Strategies to Support Work and Reduce Poverty

Eileen Trzcinski

Overview of Low Income Working Families in Michigan

1998, the Michigan Budget and Tax Policy Project, an initiative of the Michigan League for Human Services, issued a report by Sharon Parks entitled "Michigan's Families: Poor, Despite Work" [11] . The report chronicled the extent to which children and families face poverty and economic hardship, even though at least one family member works. More recent evidence provided by a report issued in 2000 by the Economic Policy Institute indicates that the economic status of the lowest-wage workers and Michigan's share of poverty wage jobs still lags behind that of prior decades [9].

Low wages and poverty level wage jobs keep many Michigan workers and their families poor.

Key facts regarding the working poor in Michigan and the United States include:

- Data complied by the Michigan League for Human Services' Michigan Budget and Tax Policy Project from the state's Family Independence Agency and Michigan Works! show that current and former cash assistance recipients earn, on average, between $5.96 and $6.65 per hour. In 1998, the wage required to lift a family of four above the poverty line with full-time, full-year employment was $8.19 an hour [7].
- In 1999, the hourly wage for low-wage workers (20th percentile) was $7.87 in Michigan and $7.35 in the U.S. as a whole. In 1979, the inflation-adjusted hourly wage for low-wage workers was $8.45 in Michigan and $7.61 for the U.S. [9].
- 51.7% of low income young children in Michigan and 51.5 percent nation-wide have parents who are employed full- or part-time [10].
- Even when parents work full-time, year-round, some children remain poor. In Michigan, 5.1% of young children with at least one parent working full-time remain in poverty. The corresponding percentage for the nation is 7.7% [10].

51.7% of low income young children in Michigan have parents who are employed full- or part-time.

What Strategies Are Available to Support Work and Reduce Poverty?

In her 1998 report, Sharon Parks of the Michigan Budget and Tax Policy Project identified the following alternatives that could support work and reduce poverty [11]:

Regularly Adjust the Minimum Wage
Improve the Fairness of State Tax Systems and Target Relief to the Working Poor
Make the Unemployment Insurance System More Responsive to the Needs of the Working Poor
Improve Access to Education and Training Opportunities
Improve Access to Health Care for Families
Ensure Affordable, Accessible and Quality Child Care.

States have developed an array of innovative strategies and practical ideas for programs and policies that help low-income families with children.

In *Windows of Opportunity,* analysts at the Center on Budget and Policy Priorities described an array of innovative strategies and practical ideas for helping low-income families with children [12]. Many of these proposals are based on current state and local programs and policies that support the efforts of low-income working families. Charts 1 and 2 provide a listing of some of these proposals with selected examples of programs and policies that are now in place in various states.

Chart 1. Potential Strategies to Support Work and Reduce Poverty

Strategy	Rationale and Description
Worker stipend	In most states, parents lose eligibility for cash aid before their earnings are sufficient to meet their families' basic needs. States can provide wage supplements to parents who work but earn too little to meet their families' basic needs.
Transportation assistance	Many low-income families do not live near the areas of greatest job growth. Often public transportation is not available or is not structured to accommodate reverse commutes, non-standard hours or the multiple stops facing many low-income families. States can provide transportation to low-income families and need not limit this aid to families receiving welfare. States and localities can provide transportation assistance through: • Income-based transportation subsidies • Providing funds to support car purchase • Support car donation programs • Coordinating paratransit alternatives
Child care	States can use various state and federal funding sources to create a seamless system of care for all low-income families. Effective state programs should provide: • Affordable co-payments • Access to care during non-standard hours
Job retention and advancement services	Although many former welfare recipients are working, they are typically in short-lived, low-wage jobs that lack health insurance or other benefits and have little room for advancement or wage growth. State policies can be designed to: • Help recipients get better jobs initially • Provide extended case management services to employed families • Ensure that low-income working families have access to all benefits to which they qualify
Short-term aid	Many low-income families experience temporary crises, such as a car breakdown or the illness of a child, that can jeopardize family stability or a parent's employment. State alternatives for short term aid include: • Emergency assistance programs that provide aid to prevent homelessness or utility cut-offs • Cash diversion programs that cover low-income families not eligible for welfare
Expand health coverage for low-income working parents	While many states, including Michigan, provide health insurance coverage to many of the children in low-income working families, the parents in these same families frequently must go without health insurance. Studies conducted by the states consistently show that more than a third, and often more than half, of parents in families that recently left welfare do not have health coverage, either through the workplace or through public programs. States can now expand coverage for low-income working parents to whatever income level they determine is appropriate, with the help of Medicaid funds. States can use these funds to provide: • Broad-based expansion for all low-income families • Time limited expansion or extended transitional coverage

Source: Sweeney et al. (2000) and Lazere et al. (2000), Center on Budget and Policy Priorities [4,12].

Chart 2. State and Local Examples of Strategies to Help Low-Income Families

Strategy	Selected State/Local Examples
Worker stipend	Texas recently established a pilot program that will provide "post-employment stipends" as part of a comprehensive Employment Retention and Advancement Project. Some families are eligible for stipends of at least $1,200 a year.
Transportation assistance	In New Mexico, families with incomes below the poverty level can qualify for transportation aid, even if they do not qualify for cash assistance. Kansas provides funds for purchase of vehicles and will also cover licensing and insurance costs when needed so long as total expenditures do not exceed $5,000. Michigan provides $1,200 for a down payment on the purchase of a car.
Child care	Many states have reduced or eliminated their required co-payments so that low-income families can better afford child care. For example, Kentucky eliminated co-payments for any family with an income less than $700 per month. The District of Columbia increased reimbursement rates to 10 percent above the regular day rates for evenings, and 15 percent higher for weekend rates. Illinois recently lowered co-payments for working families by instituting a 10 percent earned income disregard and also improved reimbursement rates for centers providing care during non-standard hours.
Job retention and advancement services	A welfare-to-work program called "Steps to Success" in Portland, Oregon helps parents map out career plans, encourages those with low skill levels to participate in training or education, and works with them to find jobs that offer above-minimum wages, decent benefit packages, and opportunities for advancement. The Welfare to Work Partnership was created to work with American businesses in providing employment to former cash assistance recipients and to connect them to family supporting jobs. The mission of the partnership was to motivate employers to hire welfare recipients and to give them the tools they need to succeed. The partnership was successful at recruiting more than 20,000 U.S. employers to be partners. Among the partnership's business leaders, 80% reported that former welfare recipients made productive workers[8].
Short-term aid	Short-term aid is provided in 31 states. Indiana's planned Short-Term Empowerment Program (STEP) offers a broad range of one-time assistance to support employment among families with incomes up to 250 percent of poverty.
Expand health coverage for low-income working parents	Wisconsin, Rhode Island, Connecticut, California, Missouri and the District of Columbia provide expanded health coverage. Wisconsin's "BadgerCare" program offers Medicaid coverage to parents and children with incomes up to 185 percent of poverty and allows them to retain coverage until their incomes exceed 200 percent of poverty.

Source: Sweeney et al. (2000) and Lazere et al. (2000), Center on Budget and Policy Priorities [4,12].

Michigan has consistently taxed families with incomes below the poverty line.

How Can Tax Strategies Be Designed to Help Low-Income Families?
Many low-income working families face a heavy state and local tax burden. Michigan's tax threshold for families of four increased during the 1990s, but a substantial gap still remains between the threshold and the poverty line. In 1991, a family of four owed tax when its income exceeded 60 percent of the poverty line. In 2000, Michigan's tax threshold was 73 percent of the poverty line. j 15

According to analyses by the Center on Budget and Policy Priorities, a majority of states have eliminated the tax burden of income taxes on poor families [3,13]. States can make use of three basic features of a standard income tax structure to reduce or eliminate the income tax burden on low-income families.

Another way to better target low-income tax relief is to reduce and phase out the value of the exemption or credit at higher income levels.

Increasing Personal and Dependent Exemptions
Many of the states that do not tax poor families of three or four members allow relatively large deductions from income for all taxpayers through personal and dependent exemptions and dependent exemptions. The cost of increasing a personal exemption or credit can be mitigated in a number of ways. States can use a personal credit rather than an exemption to target relief to low-income households and reduce costs [3,13].

Increasing the Standard Deduction
By increasing the standard deduction, a state can increase the tax threshold at which families begin to pay taxes. It also reduces the amount of taxes owed by families with incomes about the threshold level [3,13].

For the tax year 1999, eleven states had an Earned Income Tax Credit (EITC) based on the federal EITC.

Providing Low-Income Credits
A tax credit is a subtracted directly from an individual's tax liability. Credits available only to low-income taxpayers can function as a targeted and efficient way of increasing the tax threshold and reducing the tax liability for low-income families. Credits that are refundable-that is, credits for which the taxpayer receives the entire value even if the credit amount exceeds the amount of taxes owed-can serve to offset the burden of other state and local taxes and supplement wages for families at low income levels [3,13].

Less effective strategies include income tax rate reductions. Income tax rate reductions are often of small benefit to low-income taxpayers. Although rate cuts would appear to benefit all taxpayers regardless of income, the benefit for low-income taxpayers is generally very small. Even if a rate reduction is made across the board, it provides a larger dollar benefit for high-income taxpayers than for low-income taxpayers [1,11,13].

Michigan's 2000 income tax on working poor and near-poor families:	**Ranking**	
For families of four with incomes at the poverty live ($17,601): $202	11th	highest
For families of three with incomes at the poverty line ($13,737): $161	7th	highest
For families of three with minimum-wage earnings ($10,712): $34	9th	highest
For families of four with incomes at 125% of the poverty line ($22,001): $386	13th	highest
For families of three with incomes at 125% of the poverty line ($17,171): $305	9th	highest

Source: Zadradnik et al. (2001), Center of Budget and Policy Priorities, State Fact Sheets [13]

State Earned Income Tax Credits in 1999

State EITCs are tax credits for low-income working families that are based on the federal EITC. The EITC can provide significant tax relief and an income supplementation to workers. The federal EITC is now credited with lifting more children out of poverty than any other federal program. Based on analyses by the Michigan Budget and Tax Policy Project, Table 1 identifies the amount of a state EITC benefit if Michigan were to enact a state EITC based on 25 percent of the federal credit.

Table 1. Potential EITC Benefit Levels in Michigan
(Based on a credit set at 25 percent of the federal credit)

Household Income	EITC for Workers Raising One Child	EITC for Workers Raising Two or More Children
$10,000	$578	$954
$15,000	$476	$819
$20,000	$276	$556
$25,000	$ 76	$293

Source: Michigan Budget and Tax Policy Project (2000), "The Impact of A State Earned Income Tax Credit in Michigan"[6].

Table 2 displays the four major features of the EITC which are (1) whether the credit is refundable, (2) the percentage of the federal EITC at which the credit is set; (3) whether the credit is adjusted for family size beyond the adjustment in the federal EITC; and (4) whether workers without qualifying children who qualify for the federal EITC are eligible to receive the state credit.

Table 2. State Earned Income Tax Credits in Tax Year 1999

State	Percentage of Federal Credit	Workers without Qualifying Children Eligible?
Refundable Credits		
Colorado	8.5%	Yes
Kansas	10%	Yes
Maryland	10% (rising to 15% in 2001)	No
Massachusetts	10 (rising to 15% in 2001)	Yes
Minnesota	15% -- no qualifying children	Yes
	15% to 46% -- families with children	
New York	20% (rising to 25% in 2001)	Yes
Vermont	25%	Yes
Wisconsin	4% to 43% -- families with children	No
Non-refundable credits		
Iowa	6.5%	Yes
Oregon	5%	Yes
Rhode Island	26.5%	Yes

Source: Johnson et al. (2000), Center on Budget and Policy Priorities, Appendix I, page 55 [3].

How Can the Unemployment Insurance System Be Made More Responsive to the Needs of the Working Poor?

A number of changes in the unemployment insurance system could provide greater protection to low-income unemployed workers.

Unemployment insurance has become less effective in maintaining income than in the past because a smaller share of unemployed workers now receive unemployment insurance. In 1998, a little more than one in three unemployed workers received unemployment insurance nationwide. In Michigan in the mid-1990s, twenty percent of "job losers" did not receive unemployment insurance benefits[11]. Strategies identified by analysts at the Center on Budget and Policy Priorities the Michigan Budget and Tax Policy Project, the Economic Policy Institute and the Urban Institute to make the U.I system more responsive include [1,2,5,11,13]:

Good cause for voluntarily leaving work

Workers who leave a job voluntarily generally are not eligible for unemployment benefits. As welfare reform efforts lead to an increase in the number of working single parents, Michigan could consider broadening the list of reasons that qualify as "good cause" for leaving a job voluntarily to include reasons such as lack of child care or transportation problems [1,11,13].

Michigan makes it very difficult for part-time workers to qualify for benefits.

Workers available only for part-time work

In recognition of the need to balance work and child rearing, Michigan could consider modifying its eligibility provisions so that a person who looks only for part-time work or work on certain shifts is considered "available" for work. In Michigan, a minimum wage worker must work a minimum of 30 hours per week for 20 weeks within the past 52 weeks in order to have sufficient earnings to quality for benefits. Other states do not have such a formidable barrier for part-time workers [11].

The earnings a worker accrues in seasonal labor in Michigan do not always count toward eligibility or benefit levels for unemployment in the off-season.

Seasonal workers

Michigan is one of a minority of states that treats seasonal workers differently-and more harshly-than other workers in determining eligibility for unemployment insurance benefits. Michigan could consider joining the majority of states and eliminate these exclusions [11].

Dependent Allowances

Some 12 states and the District of Columbia have acknowledged the special needs of working parents by providing additional unemployment insurance payments to workers with children. These payments are called dependent or dependency allowances [1,13].

How Can Individual Development Accounts Help Families Build Assets?

Many states are using TANF funds to establish Individual Development Accounts (IDA). IDAs are sheltered savings for low-income families that often include a match from the state or a non-profit organization. In most of these programs, IDA holders can withdraw funds only for post-secondary education, first time home ownership, or capitalization of a business. Some states also allow TANF IDAs to be used to save for the purchase of a vehicle, to repair a home, or for training program expenses. Thirty states now allow TANF recipients to establish IDAs, and 14 states offer some form of matching contribution [4].