THE STATE OF WASHINGTON'S CHILDREN 2008-2009

Poverty and the Future of Children and Families in Washington State

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POVERTY AND THE FUTURE OF CHILDREN AND FAMILIES IN WASHINGTON STATE

Overcoming poverty is not a gesture of charity. It is an act of justice. It is the protection of a fundamental human right, the right to dignity and a decent life. **~ Nelson Mandela**

It is an extraordinary time in our nation's history – a time of both challenge and hope. Not since the Great Depression has the United States (U.S.) faced the dire economic and fiscal conditions before us. The well-being of our children and families is threatened in a way most of us have never experienced before. Nationally and in Washington State, unemployment is on the rise, foreclosures on homes have skyrocketed, home values are decreasing, and the cost of food and transportation is increasing. The federal government and majority of states are running record deficits. We are being told that the recession may well be long and deep, and that the forecast for our future in the short-term is uncertain.

At the same time, our nation just engaged in an historic presidential election; one that inspired millions more Americans to vote. We elected a president on the promise of change and the hope that we can overcome our differences to meet the challenges we face. And while the economic and fiscal crisis poses significant challenges, the influx of federal funding under the *American Recovery and Reinvestment Act of 2009* has also created tremendous opportunities for changing policies that improve child and family well-being.

Indeed, change is what we need. The current economic crisis threatens to send a substantially greater number of families into poverty. The most recent poverty data does not even reflect the current economic downturn, and nationally over 13 million children live in families with an income below the federal poverty line[1]–$21,200 for a family of four in 2008.[2] Recent estimates suggest that an additional 3 million children in the U.S. will enter poverty by 2010.[3] If we include families below 200 percent of the federal poverty line, regarded as a more accurate benchmark of economic hardship, over 28.5 million children in the U.S. are growing up in families that have difficulty making ends meet on a daily basis.[4]

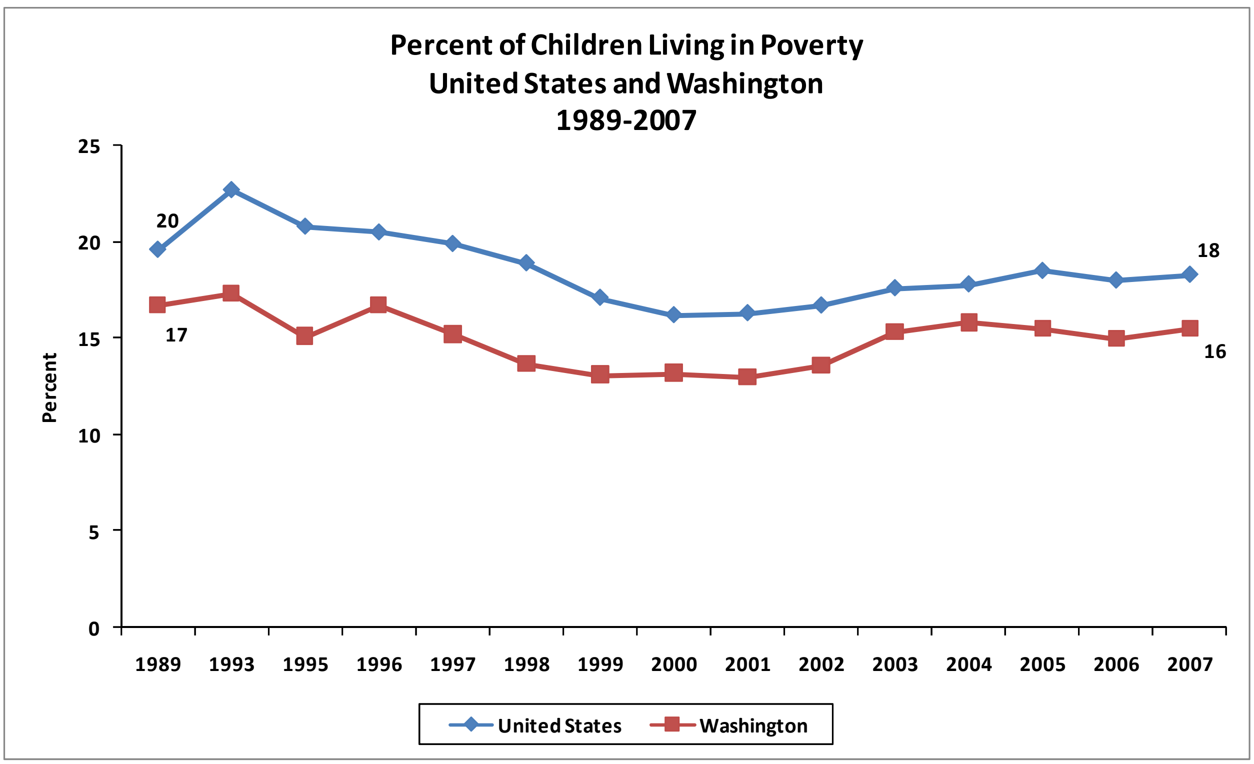
These challenging times inspire us to take stock of the kind of nation we want to be and the change we would like to see. If there is one thing most of us can agree on, it is that all children deserve the same opportunity in life. But children who grow up in poverty fare significantly worse than their more economically secure counterparts on nearly every indicator of child well-being. They do not have equal opportunity as they become adults to realize their full potential—their current economic circumstances significantly diminish their future well-being.

And the effects of child poverty go beyond the individual child. Estimates suggest that the U.S. economy loses $500 billion each year due to the costs associated with child poverty.[5] As poverty increases, the costs borne by all of us will become greater as well. The failure to make wise investments for our children today will have significant negative effects on the social and economic well-being of our nation and state in the future.

This Year's Report

This year's *State of Washington's Children* report tackles the complex and difficult issue of child poverty and family economic hardship in Washington State. Despite notable efforts to reduce child poverty over the last half century, child poverty rates in the U.S. are as high today as they were in 1977. While Washington's child poverty rate is consistently lower than the national average, the current rate is similar to what it was at the end of the 1980s (Chart 1).[6] In 2007, nearly a quarter of a million (226,000) of Washington's children—16 percent—lived in families below the official poverty line. When the definition of economic hardship moves beyond poverty to include children who are "near poor" or "low-income", over half a million (523,000) children––one of every three—are struggling and being denied the opportunity to live up to their full potential.[7]

Chart 1



This report provides the policy community with the most recent data on child poverty and family economic hardship in Washington State. We begin with a discussion of what it means to experience poverty in the 21st century. As part of this discussion, we highlight problems with the way poverty is measured in the U.S. and what is currently being done to improve our definition and measurement of poverty. The next section provides an overview of current poverty rates in Washington and discusses the large social and economic costs associated with children growing up in poverty. While the toll on individual children is large, the economic costs to society are also significant. Therefore, increasing family economic security and decreasing child poverty would benefit all of Washington's families. We also highlight ways that the U.S. has been successful at reducing poverty in the past and how we compare to other countries' efforts to reduce poverty.

The final section provides an analysis of Washington's current policy climate. We analyze work support policies aimed at increasing economic security among low-income families and several programs intended to improve child well-being. Work supports do help considerably, but there is room for improvement. To mitigate the impact of the current recession on children, we argue that sustaining programs designed to improve child well-being is essential. We conclude the report with a discussion of policies that focus on (a) increasing family economic security by improving work support policies for low-income families, and (b) sustaining benefits to children that mitigate the adverse effects of poverty on their social, economic, and physical well-being, and on their success as adults.

DEFINING POVERTY

The official measure of poverty in the U.S. was developed in 1963 to track the impact of the Johnson Administration's War on Poverty policies.[8] The Census Bureau estimates the U.S. poverty rate by determining an individual's or family's before-tax cash income from all sources,[9] and assessing whether it falls below a pre-established "basic needs" threshold adjusted for family size and composition.

We refer to children as "poor" if they live in families below 100 percent of the federal poverty line ($21,200 for a family of four in 2008) and "near-poor" or "low-income" if they live in families below 200 percent of the federal poverty line ($42,400 for a family of four in 2008).

Researchers and policymakers, however, have consistently argued that the current measure is an outdated and invalid method for measuring poverty today.[10] There is growing consensus that a new poverty measure should be developed *(see box)*. Until that time, we report data using the current measure since the majority of programs and policies determine eligibility by assessing a family's income relative to the official poverty line.

THE U.S. POVERTY MEASURE: A CALL FOR CHANGE

According to the *National Center for Children in Poverty* (NCCP),[11] the official poverty line is flawed in two main ways:

1. **The current poverty level is too low because it is based on outdated assumptions of family expenses.**
When the first poverty thresholds were derived in the 1960s, the only expense that was accounted for was the cost of food, which comprised one-third of a family's budget at the time. The government took the cost of a low-cost food diet, multiplied by three, and the resulting number became the official poverty line.

Today, food comprises a smaller proportion of the budget – less than one-seventh. In addition, the costs of housing, child care, medical care, and transportation have increased dramatically since the 1960s. Therefore, the current poverty level does not accurately reflect the amount of income it takes to achieve a minimally decent standard of living. In addition, the poverty level does not adjust for the substantial variation in the cost of living by state and among urban, suburban, and rural areas.

2. The method used to assess whether a family is poor does not accurately count family resources.
The current measure uses a family's income before taxes to determine whether it lives in poverty. The failure to account for payroll, income, and other taxes overestimates how much a family has to spend on basic needs. On the other hand, the current poverty level does not include the effect of government tax credits on a family's income, such as the Earned Income Tax Credit (EITC), and non-cash transfer programs, such as food stamps, child care assistance, and housing vouchers. The failure to include these sources of support understates a family's resources.

The Measuring Poverty Act of 2008
Poverty scholars and organizations have consistently urged Congress over the last several years to adopt a new poverty measure.[12] These efforts have culminated in *The Measuring Poverty Act of 2008,* introduced by Jim McDermott (D-WA) in September 2008. The bill calls for a modernization of the poverty measure – one that would require the Census Bureau, Bureau of Labor Statistics, and the National Academy of Sciences "to develop and publish a method of calculating a decent living standard threshold, including relevant variations for geography, family size, and other such factors, and a method of measuring the extent to which the income of families in the United States is sufficient to meet the threshold."[13]

The bill addresses the main drawbacks of the current measure by calling for an updated poverty threshold that would include a more realistic determination of family expenditures, including food, housing, utilities, clothing, and other basic needs. It would also account for the impact of government assistance programs on family resources. Currently, the bill is in the first stages of the legislative process. It was referred to the Senate, Health, Education, and Pensions Committee in September 2008.[14]

What is a Decent Standard of Living in Washington State?

Restructuring the official poverty measure along the lines of the *Measuring Poverty Act* would overcome many of the challenges associated with the current measure. According to Nancy Cauthen, former Deputy Director of NCCP, one of the most important elements of this bill is the requirement to develop a "decent living standard" threshold.[15]

Several scholars and agencies have attempted to develop these thresholds in recent years.[16] Despite methodological differences, all of these efforts demonstrate that, on average, families need at least twice the current poverty level to cover the costs of basic expenses. This report highlights NCCP's Basic Needs Budget Calculator. The NCCP Calculator estimates that, depending on where you live, a decent standard of living is anywhere from 150 to 350 percent of the current poverty line. Table 1 presents a "basic needs" determination for Seattle/King County, Spokane/Spokane County, and Chelan County. Note that the budget in all three locations is significantly higher than the current level for which poverty is determined. In Seattle, for example, a family of four needs 235 percent of the 2008 federal poverty line to meet basic needs.

Table 1

Annual Basic Needs Budget for a Family of Four
Select Washington Cities/Counties 2008

EXPENDITURES	Seattle/King County	Spokane/ Spokane County	Chelan County
Rent and utilities	$11,304	$8,088	$8,028
Food	$7,878	$7,878	$7,878
Child care	$17,312	$11,647	$9,502
Health insurance premiums	$2,474	$2,474	$2,474
Out-of-pocket medical	$732	$732	$732
Transportation	$1,296	$4,843	$5,613
Other necessities	$5,179	$4,311	$4,294
Payroll taxes	$3,812	$3,193	$3,044
TOTAL	**$49,835**	**$41,738**	**$39,795**
Percent of 2008 FPL	**235%**	**197%**	**188%**

Note: Assumes two parent-household with one preschool and one school-age child. Results are based on the following assumptions: Children are in center care while both parents work full time, family members have employer-based health insurance, transportation costs are for private transportation, with the exception of Seattle/King County, where costs are for public transportation.

Source: National Center for Children in Poverty's Basic Needs Budget Calculator, www.nccp.org/tools/budget.

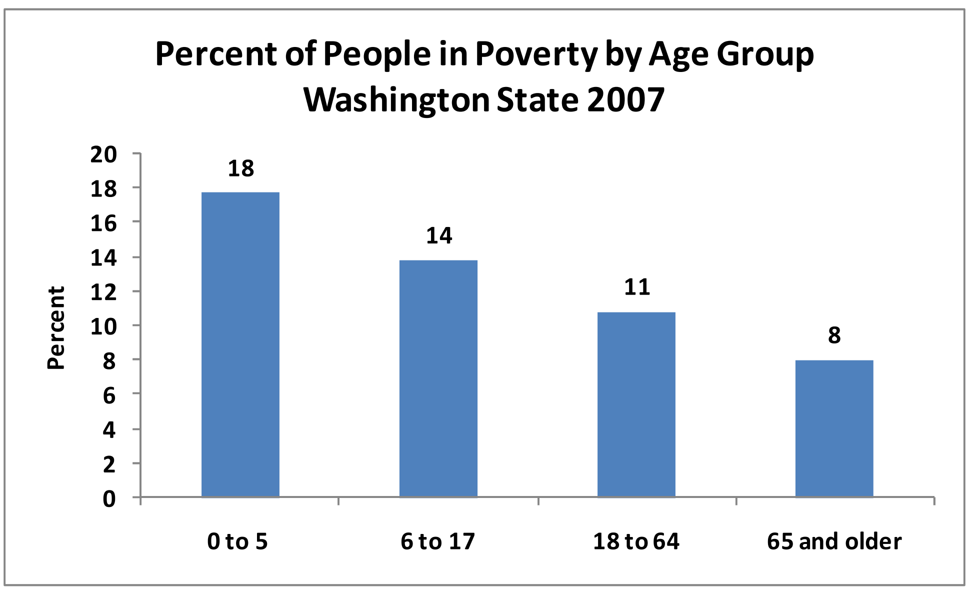
POVERTY AND INEQUALITY IN CONTEXT

Poverty and Inequality in the 21st Century

Living in poverty today is a qualitatively different experience than it was generations ago. Material deprivation is not as widespread today; many families living in poverty today have access to goods that families living fifty years ago did not, such as television, computers, and cars. But in today's economy, families need cars to travel to work, children need computers for school, and the internet is an increasingly important tool and source of information. Being economically secure today requires that families have more than access to just material goods. It is about having access to livable wage jobs, safe neighborhoods, good schools, quality health care and supportive communities. Many Americans increasingly lack access to these necessities.

One of every six children in Washington lives in a family experiencing poverty. Today, children have the highest rates of poverty of any age group (Chart 2). At 18 percent, youngest children (under age 6) have the highest rates, followed by 14 percent of older children (age 6 to 17), 11 percent of working-age adults (18 to 64) and 8 percent of seniors (65+).[17]

Chart 2



An additional 300,000 children live in families with incomes between 100 and 200 percent of the federal poverty line. Living below 200 percent of the federal poverty line is widely considered among researchers and policymakers to be a more accurate estimate of the number of people struggling economically. All told, over half a million of Washington's children – one in three – are living in families that have difficulty making ends meet on a daily basis.

Characteristics of the Poor in Washington

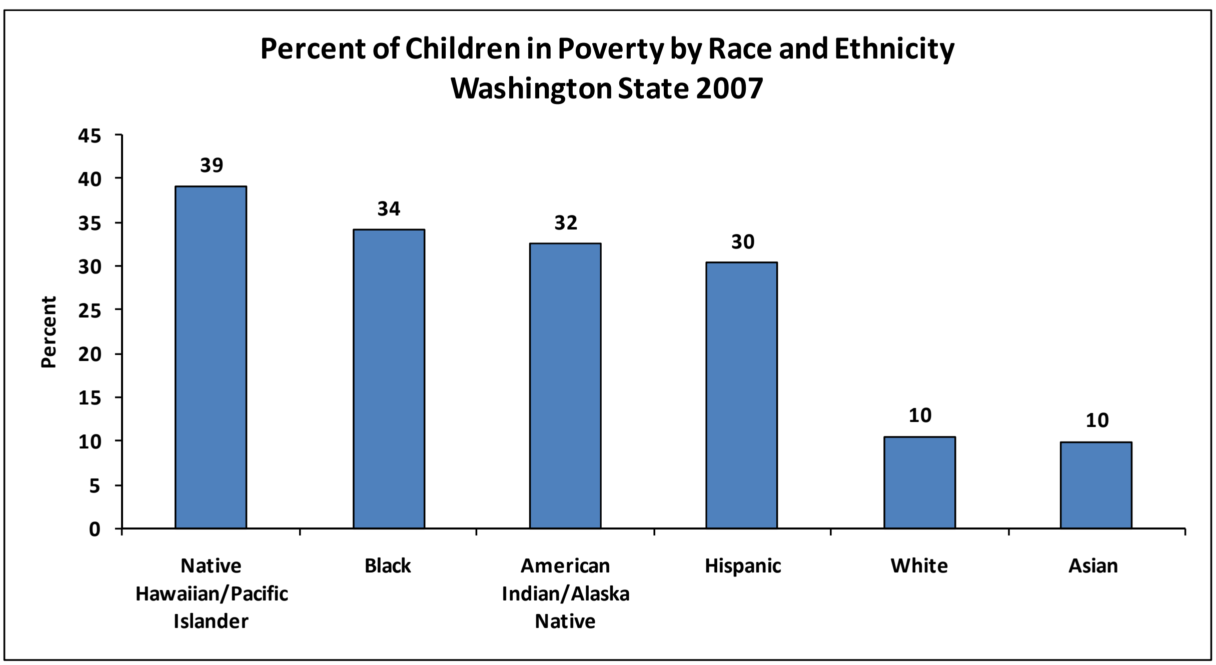
The majority of families living in poverty today have a head of household that is working. Children and families from all racial and ethnic backgrounds, family types, and regions experience poverty. However, poverty does not affect all children and families equally. Based on the size of their proportion of the population, single parents, children of color, immigrants, and rural children are disproportionately poor.

The most recent data on children and families in Washington shows:

- Nationally, more than half (57 percent) of families living in poverty have a head of household that is employed at least part-time. In Washington the number is even higher – nearly two- thirds (62 percent) of families have a head of household who is employed.[18]

- The majority of children living in poverty are white. However, children of color are disproportionately more likely to experience poverty (Chart 3). Approximately one in three Native Hawaiian/Pacific Islander (39 percent), Black (34 percent), American Indian/Alaskan Native (32 percent), and Hispanic children (30 percent) live in families with incomes below the poverty line compared to one in ten white (10 percent) and Asian (10 percent) children.[19]

Chart 3



- Just five percent of married couples live in poverty compared to 34 percent of families headed by single women and 15 percent of families headed by single men. Single mothers with very young children are the most at risk. Forty-two percent of single mothers with children under five are living below the poverty line.[20]

- Children in immigrant families experience poverty at higher rates than those who are native born. Twelve percent of children living with native born parents are living in poverty compared to 22 percent of children living with a parent who is foreign born.[21]

- While poverty is concentrated in densely populated urban areas, rural[22] children are disproportionately affected by poverty. Twenty-one percent of rural children in Washington live in poverty compared to 13 percent of urban children. Okanagan, Ferry, and Yakima counties– all rural – have the highest poverty rates, while urban counties such as Snohomish, Kitsap, and King experience child poverty rates below the state average. Child poverty has persisted in rural counties for the last two decades despite improvements in employment rates and the state's overall economic growth.[23]

The 226,000 children living in poverty would form a continuous line along the entire length of I-5 in Washington. A person driving from the Canadian border to the Oregon border would pass a child every six feet or 816 children every mile.

WHY SHOULD WASHINGTON CARE ABOUT CHILD POVERTY?

The social and economic costs associated with growing up in poverty are staggering. The effects of poverty can begin before a child is born and, if poverty persists, compound throughout his or her life. While the toll poverty takes on the individual child is significant, the costs to society are also substantial.

The Effects of Poverty on Children in Washington State

Birth Outcomes. Poor mothers are more likely to give birth to a low birthweight baby. Compared to babies born at a normal weight, low birthweight babies have higher rates of infant mortality and experience more chronic disease as adults, including hypertension, diabetes, and heart disease.[24] In 2008, 6.4 percent of low-income[25] mothers in Washington gave birth to a low birthweight baby compared to just 4 percent of higher income mothers.[26]

Health Insurance. Children growing up in poverty are the least likely to have health insurance. In 2008, children living in families with incomes below the poverty line in Washington are more than twice as likely to lack health insurance as higher income children. Ten percent (30,000) of children living below the federal poverty line are uninsured compared to just four percent of children living in families above the poverty line.[27]

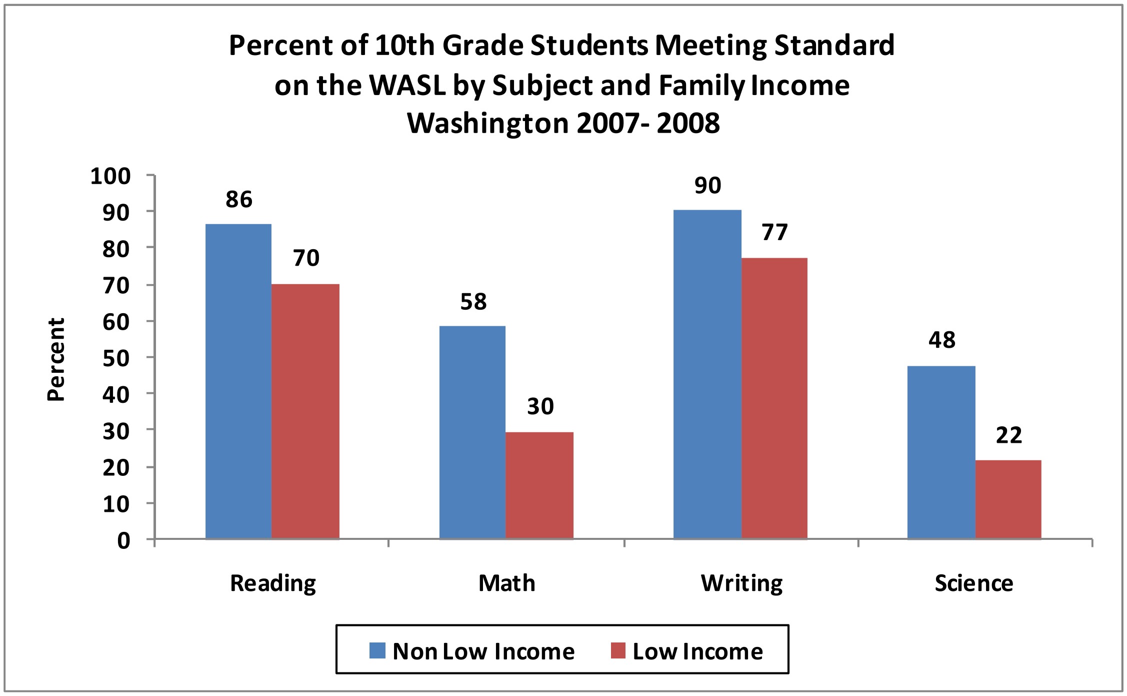
Health Outcomes. In Washington, just over two-thirds (70 percent) of parents living in poverty report that their children are in excellent or very good health compared to over 90 percent of parents with higher incomes.[28] Compared to more affluent children, children from poor and low-income backgrounds are more likely to experience major illnesses, such as asthma, diabetes, and obesity. In addition, poor and low-income families are more likely to report that their child has a moderate or severe health condition.[29]

Early Cognitive Development. Compared to their more affluent peers, children growing up in poverty have less access to high-quality early learning and education opportunities. Due to limited resources, poor and low-income families must often make child care choices for their children based on affordability and/or convenience rather than quality, which places their children at greater risk for not entering school ready to succeed. [30]

Hunger. In 2007, prior to the economic downturn, nearly 300,000 children in Washington lived in families who had trouble putting food on the table.[31] At 35 percent, families with annual incomes below $20,000 have the highest rate of food insecurity, but 15 percent of middle-income families experience it as well. Compared to children who do not experience hunger, children who go hungry are more likely to experience negative physical and mental health outcomes, including chronic illness, behavioral problems, and post-traumatic stress disorder.[32] Hungry children have lower rates of educational achievement and have greater difficulty concentrating in school.[33]

Educational Achievement. Educational achievement is one of the best predictors of future economic and social well-being. When children do not have the opportunity to excel academically, they are more likely to experience negative social and economic outcomes as adults. Low-income students in Washington lag in academic achievement, particularly in the critical subjects of math and science (Chart 4). In the 2007-2008 academic year, only one in five (22 percent) low-income 10^{th} graders met science standards and fewer than one in three (30 percent) met math standards on the Washington Assessment of Student Learning (WASL). Low-income students are less likely to graduate from high school on-time. For the 2005-2006 academic year, just over half (58 percent) of low-income students graduated from high school on-time compared to over two-thirds (70 percent) of all students.[34]

Chart 4



Crime. Children who grow up in poverty are more likely to experience family conflict and stress than economically secure children, which increases their likelihood of criminal behavior in adolescence.[35] Growing up in a low-income neighborhood also increases the likelihood of engaging in criminal behavior. Compared to children who grow up in higher income neighborhoods**,** children living in low-income neighborhoods exhibit higher rates of aggression in elementary school, and are more likely to engage in criminal and delinquent behavior as adolescents.[36]

Recent estimates suggest that growing up in poverty costs Washington $8.7 billion annually in the form of foregone earnings, involvement with crime, and the costs associated with poor health outcomes.[37]

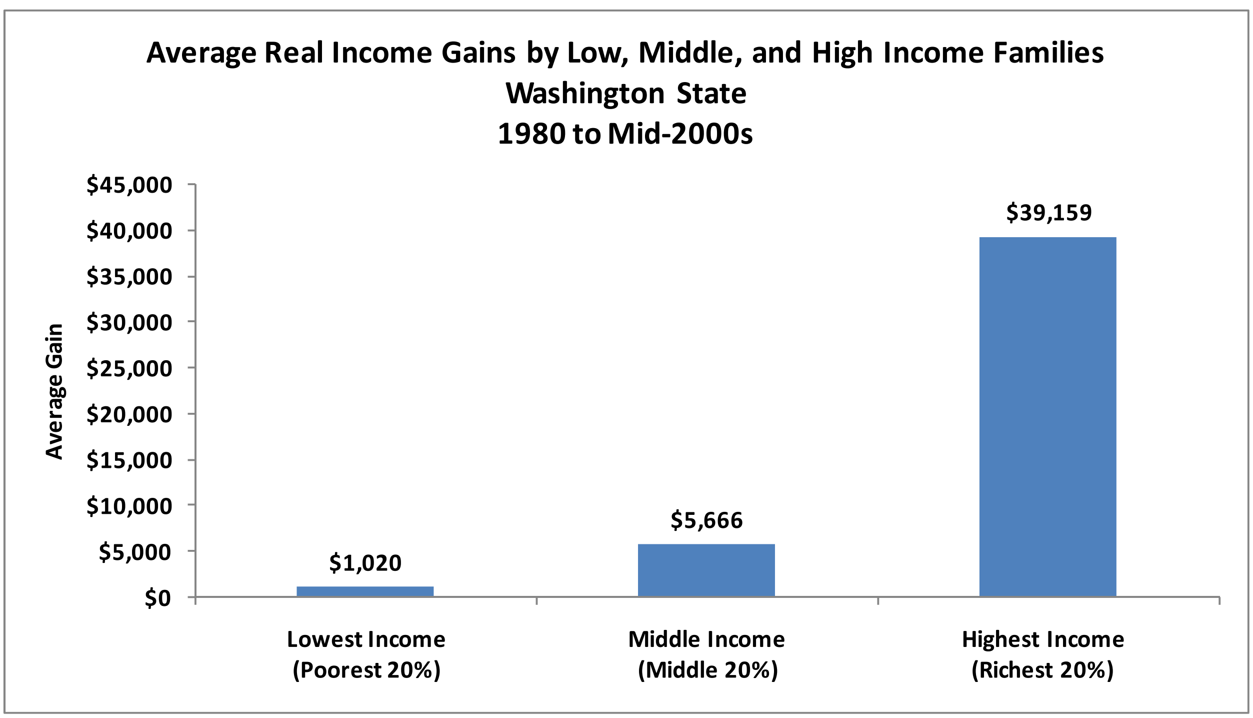
Economic Costs of Child Poverty

When thousands of children grow up in poverty, society loses the value of their unrealized potential. The cumulative effect of the individual consequences of growing up in poverty takes a staggering economic toll on our society. Recent estimates suggest that children who grow up in poverty cost the U.S. at least $500 billion annually in the form of decreased economic output as adults, involvement with crime, and the costs associated with poor health outcomes.[38] Washington's share of this loss is $8.7 billion.[39] In effect, this is the amount of money that would accrue to our national and state economy annually if child poverty were eliminated.

The current economic downturn will exacerbate these figures. If the unemployment rate reaches 9 percent, an additional 3 million children in the U.S. are expected to experience poverty. If unemployment reaches this level in Washington, an additional 37,000 children are estimated to enter poverty due to the recession.[40]
As poverty rises and the consequences associated with it increase, the U.S. will have difficulty competing in a global economy that demands a healthy, well-educated workforce. American students already rank behind students in other industrialized nations, particularly in math and science – skills that are critical to success in the 21st century labor market.

Long-term trends in the U.S. and Washington State also show that middle-income families are becoming less economically secure. Stagnant incomes combined with rising costs and increasing debt have forced many Americans to live paycheck to paycheck. Furthermore, while the richest families have seen sizable increases in income, lower- to middle-class families are receiving a much smaller piece of the economic pie (Chart 5). From 1980 to the mid-2000s in Washington, the average real income of those at the bottom of the income ladder increased just over $1,000, while those at the top experienced average real income gains of over $39,000 – an increase of over 40 percent. People in the middle of the income ladder experienced slight income gains – $5,666 –over the same time period.[41] In short, while upper class families have experienced substantial income gains, it is getting increasingly difficult for poor, low-income, and middle-class families to get ahead.

Chart 5



CHILD POVERTY CAN BE REDUCED

Effective public policy can reduce poverty rates. For many decades, senior citizens had the highest poverty rates compared to any age group in the U.S. In 1959, over one-third (35 percent) of people over age 65 were living in poverty. Following the public policy investments in Social Security and Medicare in the 1960s, the poverty rate began a precipitous decline and has remained between 9 and 12 percent for the last several decades.[42] Today, seniors have the lowest poverty rates compared to other age groups.

The ability to reduce child poverty through effective policy is demonstrated by our peer nations. Data from the Organization for Economic Cooperation and Development (OECD)[43] indicate that other democratic, industrialized nations are far more effective at reducing poverty than the U.S.

To compare poverty across different countries, OECD uses a relative measure that sets the poverty line at half of the median income in a country. Prior to including income from government tax and transfer programs, the U.S. has one of the highest child poverty rates of the 30 OECD countries. When government assistance is accounted for, the U.S. poverty rate declines by 19 percent – but that pales in comparison to how much our peer nations reduce poverty (Table 2). The average for reducing poverty among OECD countries is 40 percent. The majority of these countries assist children with universal benefits such as medical care, child care, and family leave.[44]

Table 2

The Effect of Government Tax and Transfer Programs on Child Poverty

OECD Countries 2007

Country	Child Poverty Rate on Market Income Alone	Child Poverty After Taxes and Government Transfers	Difference
Denmark	10.9	2.1	80.4 percent
Finland	14.3	3.3	76.8 percent
Sweden	13.8	3.2	76.7 percent
Belgium	13.1	3.3	74.7 percent
France	24.6	6.7	72.7 percent
Norway	10.0	2.9	71.5 percent
Czech Republic	17.2	5.6	67.6 percent
Australia	24.1	10.2	57.7 percent
Germany	17.9	9.5	46.9 percent
Netherlands	13.9	7.6	45.6 percent
UK	25.0	13.6	45.6 percent
New Zealand	24.1	12.4	43.5 percent
OECD Average	**16.3**	**9.2**	**40.2 percent**
Canada	18.1	11.5	36.7 percent
Ireland	20.7	13.5	34.9 percent
United States	**22.6**	**18.4**	**18.9 percent**
Portugal	13.4	13.1	2.8 percent
Italy	14.6	14.3	1.7 percent
Switzerland	5.7	6.3	-10.8 percent
Japan	10.7	12.2	-19.9 percent

Source: Bell, K., Bernstein, J. & Greensberg, M. (2008, September). Lessons for the United Sates from Other Advanced Economies in Tackling Child Poverty. In Big Ideas for Children: Investing in Our Nation's Future (pp. 81-92). Retrieved October 12, 2008, from First Focus Web site: http://www.firstfocus.net/Download/8-BellBernsteinGreenberg.pdf

Clearly, the U.S. can be doing more to reduce child poverty. President Barack Obama has proposed a plan to combat poverty that focuses on expanding access to jobs, making work pay better for low-income workers, strengthening families, increasing the supply of affordable housing, and focusing on areas where poverty is highly concentrated.[45] Several states have already established poverty reduction initiatives and many have set goals to reduce child poverty over the next decade.[46] In 2006, Washington joined these efforts by developing a Poverty Advisory Committee through the Department of Community, Trade, and Economic

Development. We can build on this momentum and start outlining a strategic plan to reduce child poverty in Washington.

ADDRESSING CHILD POVERTY IN WASHINGTON STATE

> ***The test of our progress is not whether we add more to the abundance of those who have enough; it is whether we provide enough for those who have too little.***
> **~Franklin Delano Roosevelt**

In order to thrive, children need economically secure families. Making public policy investments that strengthen the potential of our children and provide a sufficient pathway to economic security for our families is the wisest choice we can make to reduce the significant costs poverty takes on children and society, especially during the current recession.

Toward that end, we offer two criteria for Washington State policymakers to consider in addressing child poverty and family economic hardship in the short-term:

1. **Increase family economic security by improving work support policies for low-income families.**

2. **Sustain benefits to children that mitigate the impact of poverty on their social, emotional, and physical development.**

The following section provides an analysis of Washington's work support programs and policies. Work supports help low-income families considerably, but have design flaws that potentially penalize workers as they try to achieve economic security. A policy discussion follows that suggests ways policymakers can improve these supports and make work pay better for low-income families.

In addition, we provide a review of the critical programs policymakers have already put in place to protect children when their families experience economic hardship. Historically, these types of programs have been cut during budget shortfalls. In these difficult economic times it is essential that we sustain these programs to protect children.

Increasing Family Economic Security by Improving Work Support Policies

Low Wage Work is Not Enough to Make Ends Meet

Most Americans believe that if people work hard they are entitled to a decent standard of living. Preventing poverty by encouraging work is central to U.S. social welfare policy. The most recent overhaul of welfare policy, the Personal Responsibility & Work Opportunity Reconciliation Act (PRWORA) of 1996, was to eliminate public welfare as an entitlement and to encourage employment as the primary way for families to escape poverty and achieve economic security.[47]

Temporary Assistance to Needy Families (TANF) and WorkFirst have been successful at reducing the welfare rolls and moving more people into employment. However, thousands of Washington's families are working but not earning enough to make ends meet. The low-wage jobs available to many low-income families simply do not pay enough to meet most of their basic needs.

Table 3 shows a basic needs budget for a single parent with two children (ages 3 and 6) living in Seattle.[48] This family would need an annual income of nearly $40,000 to meet their basic needs, such as housing, food, child care, health care, transportation, and other basic necessities (e.g., clothing, school supplies). A parent working full-time at a low-wage job would make significantly less than the amount required to cover basic expenses. For example, if the parent worked full-time and earned just over minimum wage, $10.00 per hour, the parent would earn just half of what is needed to cover the family's basic needs in Seattle.[49] Rural areas have lower costs of living than Seattle, but the same family of three in Chelan or Grays Harbor would earn just two-thirds of what is needed to cover basic needs.

Table 3

Annual Basic Needs Budget for a Family of Three
Seattle, Washington 2008

EXPENSES	Annual	Monthly
Rent and utilities	$11,304	$942
Food	$5,691	$474
Child care	$11,772	$981
Health insurance premiums	$2,474	$206
Out-of-pocket medical	$456	$38
Transportation	$648	$54
Other necessities	$4,589	$382
Debt	$0	$0
Payroll taxes	$3,001	$250
Income taxes (includes tax credits)	($703)	($59)
TOTAL	**$39,232**	**$3,268**
Hourly wage needed	**$19/hr**	
Percent of 2008 Federal Poverty Line	**223%**	

Note: Assumes single parent household with one preschool and one school-aged child. Results are based on the following assumptions: Children are in licensed-home care while the parent works full time, family members have employer-based health insurance, transportation costs are for public transportation. Child support payments are not included.

Source: National Center for Children in Poverty's Basic Needs Budget Calculator, www.nccp.org/tools/budget.

Moreover, this budget makes very conservative assumptions about expenses. It assumes that the family has employer-based health insurance, so premiums are relatively low. Enrichment activities, entertainment, and other expenses that enhance a family's quality of life are not included. It does not leave income to save for a home, a child's education, or a parent's retirement. Nor does it allow a financial cushion to withstand a crisis, like a car breaking down or missing days of work due to illness of a child.[50]

Work Supports Help, but Not Enough

Work supports offer critical assistance to poor and low-income families in Washington. The Family Resource Simulator – an online tool produced by the National Center for Children in Poverty – calculates the impact of available work supports in Washington on a family's budget by family size and region (*see box).*

TOOLS FOR POLICY ANALYSIS:
THE NCCP FAMILY RESOURCE SIMULATOR
AND BASIC NEEDS BUDGET CALCULATOR

NCCP's Family Resource Simulator is an innovative, web-based tool that calculates the impact of federal and state work supports on the budgets of low- to moderate-income families. The Simulator calculates the impact of available work supports on a family's budget for cities and counties in 21states, including Washington. The results illustrate how a family's resources and expenses change as earnings increase, taking public benefits into account. The final result is a series of charts, including one that illustrates a family's *net resources*, or the amount of resources a family has left after they have met their basic needs.

Net Resources = Earned Income + Work Supports – Basic Expenses

The following work supports and expenses are accounted for in the Simulator:

Work Supports * (Name of Program)	Basic Expenses
TANF (WorkFirst)	**Transportation**
Food Stamps (Basic Food Program)	**Food**
Public Health Insurance (Medicaid, SCHIP, Basic Health)	**Health Insurance**
Child Care and Development Fund Subsidies (Working Connections)	**Child Care**
Section 8 Housing Vouchers	**Housing**
Federal Tax Credits (Federal EITC, Child Tax Credit, Child and Dependent Care Tax Credit)	**Payroll and Federal Taxes**

*The Family Resource Simulator also allows for the inclusion of child support from a non-custodial parent.

The Basic Needs Budget Calculator is a related tool that shows how much a family needs to make ends meet without the help of work supports. Users select number of parents and number and ages of children; users may also substitute one or more expense estimates with their own numbers, and the Calculator adjusts the family's tax liability and overall budget totals accordingly. Budgets are provided for 79 localities across 12 states.

For more information on the methodology behind the Family Resource Simulator and Basic Needs Budget Calculator, please visit NCCP's website at www.nccp.org.

Table 4 provides a breakdown of resources and expenses for the single parent family described above. Let's assume Heather is a single mother of two children. She has an associate's degree and works as a child care provider in Seattle. She earns $10.00 per hour or $20,800 annually, just shy of the average wage for child care workers in King County ($21,444).[51]

The first column assumes that Heather receives no assistance, except for the federal tax credits for which she is eligible. With just income and tax credits alone, her family's expenses to cover basic needs would exceed their resources by a significant amount – over $12,000 annually. With this budget, Heather would have to make tough choices that affect her children's health, safety, and success. Should she feed her children or heat her home? Should she move into a cheaper apartment in a less safe neighborhood? Should she seek child care that is more affordable, but lower quality?

Table 4

Resources and Expenses for Heather's Family: Seattle/King County, WA (2008)

	Employment *plus* **federal tax credits* **state EITC*	**Employment *plus*** **federal tax credits* **food stamps* **public health insurance*	**Employment *plus*** **federal tax credits* **food stamps* **public health insurance* **child care subsidy*
Annual Resources			
Earnings	$20,800	$20,800	$20,800
Food Stamps	$0	$3,456	$2,192
Federal EITC	$3,535	$3,535	$3,535
Federal Child Tax Credit	$1,388	$1,388	$1,491
Federal Child and Dependent Care Tax Credits	$295	$295	$192
Total Resources	**$26,018**	**$29,474**	**$28,210**
Annual Expenses			
Rent and utilities	$11,304	$11,304	$11,304
Food	$5,070	$5,070	$5,070
Child care	$11,772	$11,772	$600
Health insurance premiums	$2,474	$360	$360
Out-of-pocket medical	$456	$456	$456
Transportation	$648	$648	$648
Other necessities	$4,421	$4,421	$4,421
Debt	$0	$0	$0
Payroll taxes	$1,607	$1,607	$1,607
Income taxes (excludes credits)	$295	$295	$295
Total Expenses	**$38,047**	**$35,933**	**$24,761**
NET RESOURCES: Resources Minus Expenses	**($12,029)**	**($6,459)**	**$3,449**

***Note:** Assumes single parent household with one preschool and one school-aged child. Children are assumed to be in licensed-home care while the parent works full time. Transportation costs are for public transportation. Child support payments are not included.*

***Source:** National Center for Children in Poverty's Family Resource Simulator, Washington 2008, www.nccp.org/tools/frs. Results are based on policies as of January 2008, updated to reflect the new state EITC and changes to Washington state's food stamp rules.*

Government work supports help Heather's family significantly. The second column of Table 4 shows how multiple work supports impact Heather's net resources. After receiving tax credits, food stamps, and public health insurance, the gap between Heather's resources and expenses is cut nearly in half. Still, she is faced with over a $6,000 shortfall. Once a child care subsidy is provided Heather's resources slightly exceed her expenses (third column).

Yet, this small amount of money is not enough to make Heather's family economically secure. She still lacks income to save for a home, her children's education, or her own retirement. Her family lives day to day, hoping that a crisis – her vehicle breaking down, a family medical emergency, a major home repair – does not strike.

Low-income Families are Penalized for Progress in the Labor Market

While work supports offer critical assistance, they are designed in such a way that low-income families are often penalized for their progress in the labor market. As their income increases, they are subject to steep reductions in benefits or sudden disqualification from programs, ultimately threatening their economic security.

In addition, TANF restricts the amount of assets families can have to access benefits. Limiting the amount of assets can prevent families from being able to save money for important expenses, such as their child's education, a reliable vehicle, or just having a little extra put aside for a rainy day. Families may also face the possibility of depleting hard earned assets in order to qualify for assistance, thus jeopardizing long-term economic security.

WHAT IS THE MARGINAL TAX RATE?

"Marginal tax rate" is used here to refer to the reduction in value of additional earnings after subtracting benefit losses (and additional expenses if applicable). In Washington, for example, TANF cash assistance is reduced by 50 cents for every additional dollar earned, equivalent to a 50 percent marginal tax rate.

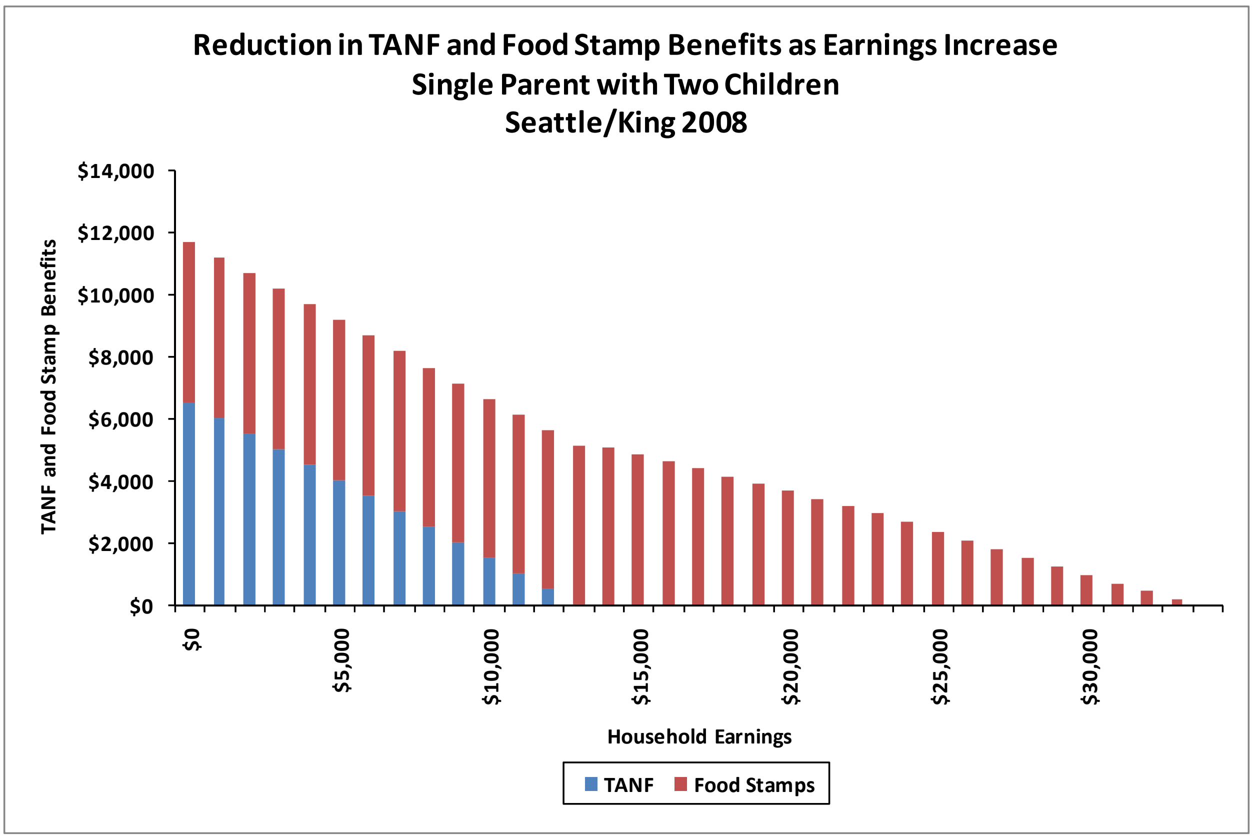
High marginal tax rates can directly affect individuals' incentives to earn additional income.[52] Sharp reductions in benefits as income increases can cause a family's expenses to greatly exceed their resources.[53] A parent may be discouraged from asking for a raise or getting a promotion because the loss of benefits puts his or her family's economic security in jeopardy. Thus, high marginal tax rates contradict the goal of welfare reform to reduce dependency and achieve economic security through work.

Additional Earnings Result in an Unreasonable Loss of Benefits

The rate at which additional earnings are offset by the loss of work supports is referred to as the "marginal tax rate" (*see box*). When increased earnings result in the loss of critical benefits, there is a disincentive to make progress through additional work. A parent may be discouraged from asking for a raise or getting a promotion because the loss of benefits puts their family's economic security in jeopardy. In Washington, three of the most important work support programs – TANF, food stamps, and child care subsidies – have marginal tax rates that can potentially penalize a low-income worker's progress in the workforce.

Chart 6 illustrates how TANF and food stamp benefits decrease as earnings increase for Heather and her family. For every additional dollar earned, Heather's TANF benefits decrease by 50 cents – a marginal tax rate of 50 percent. This steep reduction in benefits effectively reduces the value of additional earned income, and at a much higher rate than that imposed by the federal income tax. Heather loses TANF when she earns just $13,000 – an income well below the federal poverty line for a family of three and just one-third of the basic level of household expenses incurred by a family of this size (see Table 3).

Chart 6



Food stamp benefits decrease at a much slower pace, as recent state level changes extended eligibility to those with incomes up to 200 percent of the federal poverty line. But the level of assistance is affected by increases in other benefits. For example, food stamp benefits decrease when a family receives public health insurance or a child care subsidy.

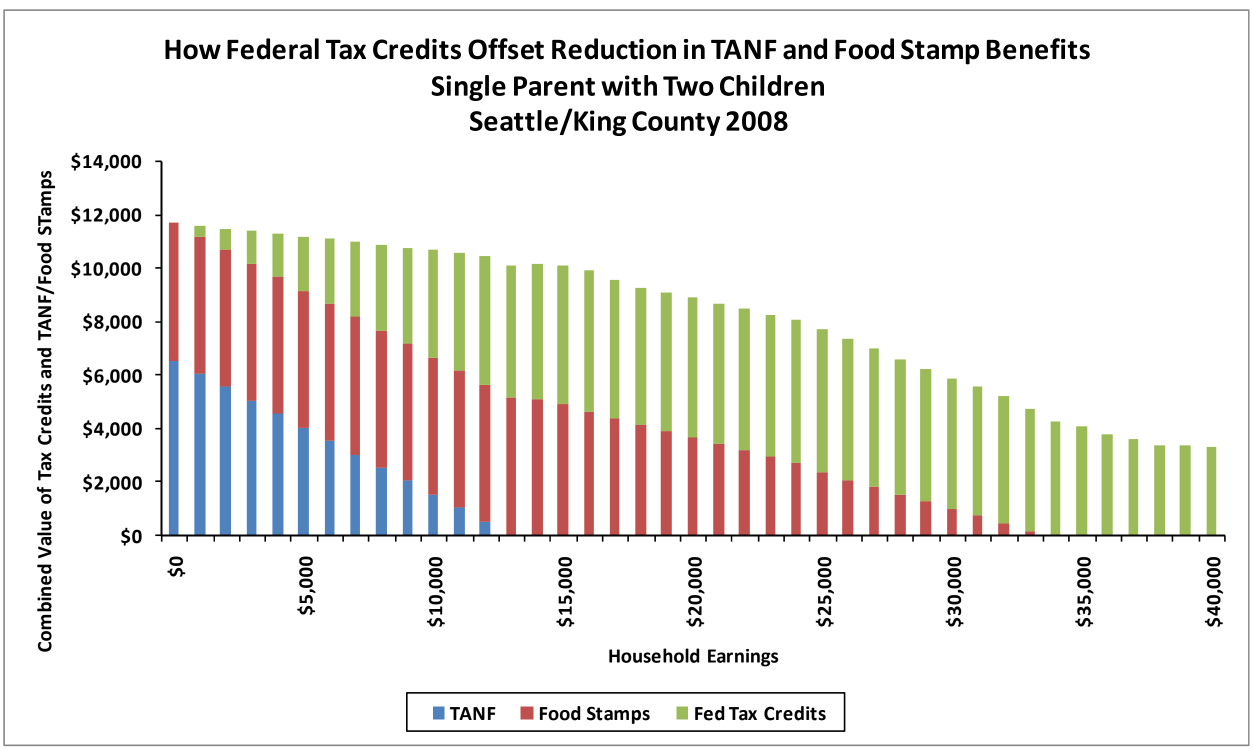
"Asset Limitations" to Receive TANF Discourage Wealth Accumulation

Families that are participating in TANF can accumulate up to $3,000 in savings before they are ineligible for assistance, but to begin receiving assistance they cannot possess more than $1,000 in savings and more than $5,000 in vehicle equity.[54] These asset limitations encourage the depletion of assets that would otherwise contribute to economic security.

Federal Tax Credits Help Significantly

The decrease in TANF and food stamp benefits as earnings increase is partially offset by the strength of federal tax credits, including the federal Earned Income Tax Credits (EITC), the Child Tax Credit (CTC), and the Child and Dependent Care Tax Credit (CADC) (Chart 7). These credits are contingent upon earned income from work and phase in gradually as income increases, thus rewarding progress in the workforce. Federal and state EITCs are especially effective programs – they are heralded as among the best tools for helping families escape poverty because they encourage work, supplement additional earned income, and are easily administered through the existing tax system.[55]

Chart 7



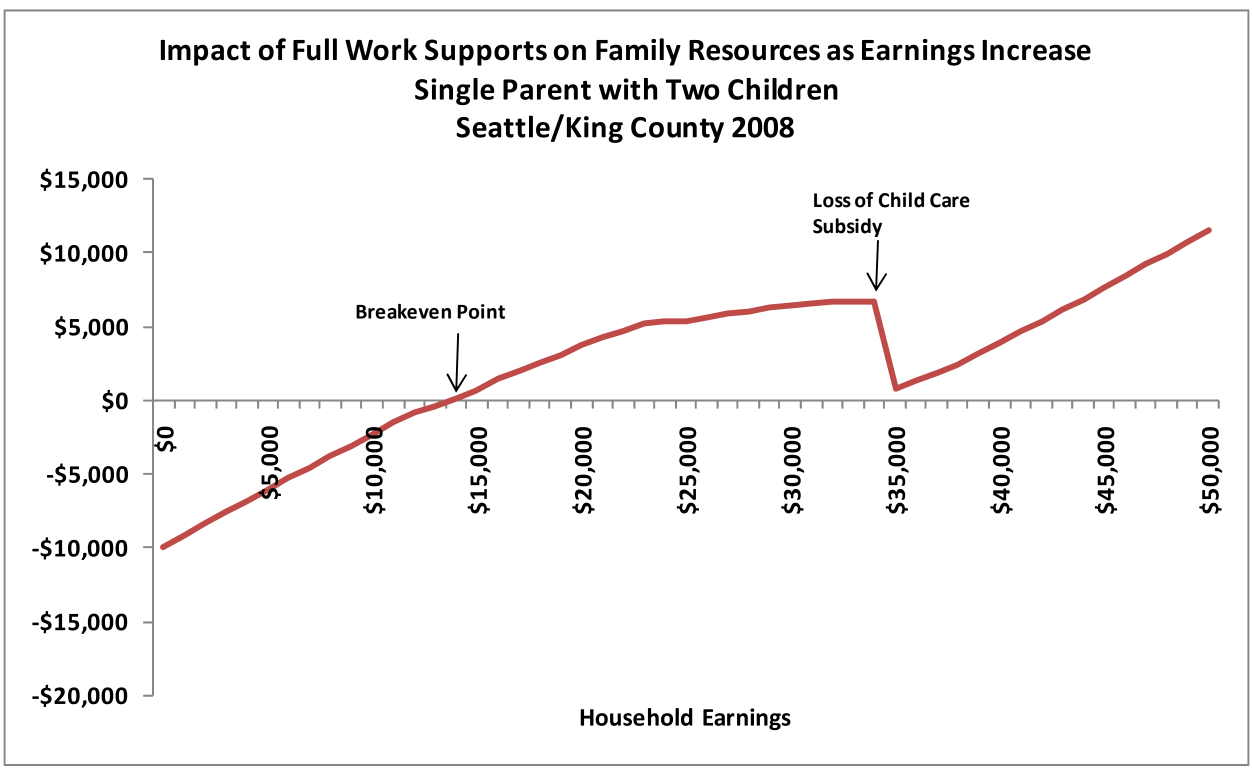
Full Range of Work Supports Not Enough to Achieve Economic Security

Chart 8 shows how Heather's resources are affected as her earnings increase when she receives the full range of work supports – TANF, food stamps, public health insurance, child care subsidies, and federal tax credits. The line represents Heather's *net resources* – earned income plus public assistance, minus the expenses necessary to meet her family's basic needs.

When Heather enters the labor force, her expenses greatly exceed her resources. Even though she receives TANF and food stamps during this time, she falls far short of meeting her family's basic needs. As she continues to earn more, however, federal tax credits help to offset the loss of these benefits, and Heather is able to earn slightly more than needed to provide for her children.

But when Heather begins to earn $35,000 she is subject to a "cliff" in public assistance. A cliff occurs when a small increase in income results in a large decrease in benefits. For Heather, earning just $1,000 more annually (or 50 cents more per hour) results in a loss of her child care subsidy. Paying full cost for child care would more than double her child care expenses. The loss of the subsidy threatens Heather's economic stability – she is barely able to meet her family's basic needs without it. She might forego a raise or promotion just so she can keep the subsidy, which hinders her progress in the labor force.

Chart 8



Again, these scenarios make very conservative assumptions about expenses. The budget Heather needs to meet her family's expenses is a "bare bones" budget and doesn't take into account any additional income needed to help her family achieve long-term economic security, such as money for savings, education, or retirement. Nor does it allow for any expenses that improve a child's quality of life, such as trips to the zoo, visits to museums, and participation in sports. While work supports help, they are often not enough for families to achieve economic security and ensure children have access to resources that will help them thrive socially, emotionally, and physically.

Policy Directions: Make Work Pay Better for Low-income Families

The preceding analysis leads to several conclusions about how work supports can make work pay better for families. First, raising eligibility for programs and gradually phasing out benefits will reduce the marginal tax rate and provide greater incentives for low-income families to make progress in the labor market. Second, building on the strength of tax credits can help more low-income families achieve economic security by supplementing their income. Finally, encouraging the accumulation of assets would move low-income families toward greater long-term economic security. There are several ways that policymakers in Washington can address these goals:

- ***Increase Income Eligibility for Child Care Subsidies.*** Affordable, high quality child care is a vital work support for low-income families. It allows for greater labor force participation and can improve child outcomes. Families who are not eligible for assistance are often unable to afford quality child care, in part because assistance does not extend above 200 percent of the federal poverty line while the costs of child care remain prohibitively high.[56] Therefore, many low-income families reduce child care costs by cutting back their work hours or risk putting their children in cheaper, potentially lower quality care.

  Increasing eligibility for subsidies to 300 percent of the federal poverty line and gradually phasing them out as income increases would reward progress in the work force by eliminating the cliff and allow a greater number of children to benefit from high quality care.

- ***Fully Fund the Working Families Rebate (State EITC).*** The Federal EITC is one of the most effective tools helping families to achieve economic security. It is aligned with our values about work and assistance and rewards progress in the labor force by supplementing earned income. In addition, it is widely accessible and a relatively inexpensive program to operate because it is administered through the existing federal tax system.

Washington's Working Families Rebate, passed by the legislature in 2008, would supplement a working family's income even further. Fully funding the state credit for 2009 would supplement the incomes of 350,000 low-income residents in Washington.[57] Like the federal EITC, the structure of the Working Families Rebate rewards work by offsetting the loss of work supports as earnings increase.

- ***Encourage Asset Building.*** Washington could help low-income families acquire assets in two ways: revise asset limits to receive TANF, and expand Individual Development Accounts.

  Low-income families have a difficult time acquiring the assets that lead to long-term economic security, such as owning a home, possessing a savings account, or saving for retirement. Nationally, low-income[58] families have median resources of just $600 in savings and $5,000 in retirement accounts, while middle income families have a median of $3,000 in savings and $17,200 saved for retirement.[59] The asset limit for those applying for TANF assistance could be increased to $3,000 to reflect a minimum level of resources that all families should be encouraged to possess. Further, like the state minimum wage, this asset limit could be indexed to inflation.

  Another way to encourage asset accumulation is through the expansion of Individual Development Accounts (IDAs). Individual Development Accounts are state-matched savings accounts for low-income households that encourage the accumulation of assets, such as post-secondary education, purchasing a first home, or capitalizing a small business. The state matches up to $4,000 of an individual's savings.[60] Account holders are expected to develop financial savings plans and participate in financial literacy classes. IDA assets do not disqualify families from eligibility for work supports.

  Washington's current IDA program provides services to a limited number of households in King, Snohomish, Pierce, Spokane, Island, Yakima, Cowlitz, and Wahkiakum counties. Allowing more families to access IDAs can help families achieve greater economic security and prevent families from needing assistance in the future.[61],[62]

Children will stubbornly continue to be born, to grow and to develop. The window that we have to give them the right start and help ensure decades of success is a short one. Closing that window would be the most short-sighted thing we can do. We don't get to pry it open again later. **~ Paola Maranan, Executive Director, Children's Alliance**

Policy Directions: Sustain Public Benefits to Children
Economic security is critical for children's overall well-being. Access to programs that protect children is even more important when the economy is weak, as more families rely on public benefits for support.

It is unfortunate that historically, health and human service programs have been cut during recessions. This recession is no exception. When Governor Gregoire's proposed 2009-11 budget was released in December 2008, the deepest cuts were to health care and human services.[63] These cuts jeopardize public programs that children and families need now more than ever.

Helping families achieve or maintain economic security will help speed economic recovery. Washington cannot afford the high costs associated with current poverty levels, let alone the sharp increases in poverty that are expected due to the recession. If we fail to invest in children and families today, our economy will suffer more.

Many of the policies and programs passed in recent legislative sessions align with what research tells us is critical for children's overall well-being: strong bonds with family from birth, high-quality early-learning opportunities, three nutritious meals a day, and access to high quality health care. We need to utilize existing programs put in place for children – if we don't, conditions for children will get far worse and it will be too difficult to rebuild these policies and programs later.

The following recently enacted programs and policies are essential to ensuring all children have their most basic needs met during difficult economic times.

- ***Paid Family Leave***. There are well-documented benefits to paid family leave for children and society. Allowing parents time with their newborns allows for the creation of a strong bond between a child and parent in the critical first weeks of life.[64] Family leave supports breastfeeding, which has many short- and long-term benefits for a child, including strong attachment, improved immunity, and better health and educational outcomes as a child ages.[65] It allows parents to be present when their child is ill, which increases the likelihood of a child receiving proper medical treatment and speeds recovery time.[66] Finally, paid leave may ease the financial burden many parents experience during one of the most important period of development in a child's life.

  Over 60,000 people in Washington would be eligible for Paid Family Leave in 2010.[67] This program would help more children get a healthy start in life.

- ***Health Insurance for All Children.*** Having access to high quality health care has significant benefits for children, families, and society as a whole. Children with insurance have improved access to routine well-child care, which leads to better monitoring of development and increased likelihood of early detection when problems arise. In addition, parents are more likely to seek timely care for their children, which results in better short- and long-term health outcomes. When children are insured, families are better protected against economic hardship due to high out-of-pocket medical expenses and have greater economic security. Families' quality of life is higher when they do not suffer emotional or financial stress when their children become ill.[68]

In 2008, nearly 78,000 children lacked health insurance in Washington.[69] Children from low-income families are the least likely to have health care coverage, but children from middle income families are increasingly uninsured. As unemployment rises, more families are going to need access to public health insurance to insure their children.

- ***High Quality Early Learning Opportunities for Children.*** Children's success in school and life is significantly affected by the quality of early Care and education. Short-term outcomes associated with access to high quality early care and education can include enhanced social/emotional, cognitive, and academic development, and school readiness.[70], [71] Long-term benefits include higher lifetime earnings, greater employment stability and labor market success, higher educational attainment, greater family stability, and dramatically reduced involvement with delinquency and crime. [72], [73] Positive outcomes for a child translate into benefits for society as a whole. The long-term benefits of high-quality early-learning opportunities are several times greater than the cost. [74]

  In 2007, nearly 300,000 of Washington's children under age 6 (58 percent) had all parents in the labor force.[75] Families use a wide range of settings to care for their children, including child care centers (including Head Start and the Early Childhood Education and Assistance Program), licensed family child care (FCC) homes, and license-exempt family, friend, and neighbor care. Research demonstrates that all of these settings need financial and programmatic support to provide high-quality early-learning experiences for all children.[76]

  The primary initiative that Washington has undertaken to improve quality early care and education is the pilot implementation of a Quality Rating and Improvement System (QRIS). In 2008, Washington completed the design of a QRIS and planned field testing in five counties, which included support to facilities and teachers, and information to support parents. As of this writing, however, the QRIS implementation has been suspended due to budget cuts.

- ***Increased Access to Food Stamps.*** A well-balanced, nutritious diet is critical to a child's overall well-being. Compared to children who do not experience hunger, children who go hungry are more likely to experience negative physical and mental health outcomes, including chronic illness, behavioral problems, and post-traumatic stress disorder.[77] Hungry children have lower rates of educational achievement and have greater difficulty concentrating in school.[78]

In 2008, prior to the economic downturn, nearly 300,000 children in Washington lived in families that had trouble putting food on the table. [79] Applications for food stamp benefits have increased substantially in recent months for two reasons. First, the legislature raised eligibility for food stamps to 200 percent of the federal poverty line in 2008, allowing more families to receive the benefit. In addition, more households are applying as the economy worsens and unemployment rises. [80] Ensuring that all eligible families have access to this critical benefit will help to keep children from going hungry.

CONCLUSION

Pundits are forecasting that the size and severity of the recession will fundamentally change the economic, social, and political landscape in the U.S. Our nation and state will be challenged in ways we are only beginning to understand. Few will be untouched by the recession; families from all social and economic backgrounds have experienced declining house values, rising food and transportation costs, the fear of losing a job, or becoming unemployed. America's reputation as the land of opportunity – the cornerstone of our national philosophy – is at stake.

But this is also a time of tremendous hope and opportunity. The *American Recovery and Reinvestment Act* offers unprecedented funding for policies and programs that can help children and families. If we make wise investments now, Washington can mitigate the effects of the recession and be well-positioned as the economy recovers. We cannot afford to wait – the costs of child poverty and family economic hardship will continue to mount and threaten Washington's long-term social and economic well-being. Times are tough, but we can be tougher.

The policy discussion in this report offers preliminary guidance on how to address child poverty and family economic hardship in Washington State It provides an overview of the policies that can help Washington mitigate the effects of the recession on children and families. As the economy recovers, the policy community can continue to engage in a more strategic discussion to reduce child poverty and increase family economic security; a discussion that has a greater focus on prevention, rather than just mitigation. This effort will require input from researchers, business leaders, philanthropies, advocates, and service providers on how to implement the most effective programs and policies to ensure that future generations in Washington live up to their full potential. If we start planning today, we can work together to build a brighter future for us all.