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Can't Win for Losing: The Crisis of the Working Poor



# Who are the working poor?

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July 22, 2014

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# Working poor

- Formal definition
  - Below federal poverty line (FPL)
    - 15% of the population (46.5 million)
  - Working poor: in the labor force for 27 weeks during the year
    - Of those below the FPL, 10.6 million
- Episodically poor
  - Below FPL for two or more months during 36 month period
  - 31.6% of the population (over 90 million)
- Broader definition
  - Up to 250% of FPL
  - Limited economic security, precarious situation
  - Almost 50% of the population

# 2014 Federal Guidelines (FPL)

Persons in family/household	Poverty guideline
1	\$11,670
2	15,730
3	19,790
4	23,850
5	27,910
6	31,970
7	36,030
8	40,090

# Federal Poverty Line

- Developed in 1963 by Mollie Orshansky of the SSA
  - In 1955, families spent 1/3 of after-tax income on food
  - Poverty threshold = cost of “economy food plan”x3
- August 1969: the U.S. Bureau of the Budget designated the poverty thresholds as the federal government’s official statistical definition of poverty.
- Problems
  - No cost of living difference
  - Uses income before tax/transfers

**DATA**

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# Population below the federal poverty line



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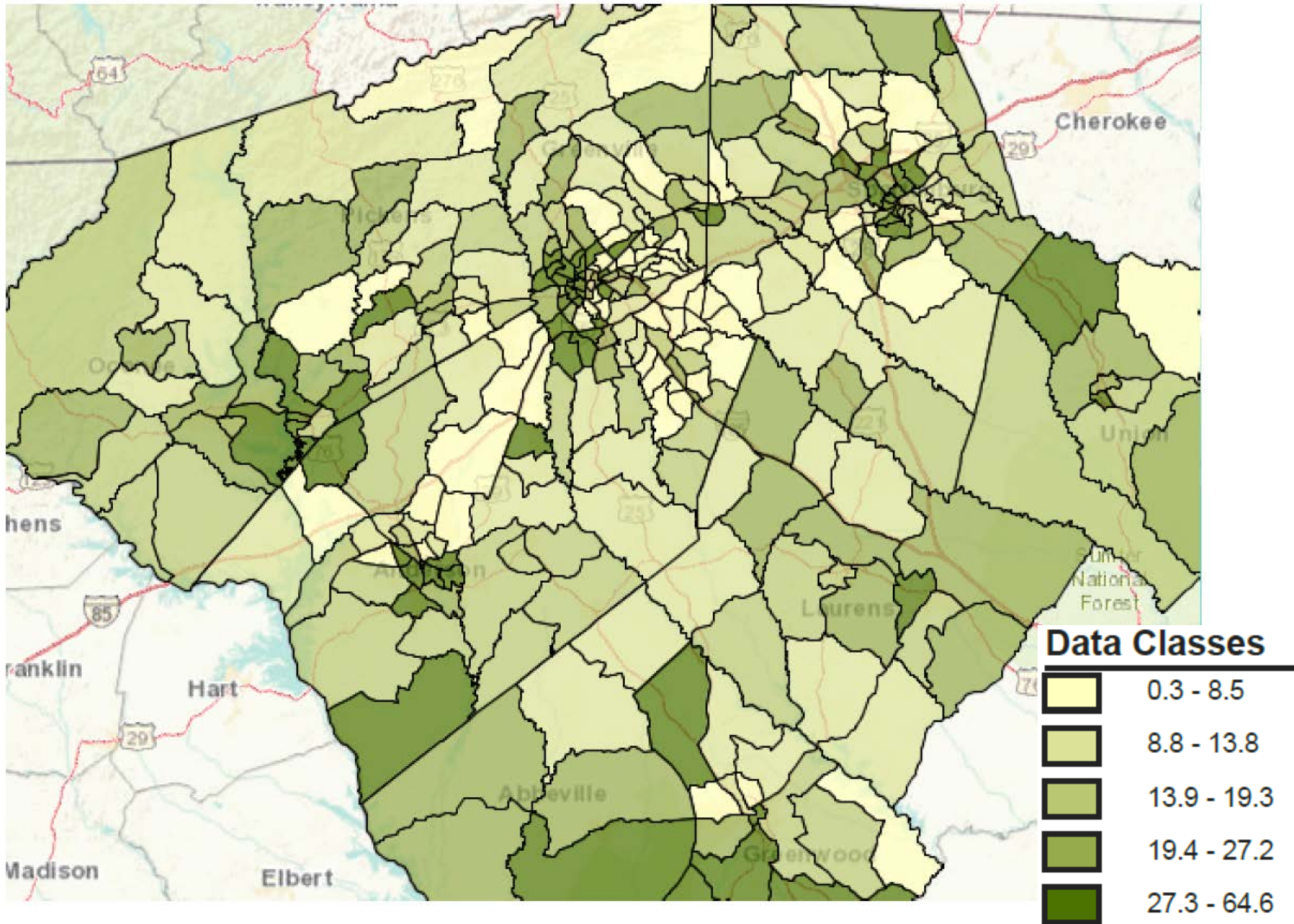
Source: United States Census Bureau / American FactFinder. "S1701 : Poverty Status in the past 12 months." 2008-2012 American Community Survey. U.S. Census Bureau's American Community Survey Office, 2013.

# Population below the federal poverty line

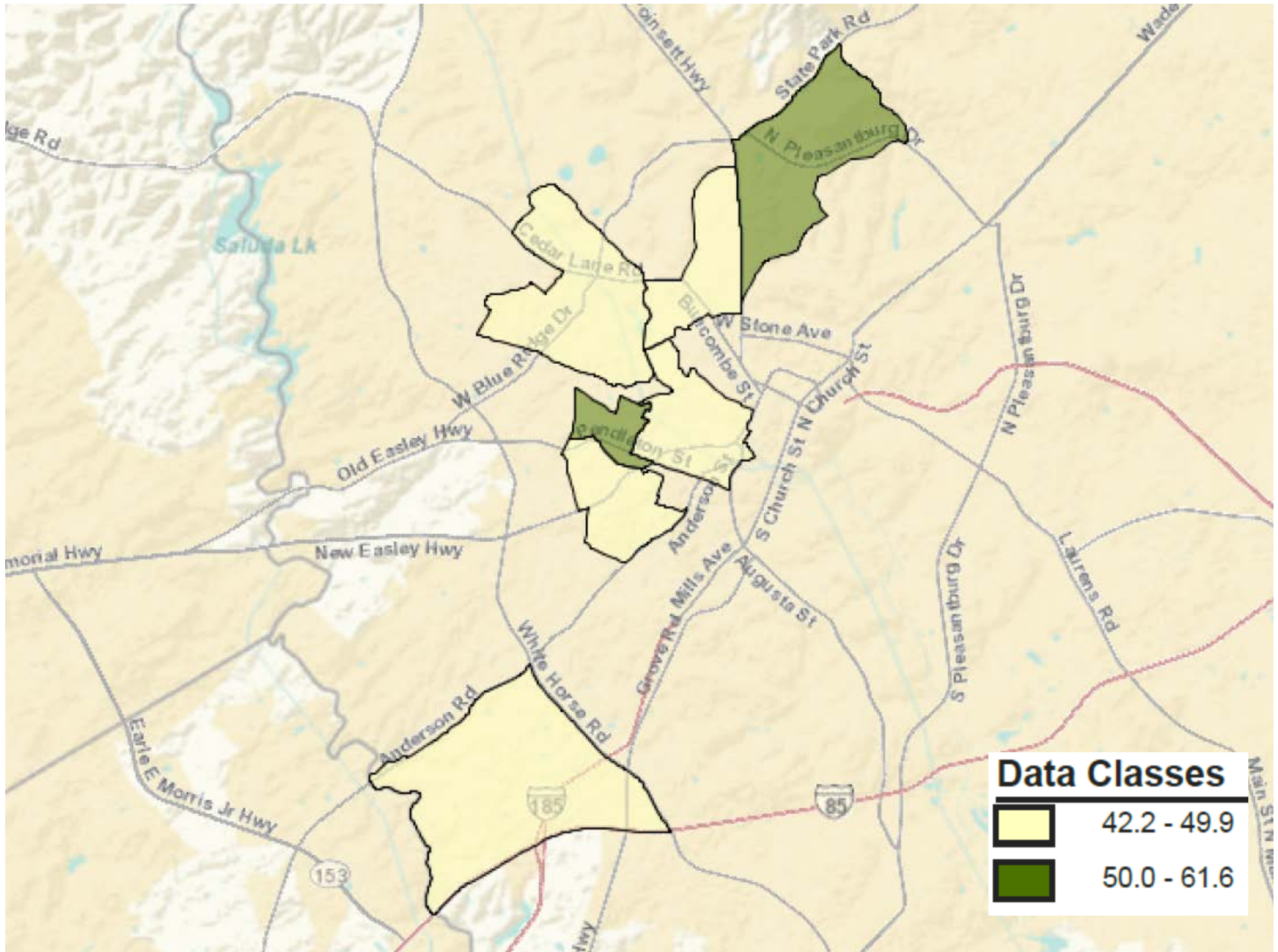




# Population below the federal poverty line

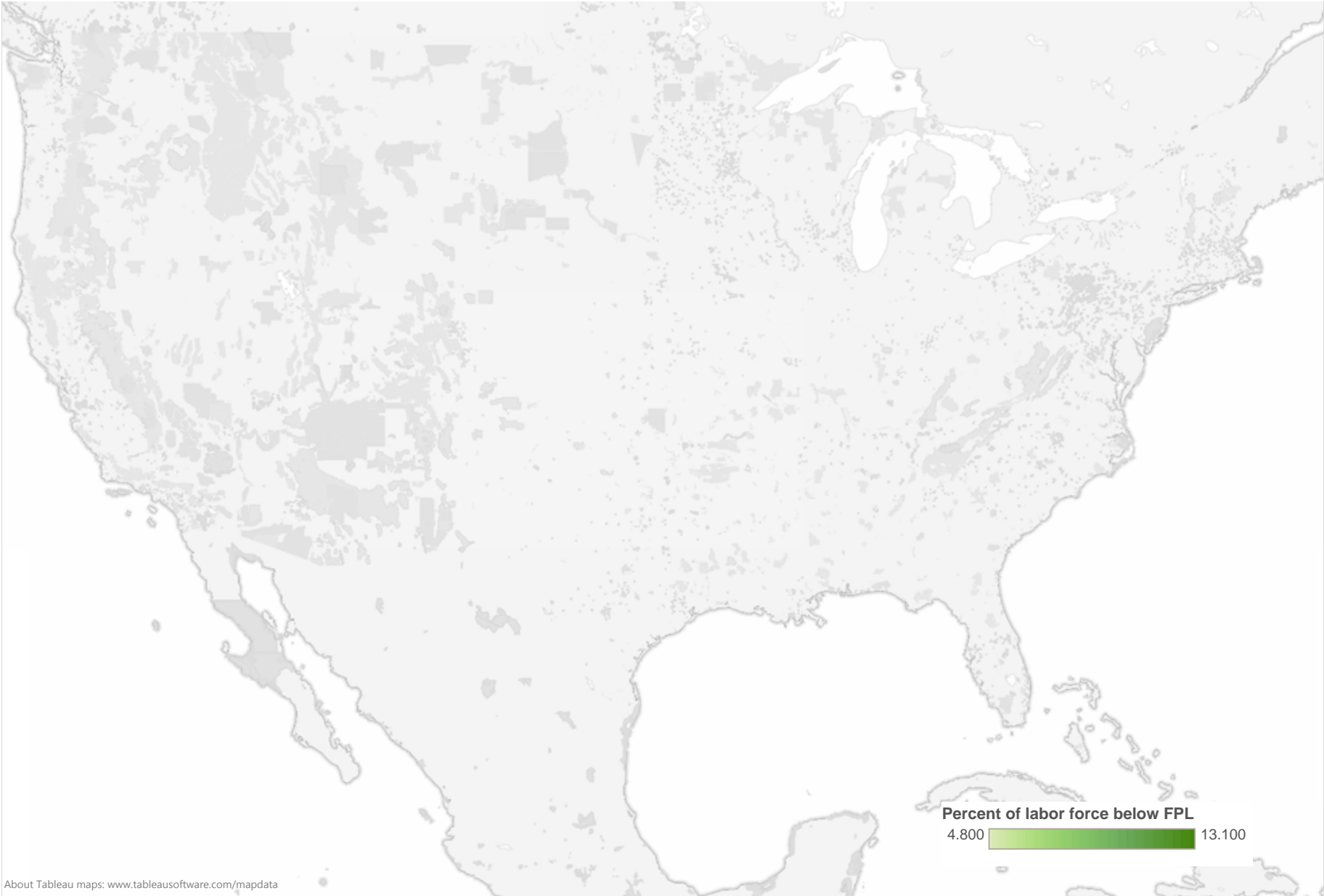


# Greenville county – Census tracts with >40% below FPL





# Percent of labor force below the federal poverty line



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Source: United States Census Bureau / American FactFinder. "S1701 : Poverty Status in the past 12 months." 2008-2012 American Community Survey. U.S. Census Bureau's American Community Survey Office, 2013.

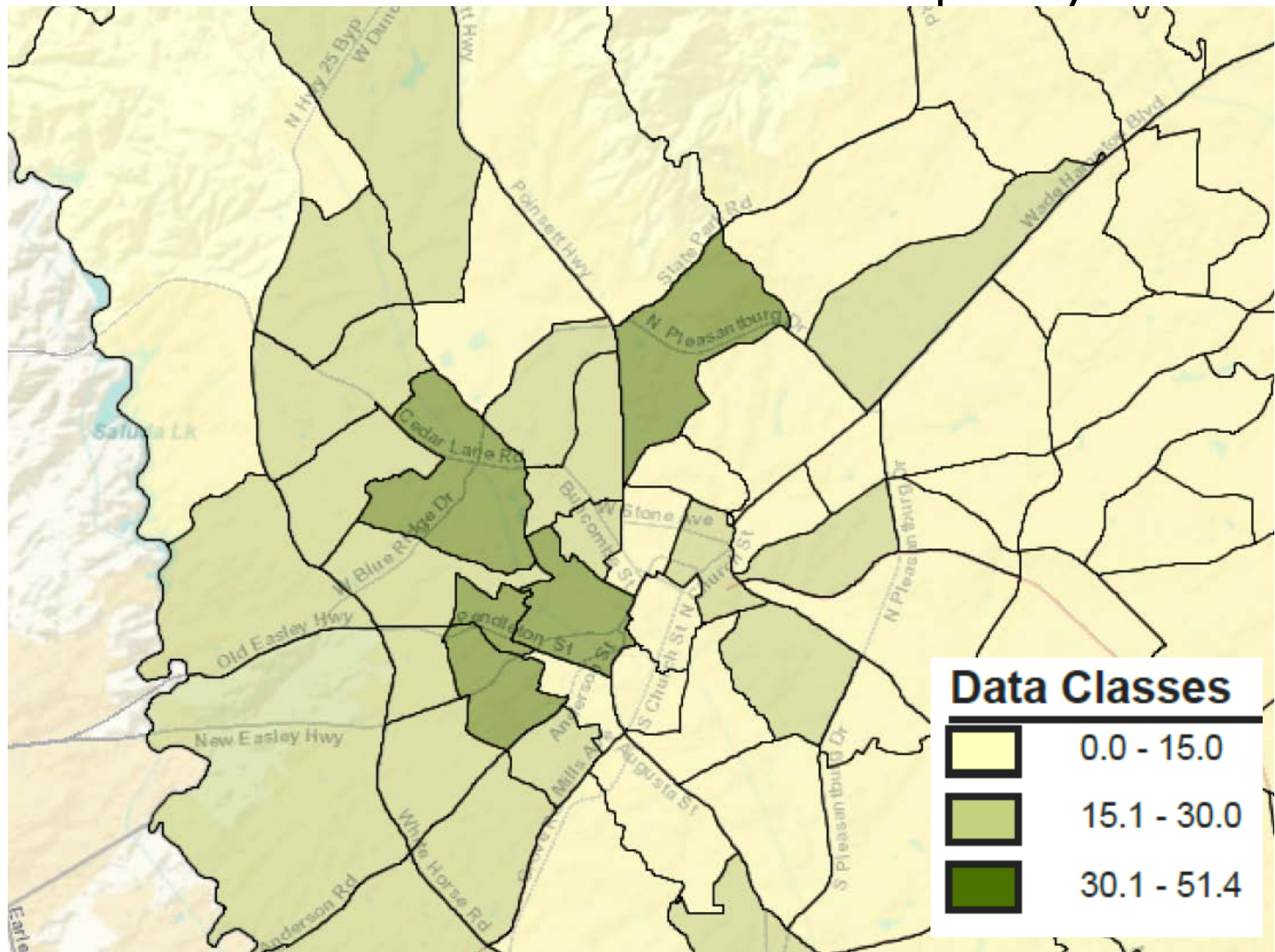
# Percent of labor force below the federal poverty line



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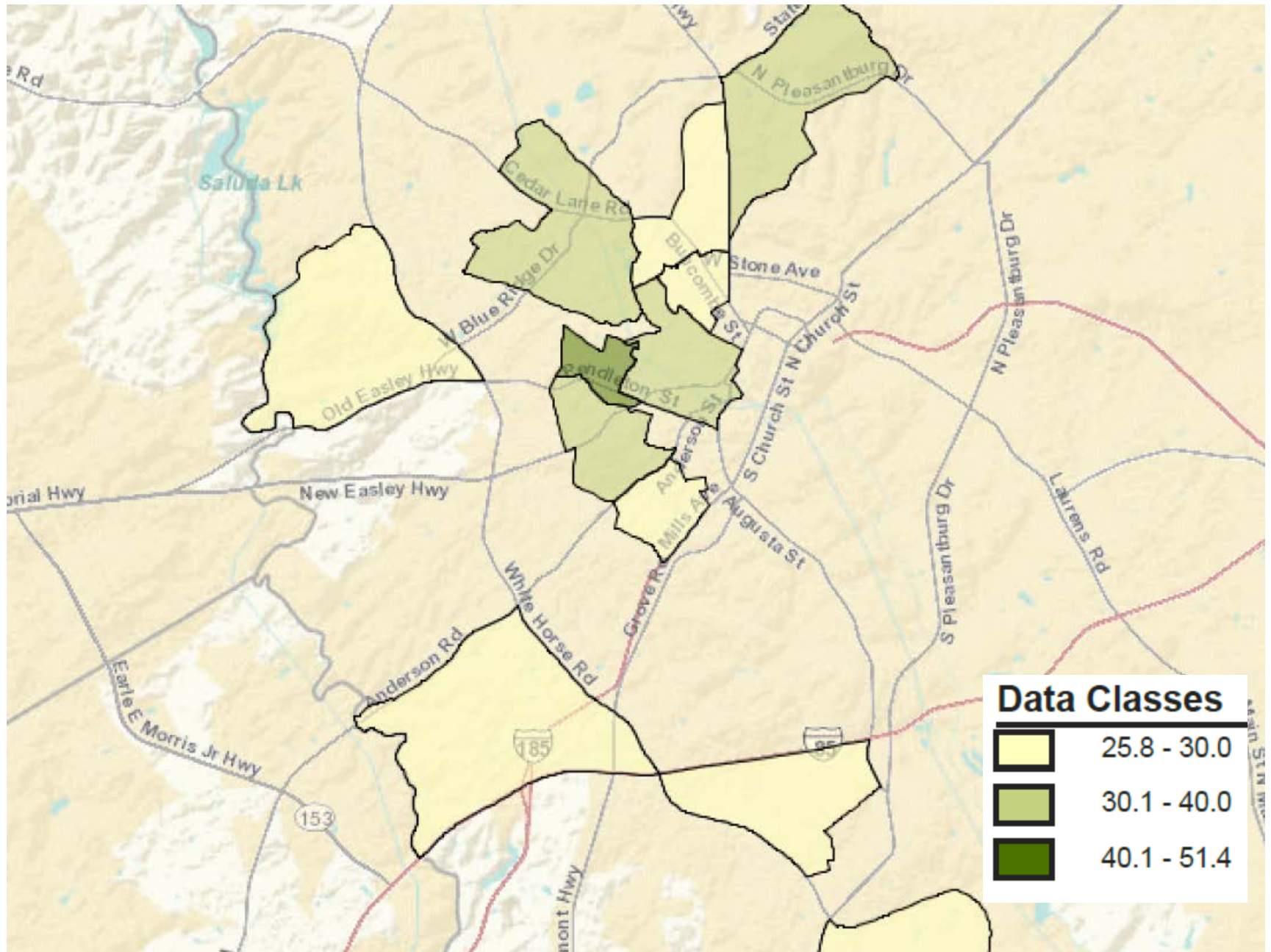
Source: United States Census Bureau / American FactFinder. "S1701 : Poverty Status in the past 12 months." 2008-2012 American Community Survey. U.S. Census Bureau's American Community Survey Office, 2013.

# Percent of labor force below the federal poverty line





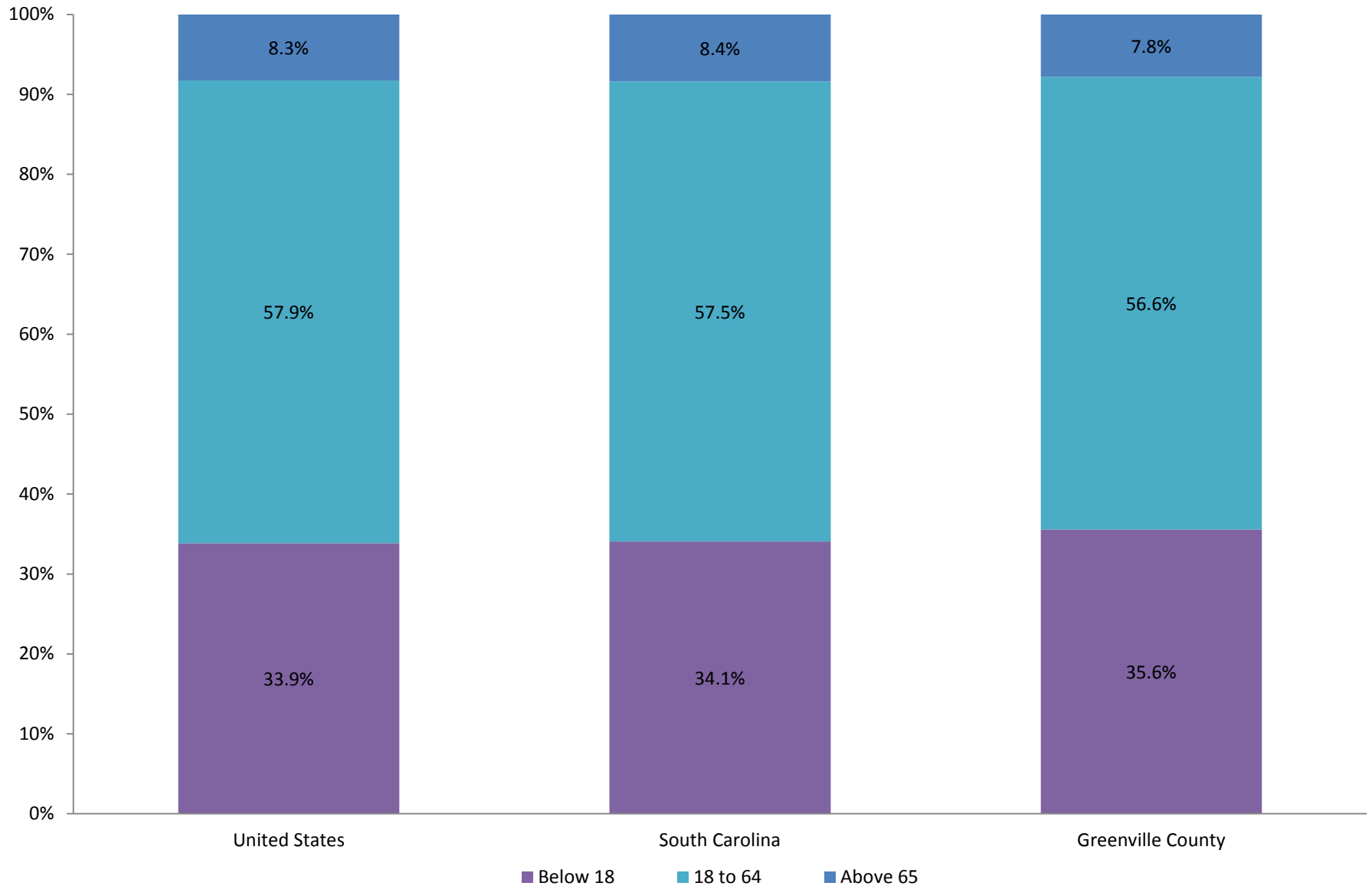
# Greenville county – Census tracts with >25% of labor force below FPL



# POPULATION BELOW THE FPL

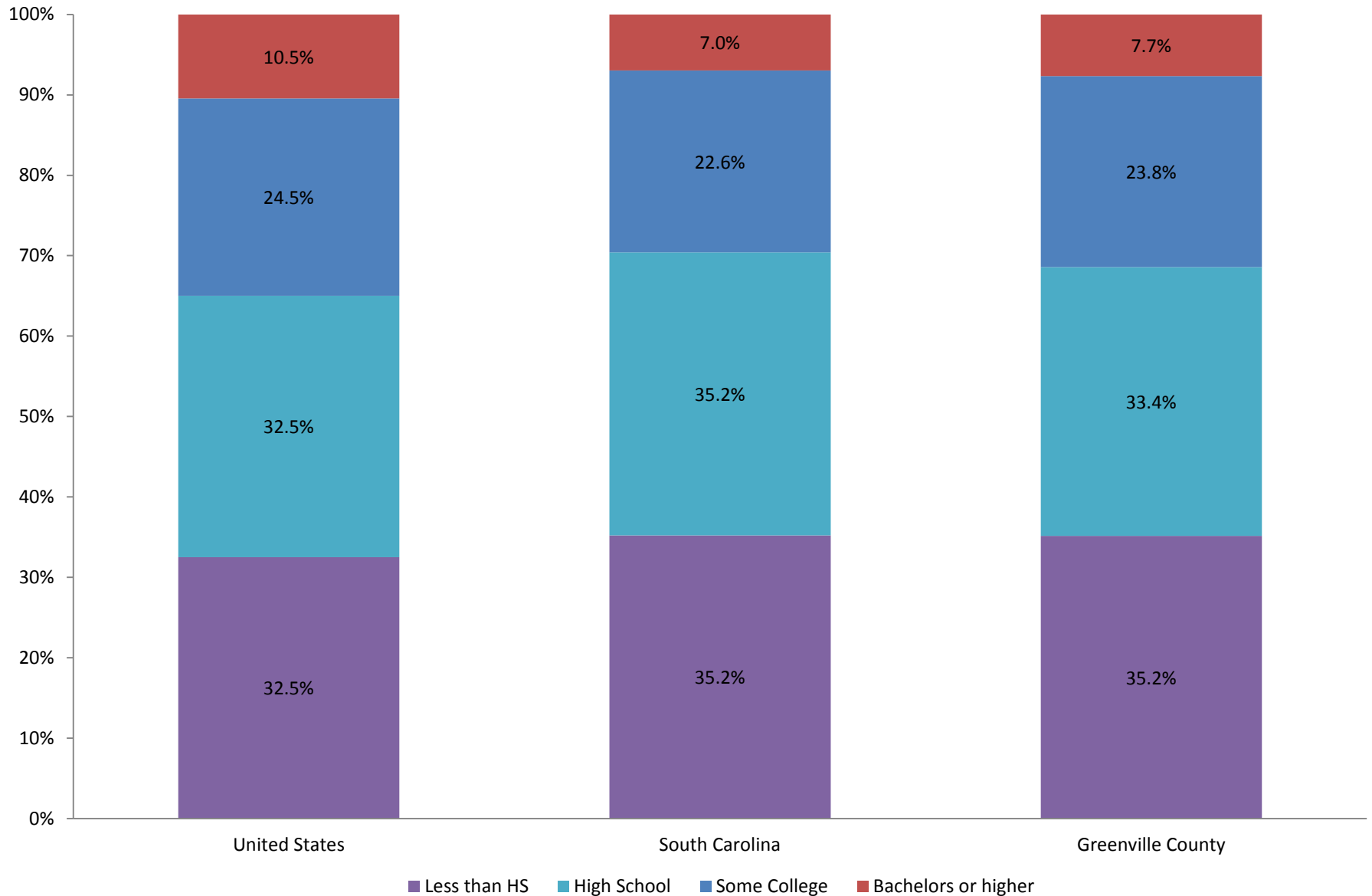
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# Population below the poverty line - breakdown by age

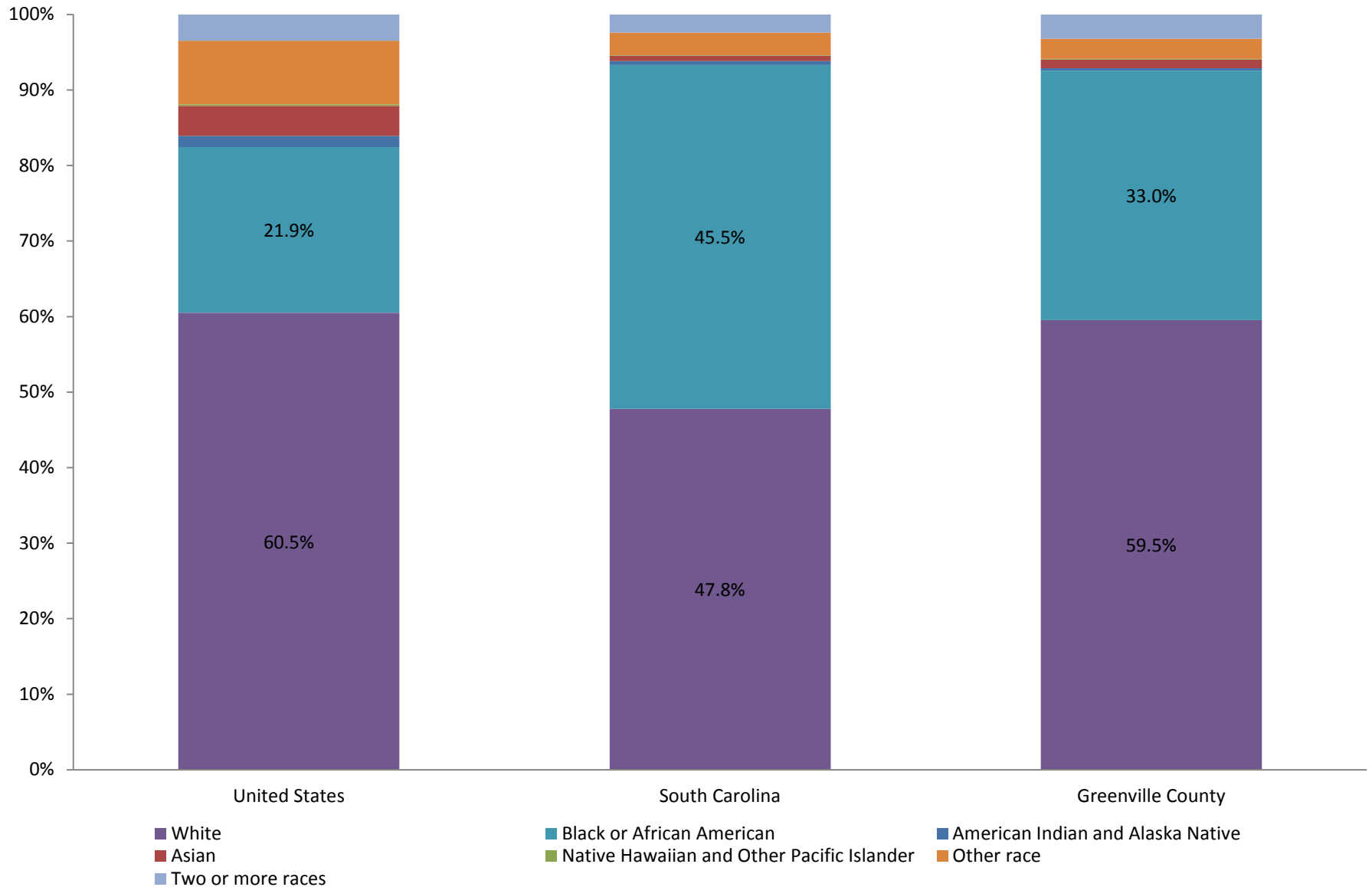




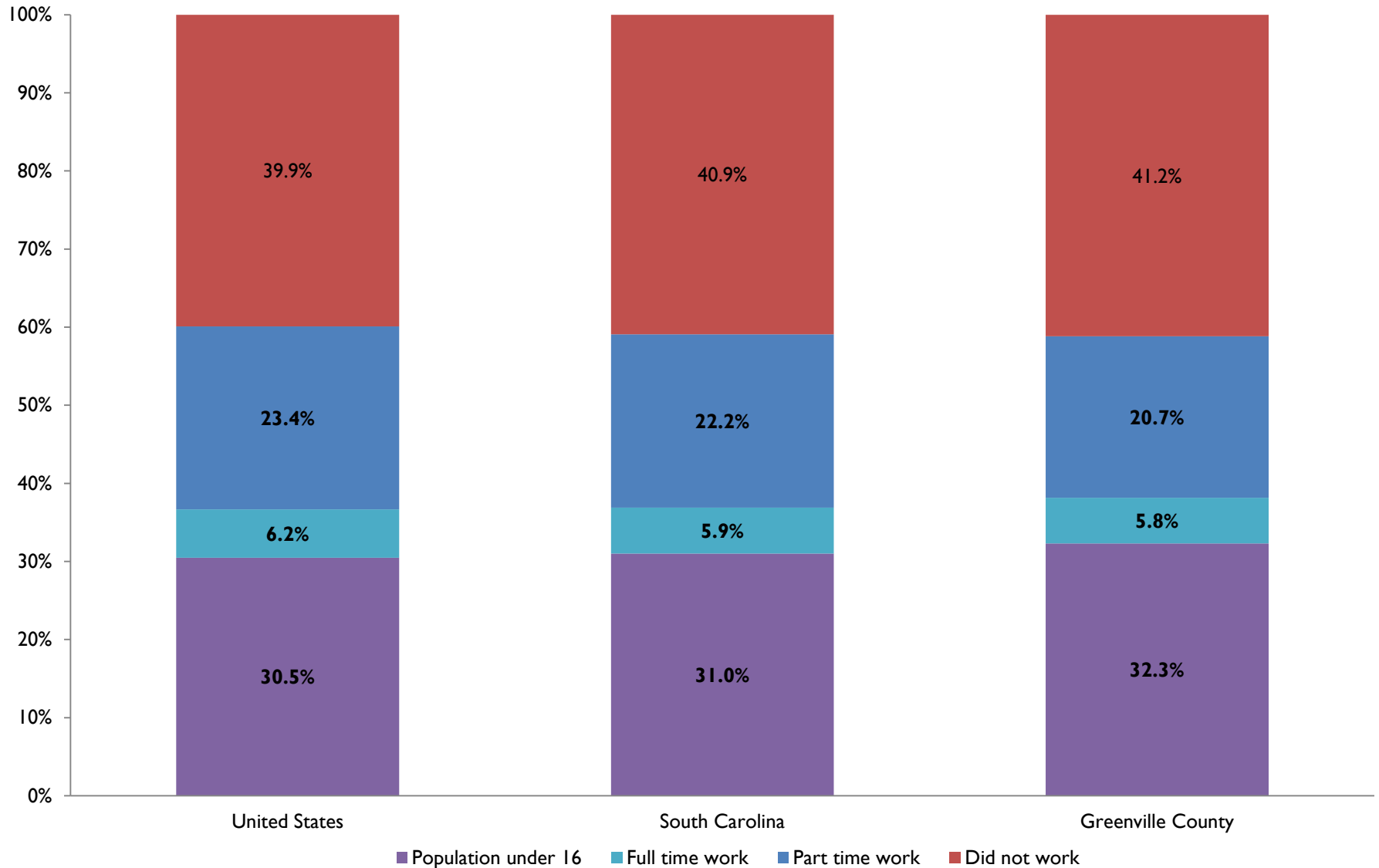
# Population below the poverty line - breakdown by education



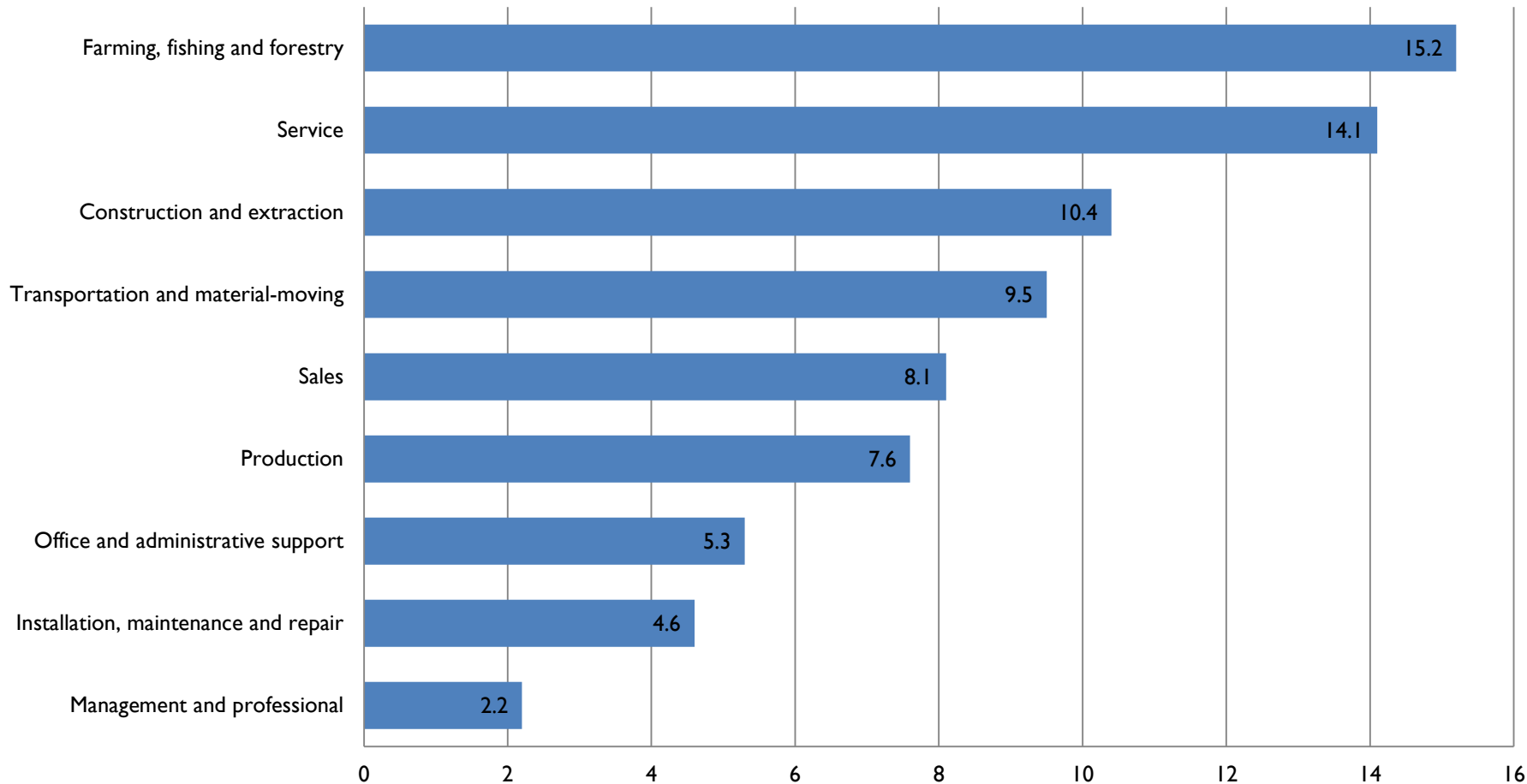
## Population below the poverty line - breakdown by race



# Population below the poverty line - breakdown by employment



## Percent of workers in each industry that are below the FPL



Source: US Bureau of Labor Statistics. A Profile of the Working Poor. 2012. Report no. 1047.

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# Workers below poverty line

- 84% of the cases are due to:
  - Low earnings
  - Periods of unemployment
  - Involuntary part-time employment
- The other 16% of the cases are due to:
  - Short term employment
  - Voluntary part-time employment
  - Family structure that increases risk of poverty

# THE ROLE OF GOVERNMENT PROGRAMS

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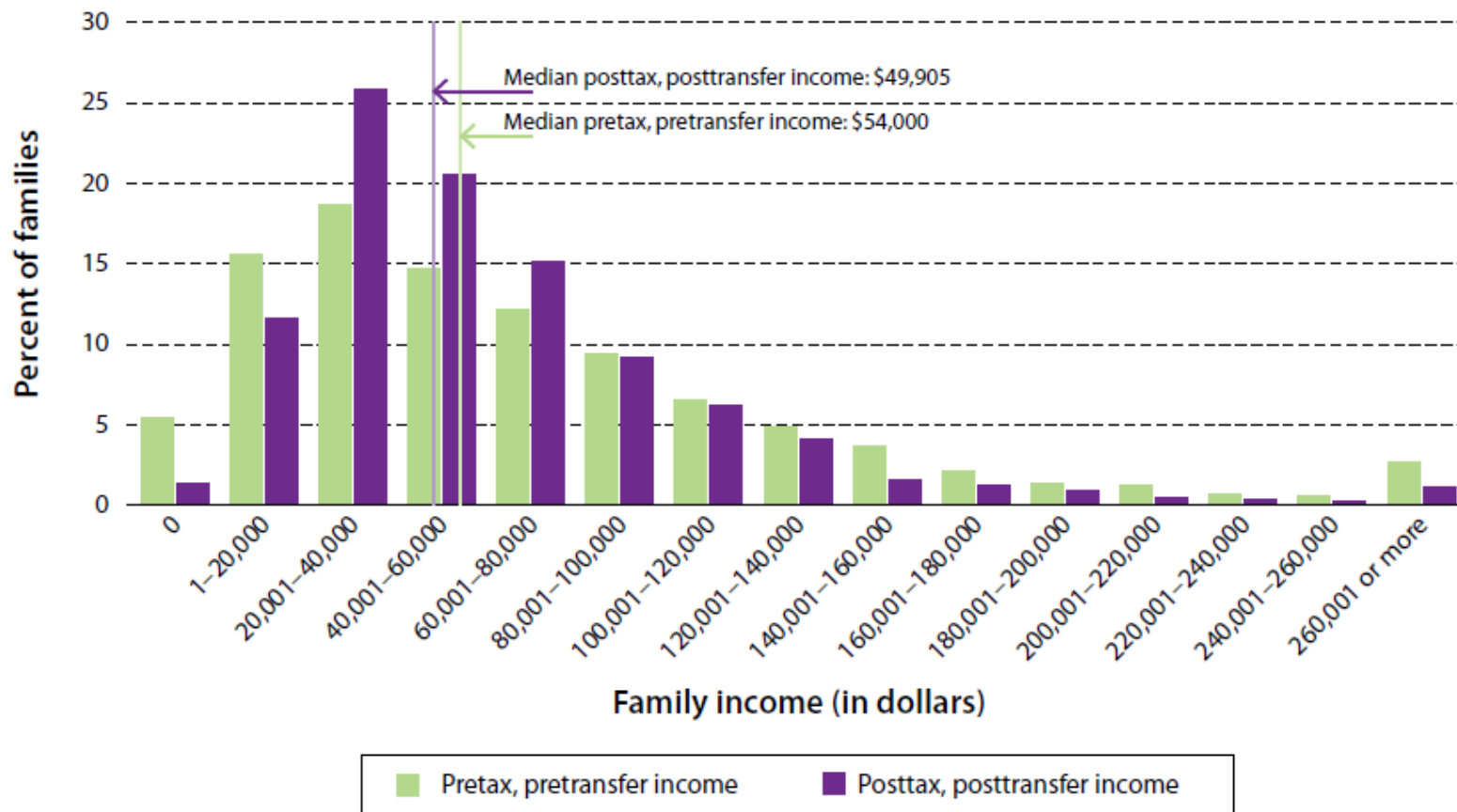
# Poverty and Public Policy

- Twice as many Americans would be impoverished if not for public safety-net programs (Kearney et al, *Policies to Address Poverty in America*, 2014)
- Multidimensional nature
  - Promoting early childhood development
  - Supporting disadvantaged youth
  - Building skills
  - Improving safety net and work support

FIGURE 9.

## Income Distributions for Working-Age Families with Children Under 18 Before and After Taxes

The tax and transfer system expands the middle class and leaves fewer families at either end of the income distribution.



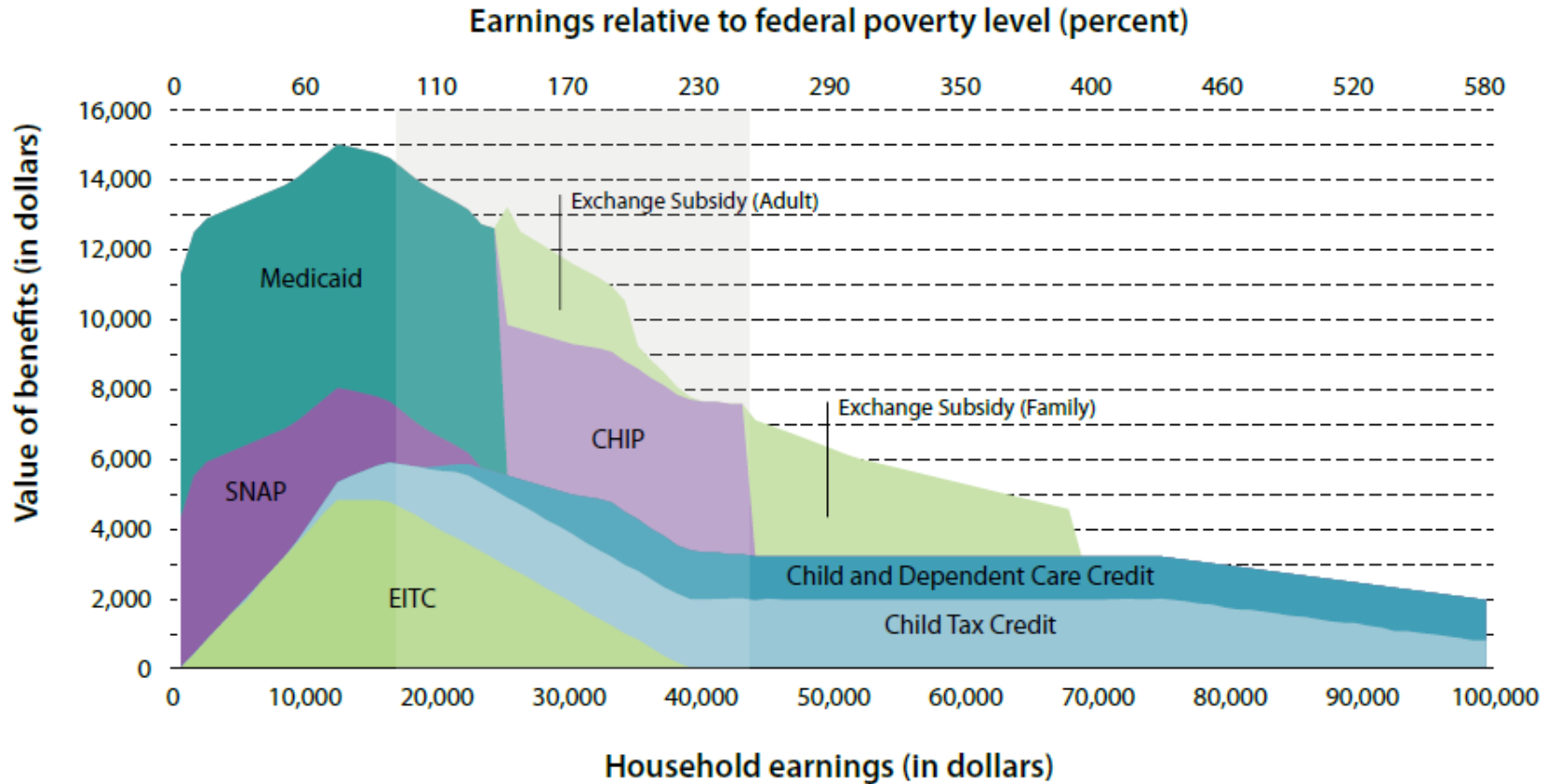
Sources: CPS 2012, March supplement; authors' calculations.

Note: A family is defined as a unit having at least one child under age eighteen and a family head under age sixty-five. Pretax, pretransfer income is the sum of earned income and additional sources of nontransfer income (e.g., interest, dividends, or alimony). A family's posttax, posttransfer income is the sum of pretax, pretransfer income, all transfer income (e.g., SNAP, welfare, or unemployment benefits), property and payroll taxes, and state and federal taxes after tax credits. For more details, see the technical appendix.



**FIGURE 10.**  
**Tax and Transfer Benefits for a Single Parent with Two Children by Household Earnings in 2008**

Most transfer programs phase out as families work their way into the lower-middle class.



Source: Maag et al. 2012.

Note: Figure shows value of tax and transfer benefits for a single parent with two children living in Colorado. Tax and transfer rules are for 2008 with hypothetical health insurance exchange subsidy plans in 2014. CHIP is the Children’s Health Insurance Program. EITC is the Earned Income Tax Credit. SNAP is the Supplemental Nutrition Assistance Program. The shaded gray area represents the struggling lower-middle class (or 100 to 250 percent of the FPL). For more details, see the technical appendix.

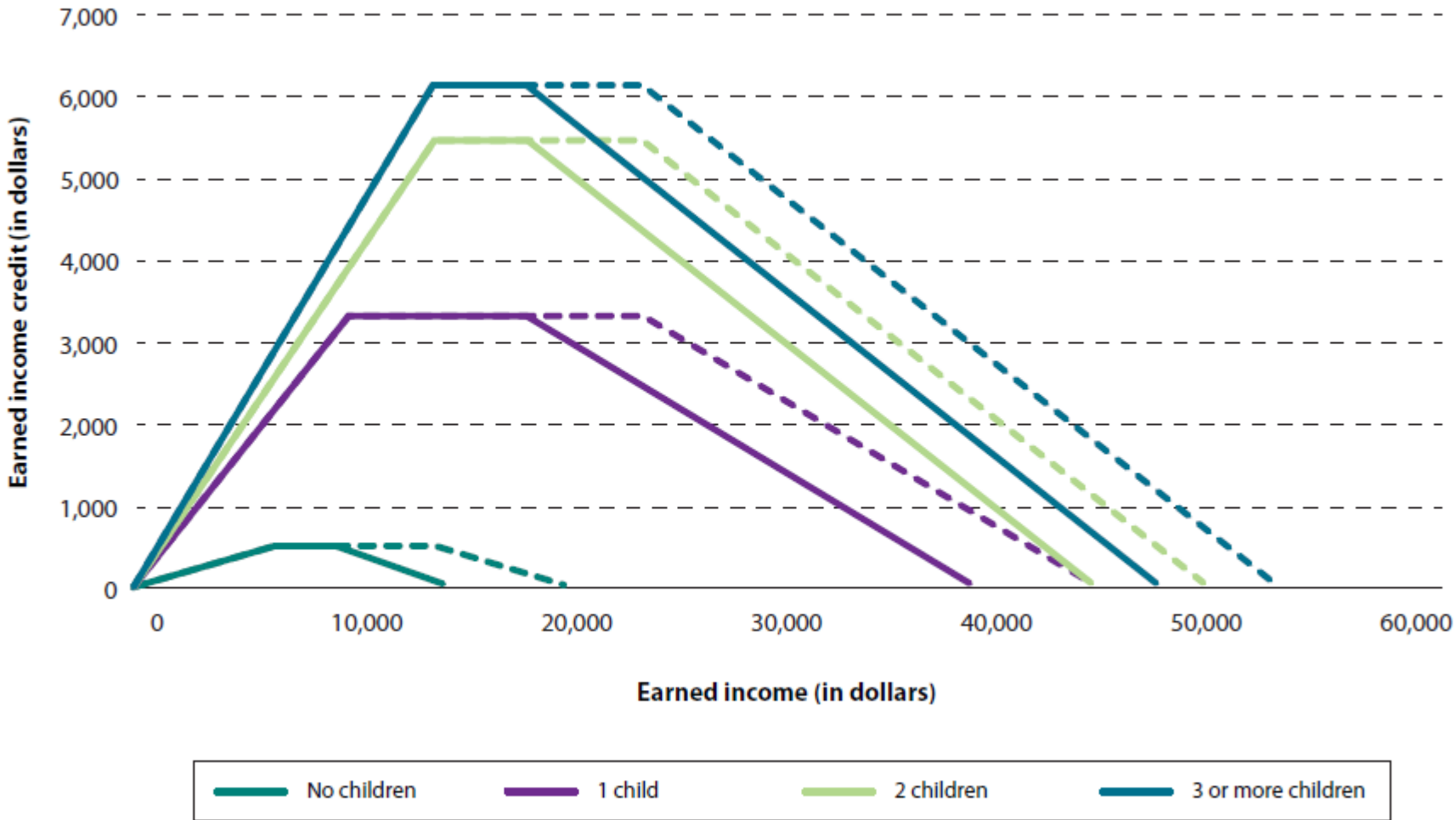
Source: Kearney et al. 2014, *A Dozen Facts about America’s struggling middle class*, The Hamilton Project.

# EARNED INCOME TAX CREDIT (EITC)

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FIGURE 11-1.

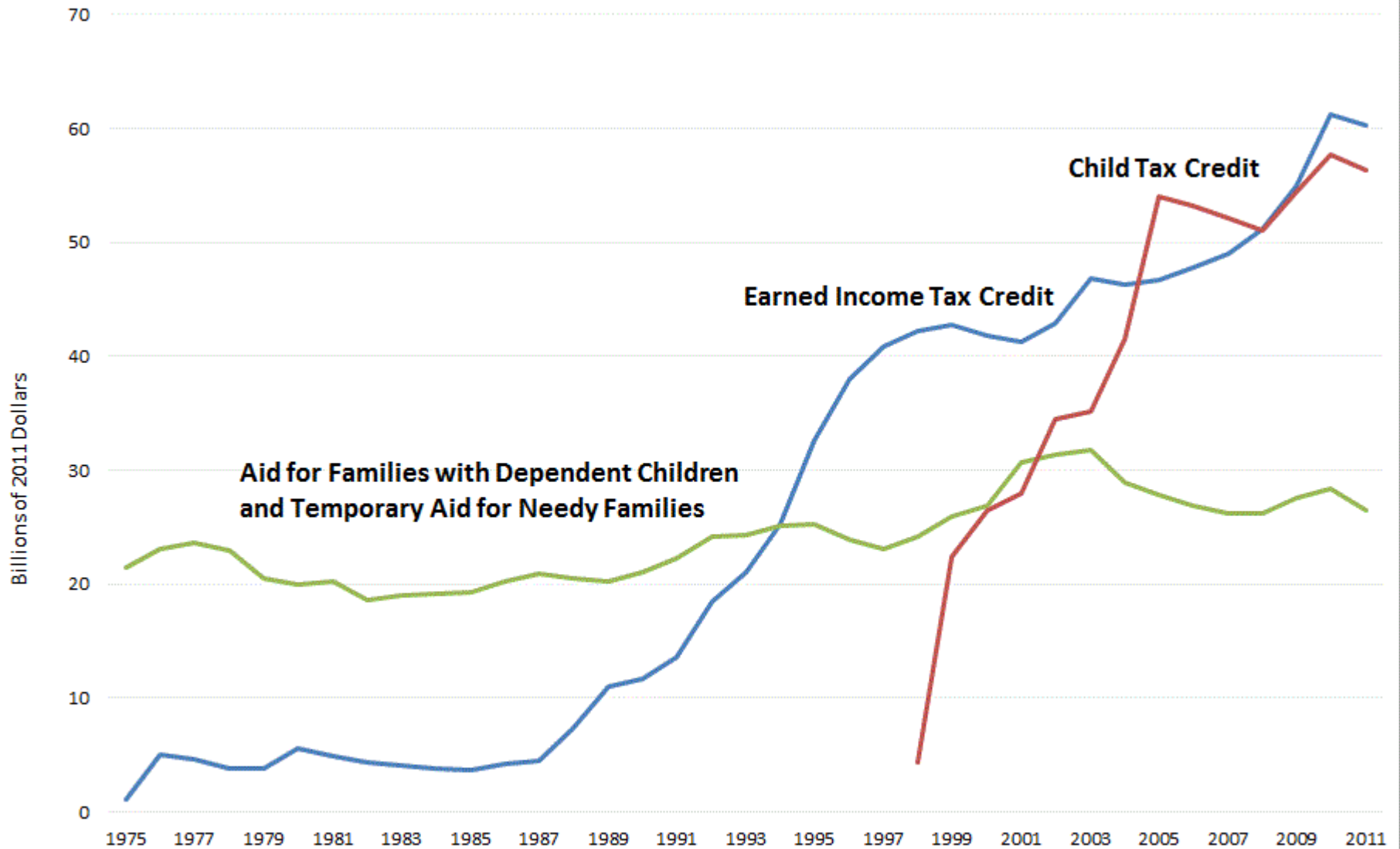
# Earned Income Tax Credit Amount by Earnings Level and Number of Children, 2014



Source: Urban-Brookings Tax Policy Center 2014.

Source: Hoynes, *Building on the Success of the Earned Income Tax Credit*, The Hamilton Project, 2014.

## Real Federal Spending on EITC, CTC and Welfare: FY1975-2011



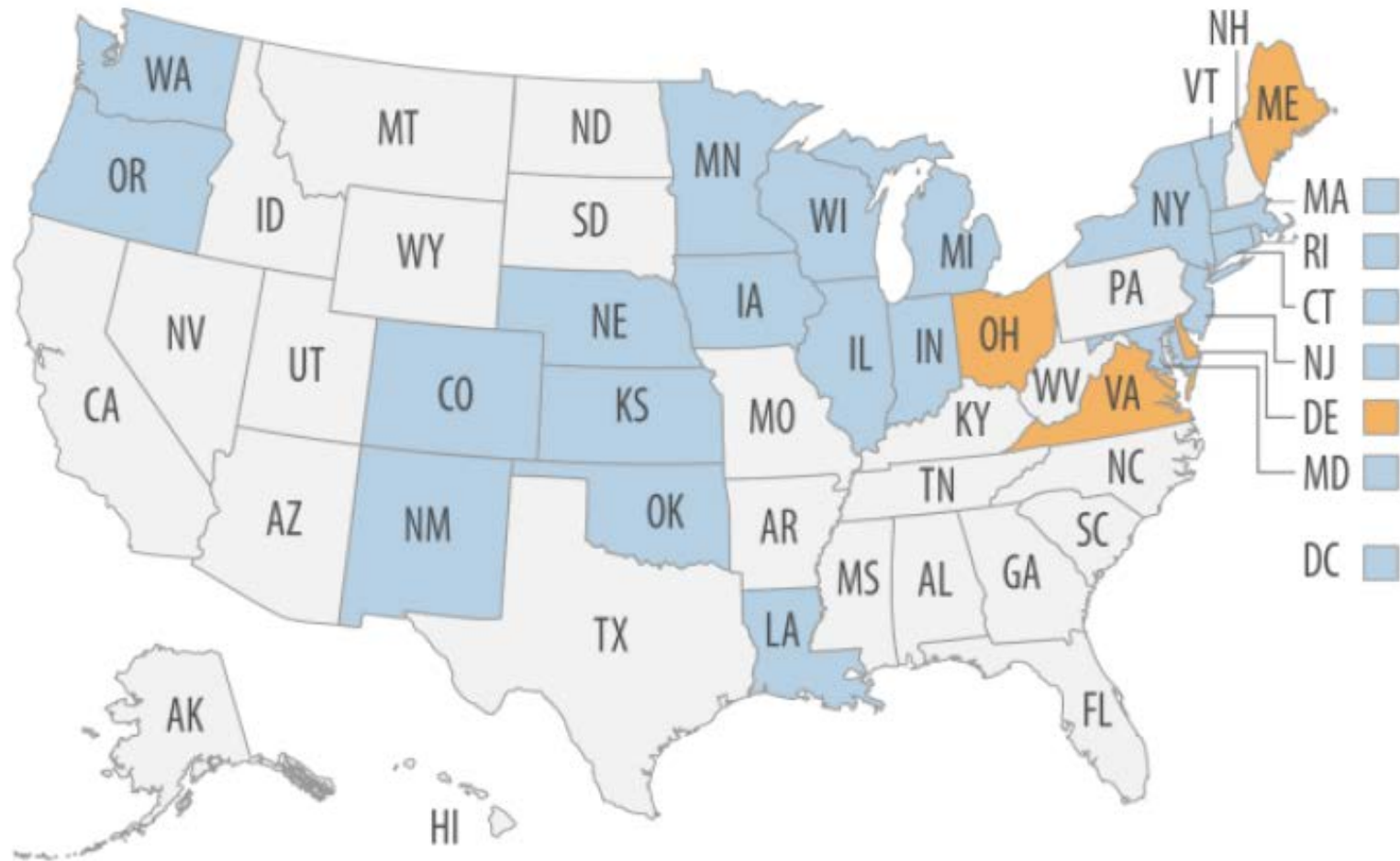
Sources: AFDC/TANF, SNAP: Budget of the United States Government, Fiscal Year 2014; for AFDC/TANF, "Family and Other Support Assistance" line; EITC and CTC: Internal Revenue Service Statistics of Income, various years; CPI deflator: Bureau of Labor Statistics. For CTC and EITC, we convert tax year data to fiscal year data by applying a 20-80 split.

# Impact of EITC

- Income
  - Kept 6.5 million (including 3.3 million children) out of poverty in 2011
- Labor Supply
  - Income/Substitution effects
  - Evidence
    - Labor force participation
      - Increases for single mothers
      - Slight decrease for married women
    - Hours of work: no effect
- Other effects
  - Improvement in child test scores
  - Reduction in low-birth-weight births
  - Improved health indicators for mothers

# Twenty-five States and D.C. Have Enacted EITCs, 2014

States with refundable EITCs (22)      States with non-refundable EITCs (4)



# MEDICAID

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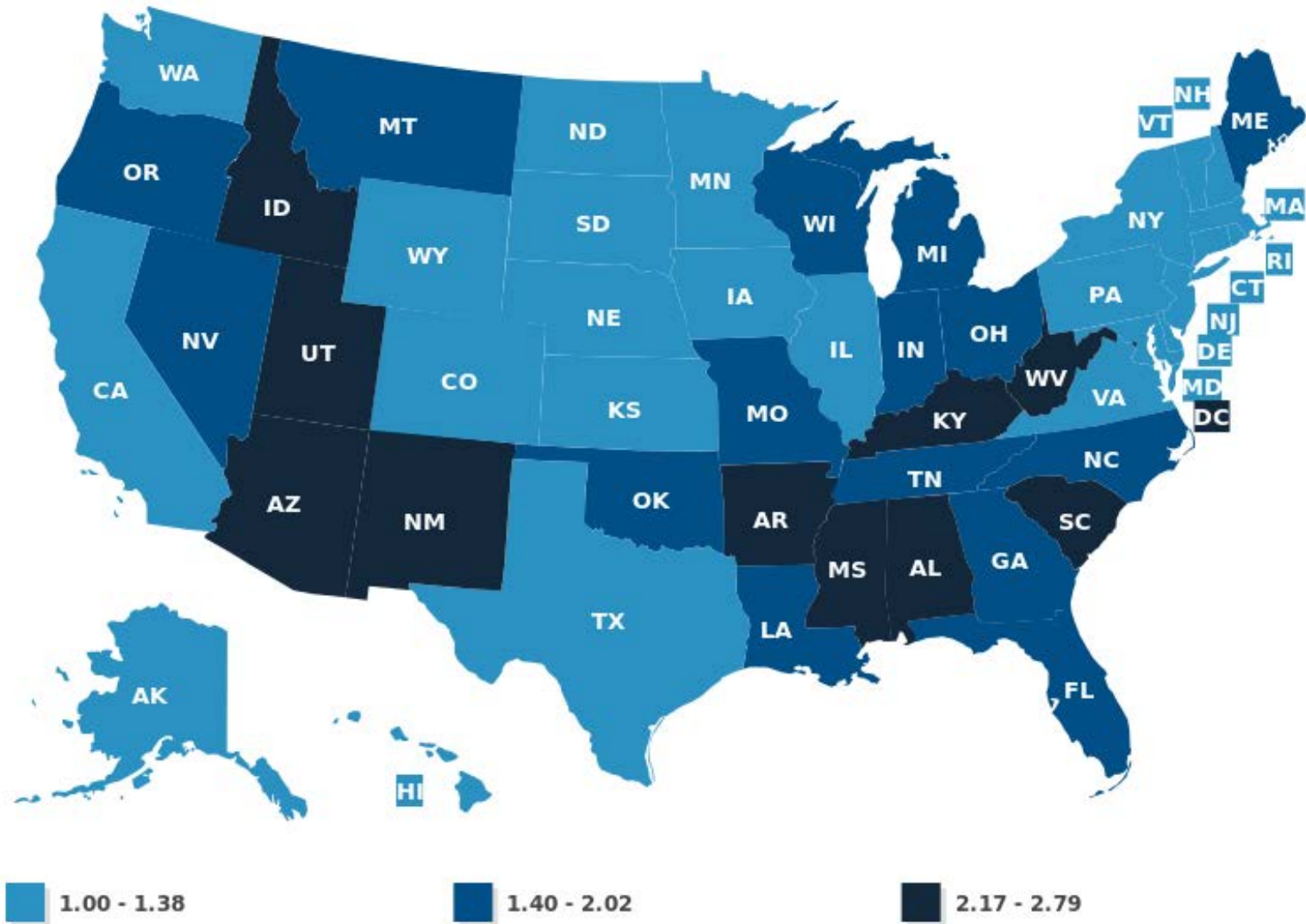
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# Medicaid

- Federally mandated but administered by the states
  - Financed on a shared basis out of general revenues
  - States determine the type, amount, duration, and scope of services within broad federal guidelines.
- Eligibility
  - Income
  - Family structure

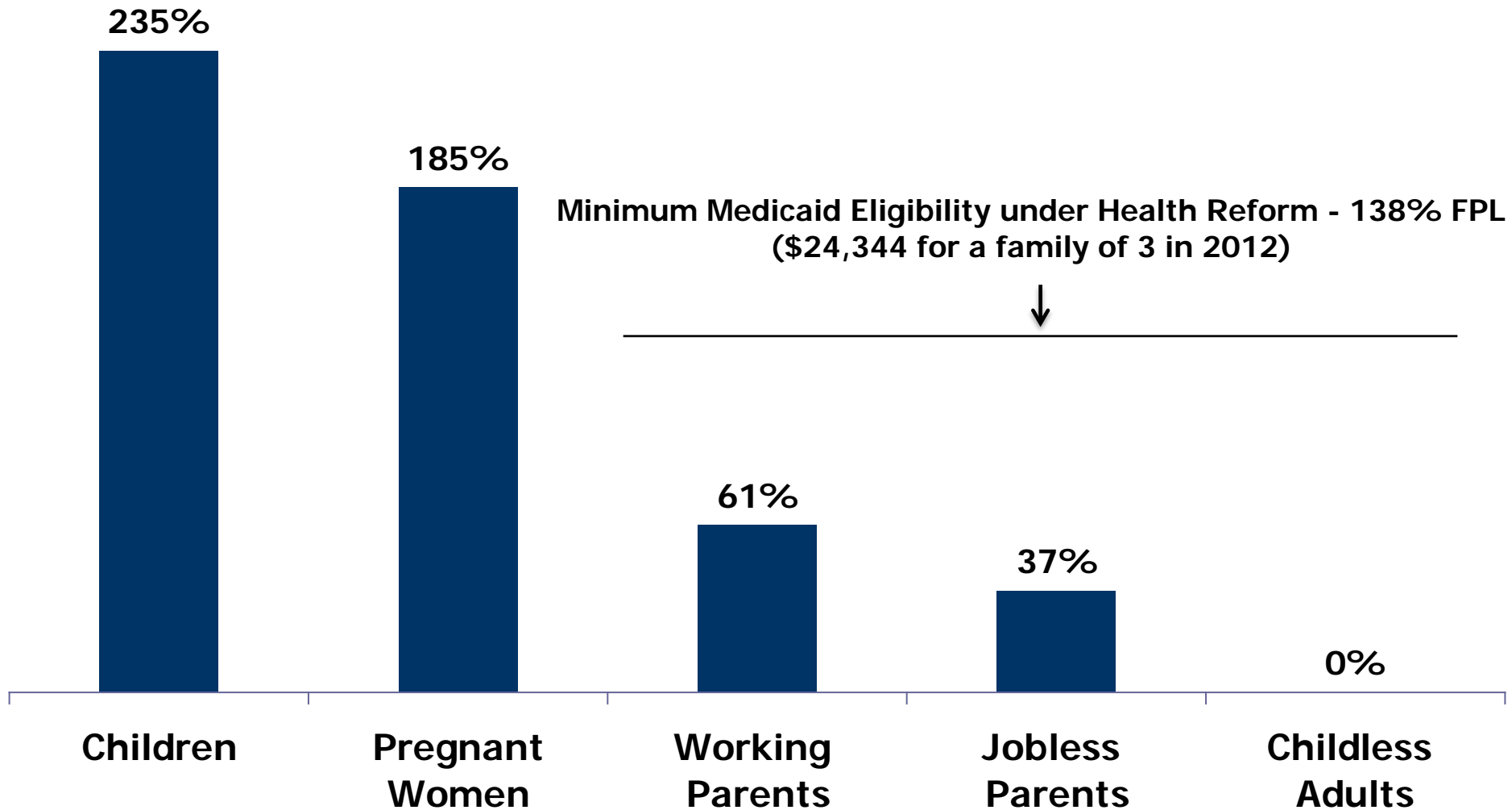


# Federal Medicaid Multiplier



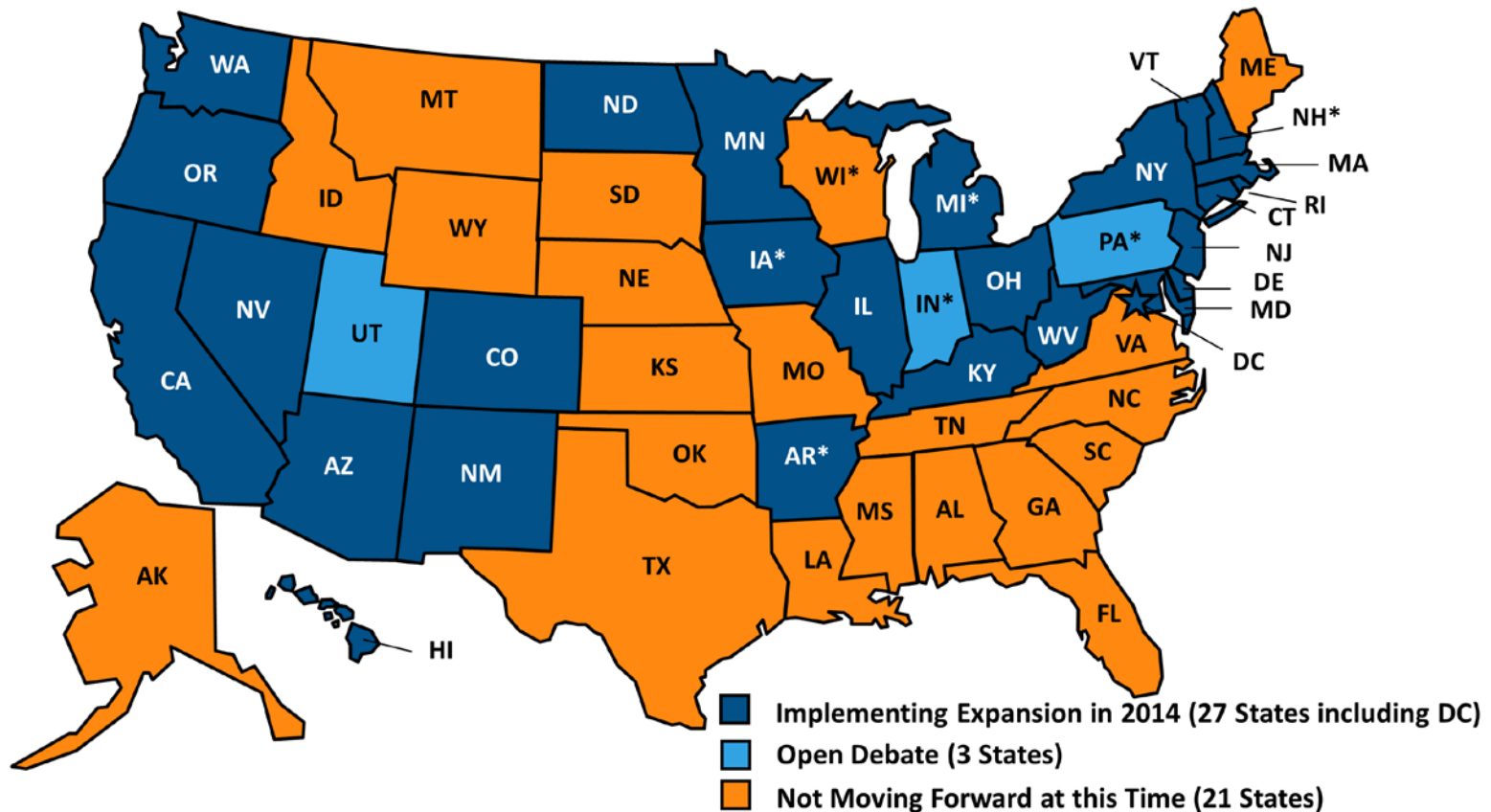
Source: <http://kff.org/medicaid/state-indicator/federal-matching-rate-and-multiplier/#>

# Median Medicaid/CHIP Eligibility Thresholds, January 2013



SOURCE: Based on the results of a national survey conducted by the Kaiser Commission on Medicaid and the Uninsured and the Georgetown University Center for Children and Families, 2013.

# Current Status of State Medicaid Expansion Decisions, 2014

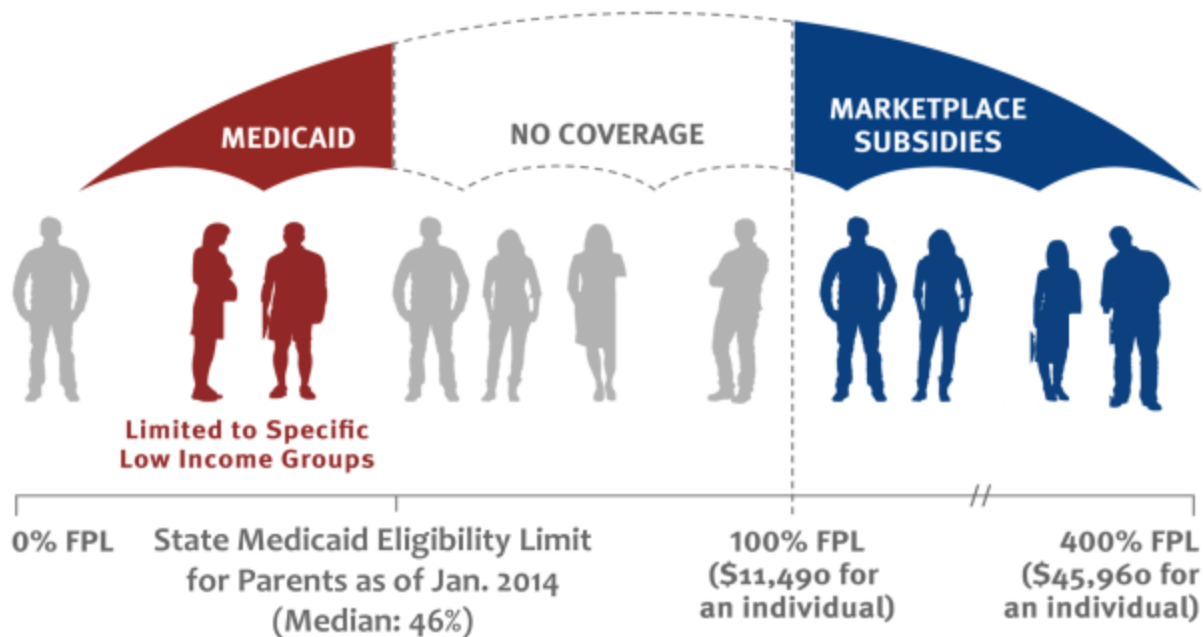


NOTES: Data are as of June 10, 2014. \*AR and IA have approved waivers for Medicaid expansion. MI has an approved waiver for expansion and implemented in Apr. 2014. IN and PA have pending waivers for alternative Medicaid expansions. WI amended its Medicaid state plan and existing waiver to cover adults up to 100% FPL, but did not adopt the expansion. NH has passed legislation approving the Medicaid expansion in Mar. 2014; the legislation calls for the expansion to begin July 2014.

SOURCES: States implementing in 2014 and not moving forward at this time are based on data from CMS [here](http://www.cms.gov). States noted as "Open Debate" are based on KCMU analysis of State of the State Addresses, recent public statements made by the Governor, issuance of waiver proposals or passage of a Medicaid expansion bill in at least one chamber of the legislature.

Figure 3

**In states that do not expand Medicaid under the ACA, there will be large gaps in coverage available for adults.**



NOTE: Applies to states that do not expand Medicaid. In most states not moving forward with the expansion, adults without children are ineligible for Medicaid.



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# Medicaid and poverty

- Finkelstein et al (2012) use the Oregon Health Experiment to show that Medicaid results in:
  - higher health care utilization
  - better self-reported mental and physical health
  - lower out-of-pocket medical costs and medical debt
- Sommers and Oellerich (2013) estimate that Medicaid decreases poverty rates
  - 1.0 percent among children
  - 2.2 percent among disabled adults
  - 0.7 percent among the elderly

# MINIMUM WAGE

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## Poverty and the Federal Minimum Wage

*Poverty thresholds, by household type*

Two adults, two children ..... \$23,624



Note: Annual minimum-wage earnings in constant 2013 dollars assuming a full-time work schedule of 40 hours per week and 52 weeks per year. Poverty thresholds are adjusted for inflation each year.

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# Regional Price Parities



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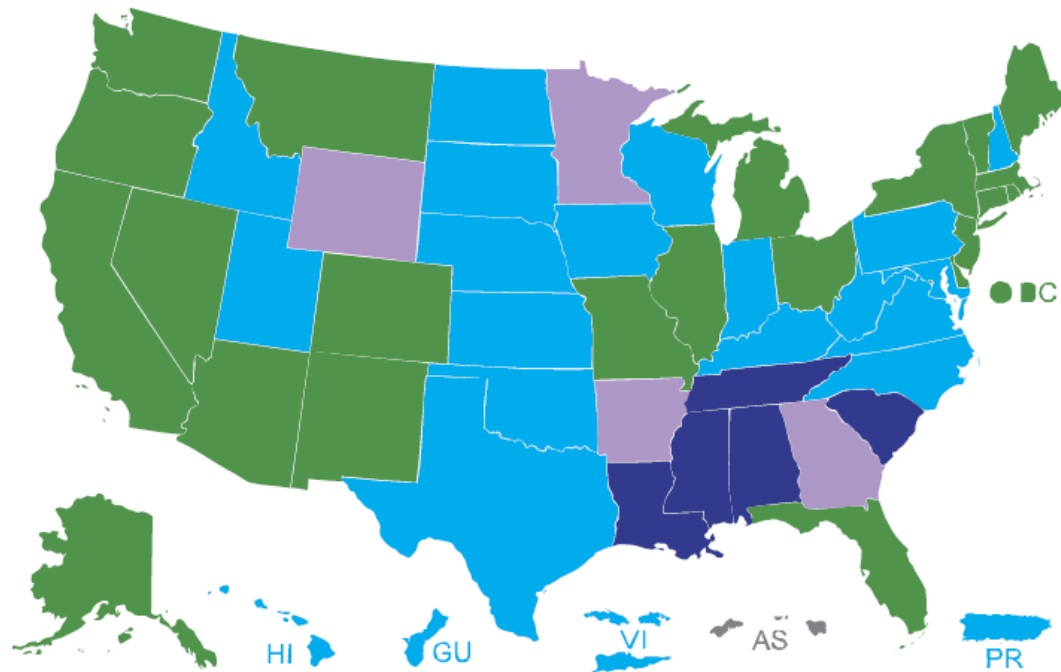
Source: Bureau of Economic Analysis, Regional Price Parities for 2012, released 2014.



# United States Department of Labor

## Wage and Hour Division

### Minimum Wage Laws in the States - January 1, 2014



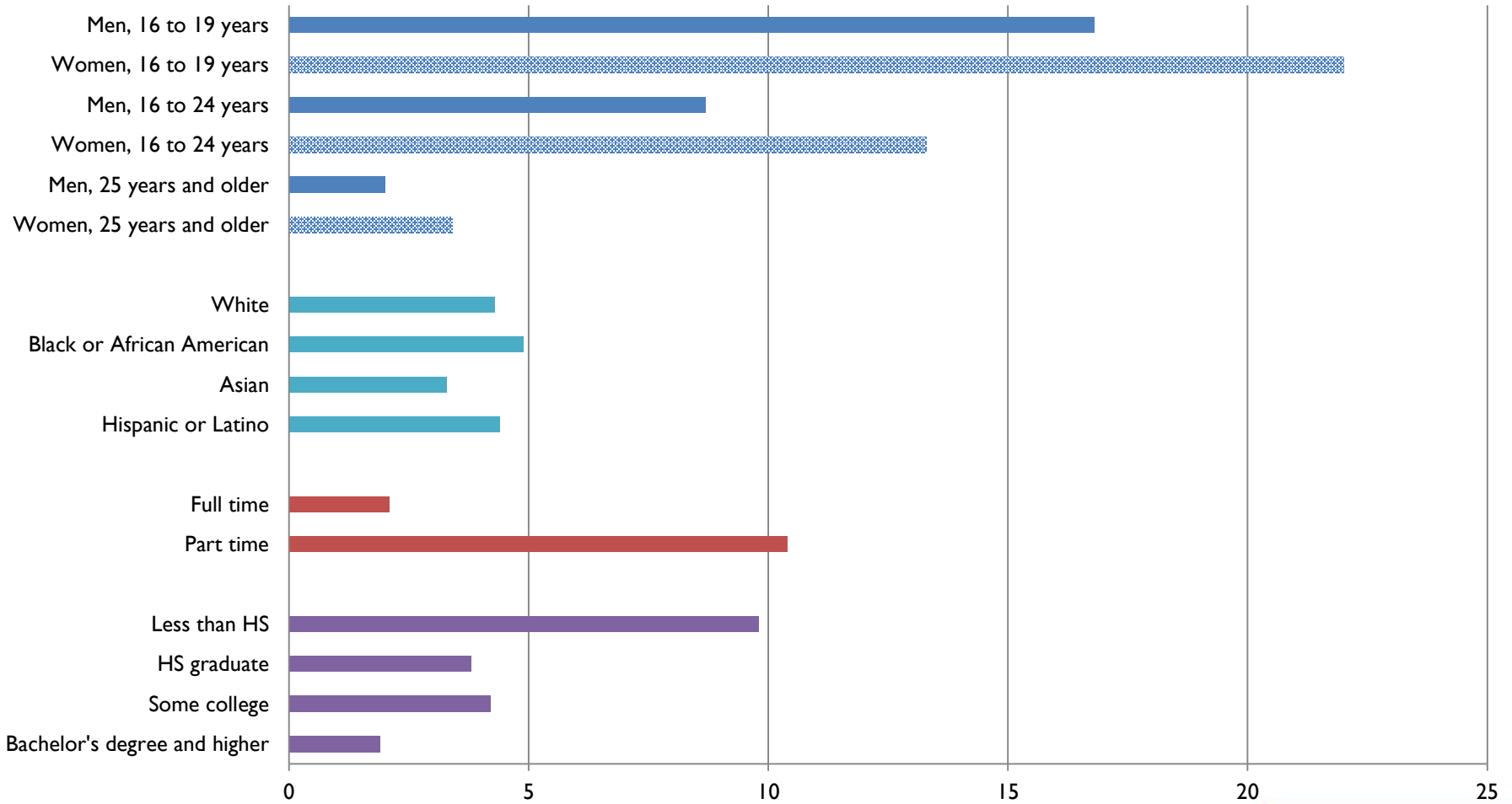
States with minimum wage rates higher than the Federal States with no minimum wage law

States with minimum wage rates the same as the Federal States with minimum wage rates lower than the Federal

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## Percent of hourly workers paid at or below federal minimum wage

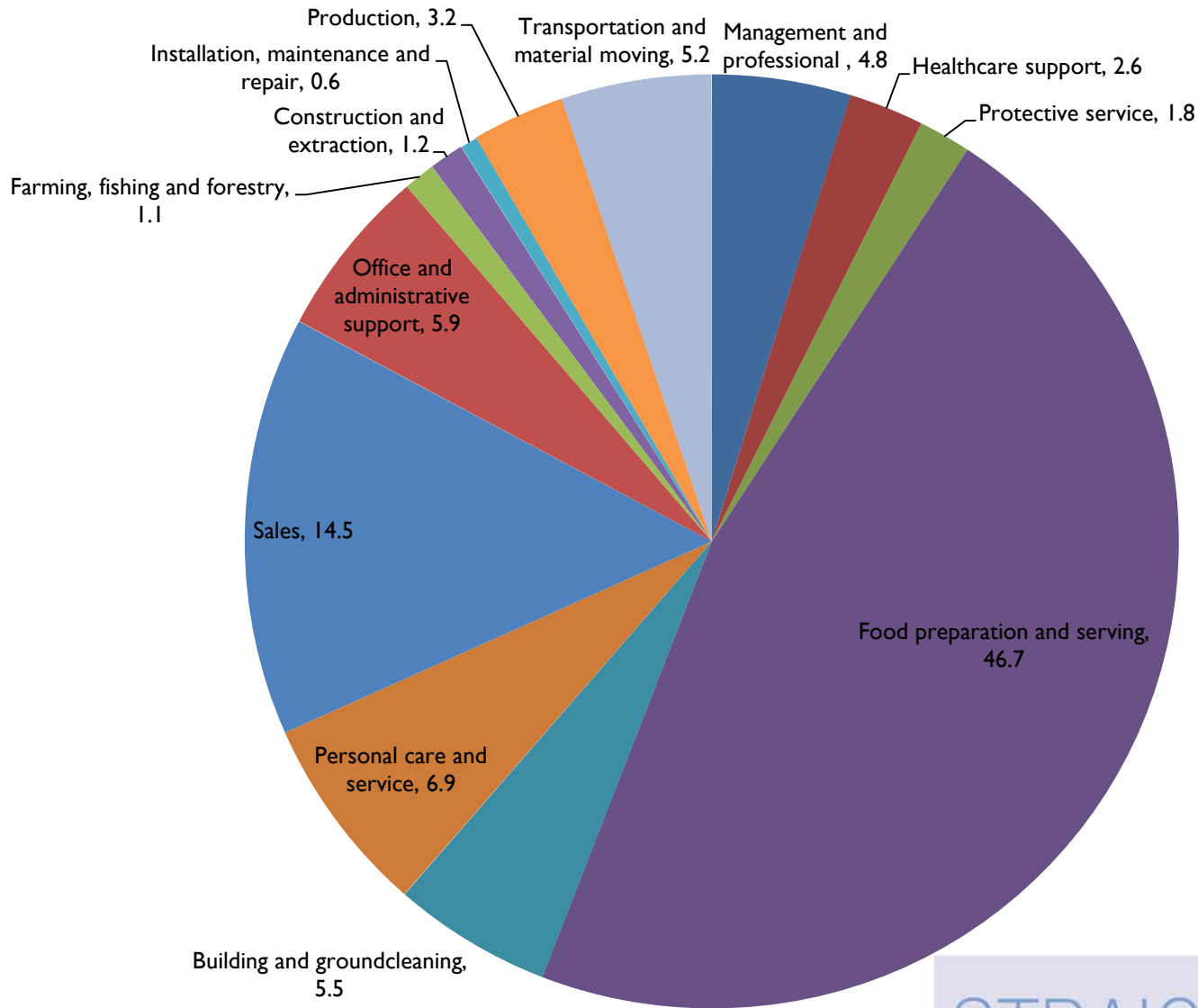


Source: US Bureau of Labor Statistics. Characteristics of Minimum Wage Workers, 2013.

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# Minimum wage jobs



Source: US Bureau of Labor Statistics, Characteristics of Minimum Wage Workers, 2013

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Figure 2. Ratio of low-wage workers and US household income to needs, 2008

<i>Ratio of income to needs</i>	<i>Percentage of all workers</i>	<i>Percentage of workers with wages below \$7.25 an hour</i>
< 1	4.4	12.7
1 to 1.24	2.6	5.0
1.25 to 1.49	2.5	6.5
1.5 to 1.99	6.4	10.3
2 to 2.99	16.3	20.9
> 3	67.8	44.6

*Note:* Needs is the level of household income that puts a household of a given size and age structure at the poverty line (a ratio of 1).

*Source:* Sabia, J. J., and R. V. Burkhauser. "Minimum wages and poverty: Will a \$9.50 federal minimum wage really help the working poor?" *Southern Economic Journal* 76:3 (2010): 592–623 [11], Table 2.



# Increase Minimum Wage to \$10.10?

- CBO February 2014 report: “The Effects of a Minimum-Wage Increase on Employment and Family Income”
- Income security (+)
  - \$31 billion more in earnings
    - 19% goes to families below FPL
    - 29% goes to families earning more than 3xFPL
- Labor market (-)
  - \$10.10 minimum wage decreases jobs by 500,000
- Net effect
  - Overall real income would rise by \$2 billion
  - Move about 900,000 people above the poverty threshold

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