, and practices that work best for young children and their families living in poverty. NCCP further advances its mission by disseminating information about early childhood care and education, child health, and family and community support to government officials, private organizations, and child advocates, and provides a state and local perspective on relevant national issues.

Child Trends is a non-profit, non-partisan research organization dedicated to improving the lives of children by conducting research and providing science-based information to improve the decisions, programs, and policies that affect children. In advancing this mission, Child Trends collects and analyzes data; conducts, synthesizes, and disseminates research; designs and evaluates programs; and develops and tests promising approaches to research in the field. Child Trends has achieved a reputation as one of the nation's leading sources of credible data and high-quality research on children.

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