A New Safety Net for Low-Income Families

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A NEW SAFETY NET FOR LOW-INCOME FAMILIES

During the 1990s, the federal government promised low-income families that work would pay. Parents moved into jobs in droves in response to new welfare rules requiring work, tax credits, and other work supports that boosted take-home pay. These policy changes were enacted during one of the strongest labor markets on record. A decade later, the labor market is tepid, and policies have to be re-evaluated keeping in mind the circumstances of today's families.

Unfortunately, the record shows that low-income families have not progressed much. One-third of America's families with children are low income, meaning their incomes fall below twice the federal poverty level (about $40,000 for a family of four in 2006). Many don't bring home enough to cover the everyday costs of living. Yet, four in five of these families work. Some receive help from government work supports, notably tax credits, food stamps, and child care subsidies, but these supports either offer too little or go to too few families that need them to reliably close the gap between earnings and basic expenses. Headway against child poverty halted after 2001, and the rate has hovered around 17 percent since 2003 (DeNavas-Walt, Proctor, and Smith 2007).

Low-income working families face the greatest risks in today's unpredictable economy. The loss of a job, a cut in work hours, a serious health problem, or a rise in housing costs can quickly push these families into greater debt, bankruptcy's brink, or even homelessness. Few have an economic ladder to climb because the wages of less-skilled workers have on balance either stagnated or fallen over the past two decades. Most cannot save for a rainy day when earnings can't be stretched to cover even the everyday basics. Most do not receive group health insurance coverage from their employers or qualify for unemployment insurance if they lose their jobs. Neither employers nor the government gives them much of a safety net.

With so many so vulnerable, the nation needs new policies that make work pay in today's economy. Training or retraining can help parents advance to better-paying jobs. Other services can help parents struggling to get a secure foothold in the labor market find and keep employment. This essay synthesizes an integrated set of policy proposals designed to fulfill these goals and based on four principles:

- Work should pay enough to cover the basic costs of everyday family living. When hard work fails to cover the costs of housing, medical care, and child care, these expenses should be subsidized in ways that also promote greater work effort.
- Young children in low-income working families require quality day care, and their parents must be able to combine a job with parenting so their children develop fully.
- Parents need access to training to move up the career ladder and access to specialized supports when their underdeveloped or outdated skills, their health problems, or other factors put even the first rung of the ladder out of reach.
- Families that work hard should be able to bridge employment gaps through unemployment insurance and accumulated savings.

These proposals have roots in earlier Urban Institute papers presenting a framework for a new safety net for low-income working families (Golden et al. 2007) and for parents facing serious barriers to employment (Zedlewski, Holcomb, and Loprest 2007).

The policy proposals include Gregory Acs and Margery Austin Turner's ideas for ensuring a decent standard of living for working families by increasing take-home pay and reducing housing costs and Cynthia D. Perry and Linda J. Blumberg's proposal for a comprehensive health insurance system. The work of Shelley Waters Boots, Jennifer Macomber, and Anna Danziger complements these proposals by calling for greater investments in child care assistance, comprehensive child development programs, and guaranteed paid leave to support parent's employment and children's development. Ideas for helping parents get ahead include proposals by Harry J. Holzer and Karin Martinson for federal funding of state-level advancement systems and those from Pamela Loprest and Karin Martinson on investing in new state service models to address the needs of parents with significant employment challenges. Policies to help families weather spells of unemployment include Margaret Simms' ideas for reforming unemployment insurance to match the realities of parents' employment and ideas for building assets among low-income working families from Signe-Mary McKernan and Caroline Ratcliffe.

To be sure, these essays do not directly address all the important issues confronting and surrounding low-income families. For example, the essays do not include ways to increase engagement of noncustodial parents in their children's lives, issues of family structure and teen pregnancy, or ways to help the low-income children stuck in failing schools. These are all critical problems, and reducing or eliminating their impact would pull more families out of poverty and improve outcomes for their children. That said, our proposals for tackling the narrower but still formidable challenge of getting low-income families on a stronger footing are integrated and mutually reinforcing, and they would complement new ideas for addressing these other interconnected problems. Collectively, these recommendations would enhance low-income families' financial stability, expand investment in children, and fulfill the promise that earnings coupled with government work supports would enable parents to pay for their families' basic needs.

To spark further debate and prompt action, we asked experts representing alternative viewpoints to comment on these essays, and all readily obliged. Some support the proposals while others suggest alternatives. But, strikingly, nearly all agree with the underlying goals and our research-backed contention that progress toward remedies has been too halting, scattered, and slow.

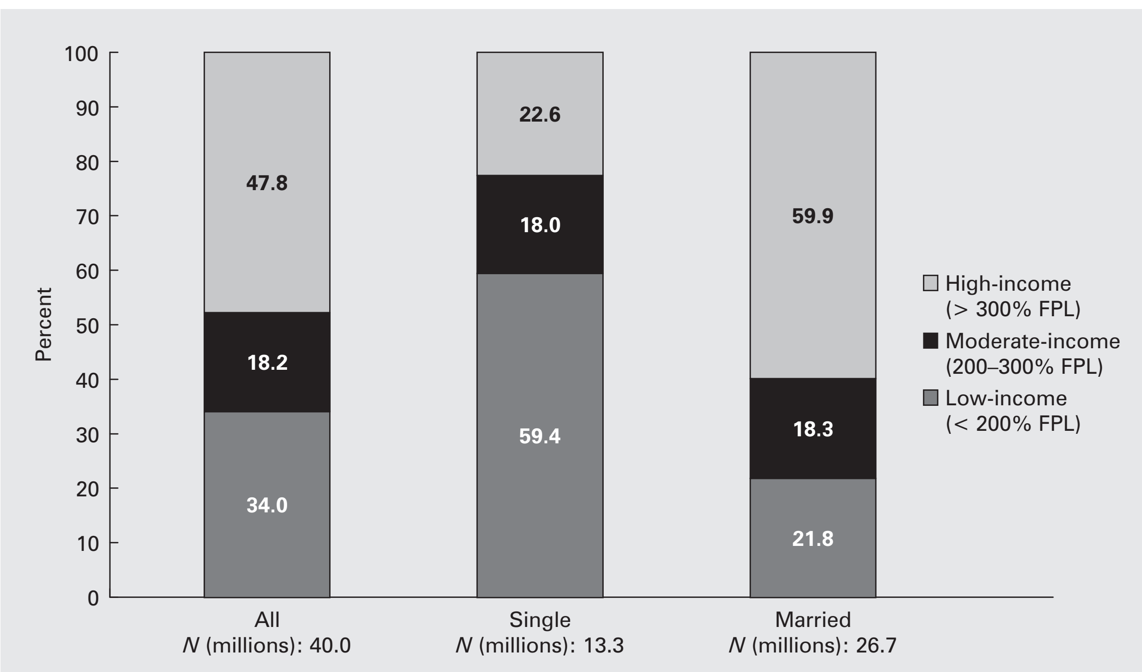
Below we describe the work and wages of low-income families, summarize gaps in current employment and government supports, and synthesize the policy ideas developed by the researchers who address these national challenges in more depth.

Low-Income Working Families Are at Risk

One in three families with children had incomes below twice the federal poverty level in 2006 ($40,888 for a family of four with two adults and two children) (figure 1). This threshold roughly indicates the minimum that families need to cover the median basic family budget defined by the Economic Policy Institute (Allegretto 2005) and by the "self sufficiency standard" developed by Wider Opportunities for Women (2007).[1] As Acs and Turner explain, these families do not reliably earn enough to cover the costs of such necessities as housing, health care, and child care. Even one in five moderate-income families with children—families with incomes between two and three times the poverty threshold—struggle to pay for their families' basics.

Low income is particularly a reality for lone-parent families. Nearly three in five single-parent families have incomes below twice the poverty level in 2006. Only one in five has income above three times the

FIGURE 1. Income of Families with Children Relative to the Federal Poverty Level (FPL), 2006



Source: March 2007 Current Population Survey.

poverty level. Nationwide, single-parent families compose one-third of all families with children but over half (57.6 percent) of low-income families.

Low incomes can reflect working too few hours or earning a low wage, or both. We categorize families' work hours as high intensity if at least one parent works full time year round, medium intensity if either parent works a full-time job for part of the year or a part-time job for the full year, and low if work hours fall below these thresholds.[2] The numbers who are self-employed or who do no paid work afford additional insight into low-income families' needs. Ineligible for unemployment insurance or group health insurance, self-employed families have no employment-based safety net. Families without paid work need specialized services to help them move into the labor market and need basic income supports during this important transition.

Parents Work a Lot

Nearly 9 in 10 families (92 percent) with children worked in 2006, including 1 in 10 families that were self-employed (table 1). Nearly 7 in 10 fall in the high-intensity work category—meaning at least one parent works full time, year round.[3] Even though low-income families worked substantially less than higher-income families, nearly half (48.6 percent) fall in the high-intensity category, while another 17.8 percent work a moderate amount, 5.6 percent a low amount, and 8.2 percent work for themselves. Simms shows that many families with moderate and low work hours experienced one or more spells of unemployment during the year. Families within the moderate-income group work substantially more, exceeding the national averages for all families with children, and most work without interruption.

Not surprisingly, work status varies by family structure (figure 2). Most married-parent families (65 percent) meet the high-intensity work threshold, but only 36.5 percent of single parents do. Child care demands and other barriers to employment often limit single parents' work. Many (38.2 percent) fall in the low-work or no-work categories

The shares of families with no paid work vary the most by income group. Nearly one in five low-income families with children had no paid employment during 2006. In many cases, the working-age adults have health problems or disabilities that rule out or complicate sustained work. Loprest and Martinson document that most of these families receive no disability benefits and suggest that such households need specialized supports to find and keep jobs.

Jobs Do Not Pay Enough

Despite the increased income from working longer hours, even low-income families in the high-intensity work category made only about $25,000 during 2006 (roughly 22 percent above the poverty level for a family of four), as shown in table 2.[4] Those in the medium– and low–work intensity categories earned only about $13,860 and $6,300, respectively.

Earnings for single-parent families lag far behind those for married couples. While single parents in the high–work intensity category earn $19,900 (still enough to stay 22 percent above the federal poverty level if their family has three members, the average for one-parent households), most work less than full time and earn much less. On average, single parents earned $10,730 in 2006—below the poverty level for a family of three. Average earnings rise to $15,280 if the 2.7 million single parents with no earnings are excluded, but still under the $16,242 poverty threshold for a family of three in 2006. In short, the

TABLE 1. Parents' Work Status

Work status	Low-income	Moderate-income	All
All Parents			
High-intensity	*48.61*	*77.39*	*68.94*
All full time full year	25.06	40.80	37.64
One full time full year and some other work[a]	6.80	17.28	14.97
One full time full year and no other work	16.75	19.31	16.33
Medium-intensity	*17.84*	*8.33*	*9.74*
All full time part year	8.62	3.94	4.68
One full time part year and some other work[b]	1.12	1.24	0.99
One full time part year and no other work	2.71	1.40	1.43
All part time full year	4.38	1.40	2.12
One part time full year and one part time part year	0.16	0.15	0.10
One part time full year and no other work	0.85	0.20	0.42
Low-intensity	*5.57*	*1.16*	*2.37*
All part time part year	5.05	0.97	2.11
One part time part year and no other work	0.52	0.19	0.26
Self-employed	*8.21*	*10.89*	*11.32*
No work for either parent	*19.77*	*2.21*	*7.63*
Total %	100	100	100
Total number of families (thousands)	13,726	7,296	40,026
Percent of all families	34%	18%	100%

Source: March 2007 Current Population Survey.

Notes: A full-time worker works 35 hours or more a week. A part-time worker works between 1 and 35 hours a week. A full-year worker works 50 weeks or more in a year. A part-year worker works between 1 and 50 weeks in a year. Children under 18 in the family can include one's own child, grandchild, brother/sister, or other relative. A married parent is one whose spouse is present. A single parent is one who is either widowed, divorced, separated or never married, as well as a married parent whose spouse is absent. Low-income families have incomes below 200% of the federal poverty level (FPL). Moderate-income families have incomes between 200% and 300% of FPL. High-income families have incomes above 300% of FPL.

[a] Includes full-time part-year, part-time full-year, and part-time part-year work.

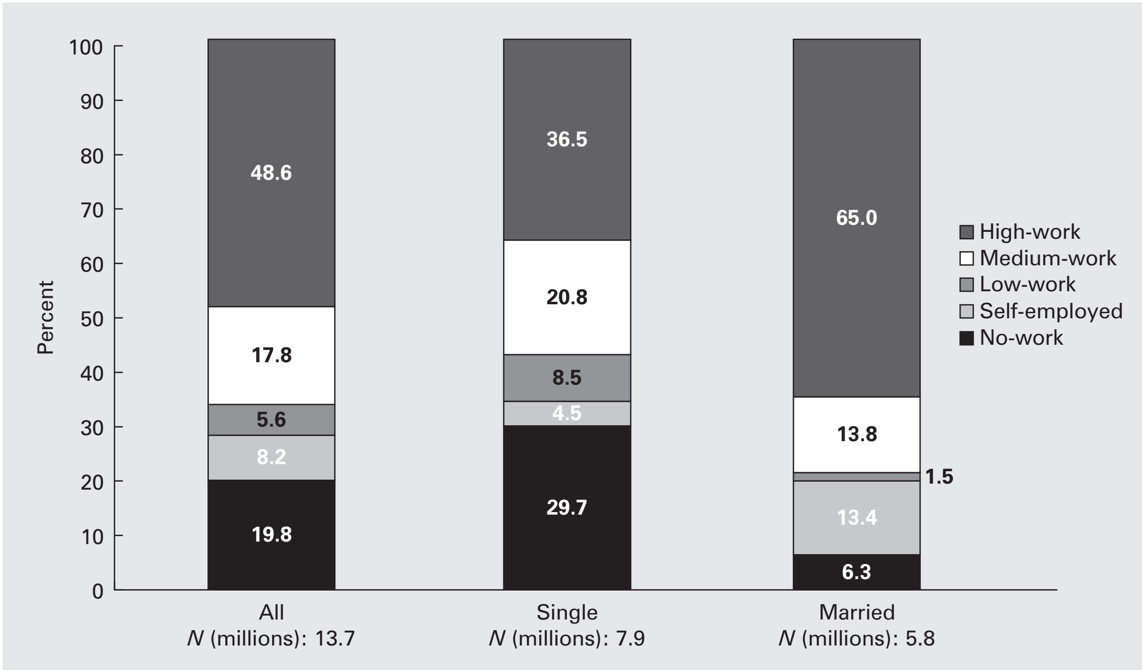
[b] Includes part-time full-year and part-time part-year work.

average child living in a low-income family with a single parent is poor, even though 70 percent of the parents in these families are working.

Low-income families receive the lion's share of their cash income from parents' earnings. In the high–work intensity group, 89 percent of all family income comes from pay for work whether the parents are married or single (table 2). Other cash income plays a bigger role in families that work fewer hours and are more likely to receive welfare, unemployment insurance, disability benefits, child support, and Social Security survivors benefits. These families also more often live with other related adults with some earnings. That explains why total cash family income is 52 percent higher than earnings for single parents and 31 percent higher for married couples in the medium work status category.

On average, single parents earned about $10 an hour and married parents about $11 an hour in 2006, and the median wage rates for each group are about $1 lower. The rate earned per hour far exceeded the $5.15 national minimum in 2006 and the $7 to $8 an hour minimums in states with the highest minimum wage laws. As Acs and Turner explain, earnings alone, even with a full-time job, often cannot cover basic family

FIGURE 2. Work Status of Low-Income Families by Family Structure, 2006



Source: March 2007 Current Population Survey.

Note: High work intensity includes families with at least one parent working full time, full year; medium intensity includes families working full time, part year and part time, full year; low intensity includes families working part time, part year (see table 1).

needs, especially in metropolitan areas with high housing costs. The costs of housing, health care, child care, and now food and gasoline have been growing faster than wages. Families that cannot make ends meet thus face painful choices about whether to miss a mortgage or rent payment, forgo medical care, or skip meals. Some try to manage by racking up debt. Many suffer high rates of deprivation and hardship.

The Prospects for Significant Earnings Growth Are Dismal

Holzer and Martinson show that workers' wages tend to remain constant (after adjusting for inflation) over long periods. One study finds that 80 to 85 percent of workers in low-income families had persistently low wages over the six-year period ending in 2001.[5] Another finds that only a small fraction of workers with low wages experience a substantial and lasting jump in their earnings over time.[6] And this second study's ethnographic data highlight how family responsibilities, rocky marital histories, and mental health problems interfere with parents' earnings mobility. Other studies emphasize that even workers that achieve moderate wage growth on a low salary remain low income.

Policies emphasizing work for moving families out of poverty, originally implemented when jobs were plentiful, now must operate in a weaker economy when workers with low wages and poor educations have been losing ground. Real annual earnings for men at the 10th, 25th, and even the 50th percentile of the earnings distribution fell between 1979 and 2004 (Berlin 2007). As causes, researchers most frequently cite technological advances that create jobs mainly for higher-skilled "knowledge" workers, globalization that has moved many jobs overseas, and the declining rate of unionization. Government investments in training have dropped by 70 percent in real terms over the past two decades.

TABLE 2. Average Earnings and Income in Low-Income Families by Work Status, 2006

	All	Single	Married
Earnings of parents			
All	$16,791	$10,734	$25,029
High-intensity	$25,039	$19,896	$28,965
Medium-intensity	$13,855	$11,172	$19,362
Low-intensity	$6,295	$5,954	$8,850
Self-employed	$21,877	$14,274	$25,346
No work	$0	$0	$0
Wage rate[a]	$10.63	$10.08	$11.19
Median	$9.62	$9.13	$10.26
Family income[b]			
All	$22,482	$17,615	$29,103
High-intensity	$28,200	$23,644	$31,679
Medium-intensity	$19,835	$17,093	$25,461
Low-intensity	$14,793	$14,395	$17,774
Self-employed	$25,897	$19,149	$28,975
No work	$11,556	$11,258	$13,474

Source: March 2007 Current Population Survey.

Note: High work intensity includes families with at least one parent working full time, full year; medium intensity includes families working full time, part year and part time, full year; low intensity includes families working part time, part year (see table 1).

[a] Excludes those with no earnings.

[b] Includes income of all adults in the family, including earnings of other adults.

Employment-Based and Government Supports Don't Do Enough

Increasingly, low-income workers' jobs do not provide such benefits as health insurance, pension coverage, or paid leave. Perry and Blumberg document that (in 2005) only 37 percent of adults in low-income working families had employer-sponsored health insurance and 42 percent had no coverage. Waters Boots, Macomber, and Danziger note that 77 percent of low-income workers (in the bottom quartile of the earnings distribution) get no paid sick leave. Such parents often risk losing their jobs if they stay home to recover from illness or to care for a sick child; at the very least, they will lose much-needed income from lost days at work. Besides this lack of health-related benefits, low-income working parents with young children often face high child care costs. Waters Boots, Macomber, and Danziger point out that children with working mothers average between 22 and 40 hours a week in child care provided by someone other than their parents, and low-income families spend between 16 and 20 percent of their earnings on child care.

Confronting the financial realities facing low-income working parents, policymakers have created such work supports as food stamps, health insurance for children, the refundable earned income tax and child tax credits, and modest child care subsidies. But fewer than 7 percent of low-income working families receive all these supports (Zedlewski et al. 2006). Waters Boots, Macomber, and Danziger note that only about one in seven families eligible for government child care subsidies got them in 2000, and long waiting lists for subsidies indicate substantial unmet need.

Loss of a job can lead to economic disaster. Yet, Simms reports, only 22 percent of unemployed, low-income parents received unemployment insurance benefits in 2006. Either families do not work enough to qualify under current eligibility criteria or they leave a job for a reason other than layoff. Even the lucky few that receive unemployment insurance benefits typically get less than half of what they earned while working—far short of the cost of their families' basic bills.

About four in five low-income working families are "asset poor," lacking enough liquid savings to live for three months at the federal poverty level without earnings, according to McKernan and Ratcliffe. The typical low-income family has limited savings. Fifty-seven percent have a median bank balance of $800. Fewer than half (46 percent) own a home, and the median equity value for those who are homeowners is only $45,000. Eighty-three percent own a car (with a median equity value of $3,700). They have little to draw down when inevitable breaks in employment come without warning.

Low-income parents who have significant barriers to employment such as chronic physical or mental health issues, learning disabilities, or limited education and work experience face the greatest challenges. Welfare programs require work, and those who cannot comply often fall through the cracks. Program resources are stretched just to cover child care costs of working welfare recipients and other very poor families, cash benefits for children who do not live with their parents, and other costs of moving parents into jobs. As Loprest and Martinson explain, few local welfare offices have the resources to provide services that attack the barriers to employment while preparing parents for employment. And programs that provide support for working-age adults with disabilities rarely address the needs of those who could work at least part time if they had some support.

How Could Policies Change to Help Low-Income Families Succeed?

An avalanche of research documents that children growing up in low-income families score worse on a wide range of indicators. Economically secure children tend to be healthier and do better in school; they are less likely to try crime and more likely to graduate from high school and to earn higher incomes as adults. In general, poorer children have fewer opportunities for success (Mayer 1997 and Duncan and Brooks-Gunn 1997 as referenced in Zedlewski 2002).

The realities of today's job market and gaps in the safety net for low-income working families call for a multipronged approach to making work pay, guaranteeing health insurance coverage, supporting children's development while parents work, helping parents move ahead in the labor market, and bridging parents' employment gaps.

Making Work Pay

Gregory Acs and Margery Austin Turner recommend policies to enhance low-income families' purchasing power and reduce unusually high housing costs. One is phasing out the earned income tax credit (EITC) more slowly for families with two or more children (matching the phaseout for families with one child) to encourage additional work and add a few hundred dollars to the annual disposable incomes of those just above the poverty threshold. These researchers propose making the child tax credit refundable starting with the first dollar of earnings, thus bringing the disposable incomes of families who have earnings at about one-half the poverty level (about $10,000 for a family of three) more in line with the costs of necessities.

To make housing costs, the largest expense of low-income families, more affordable, Acs and Turner recommend a new refundable tax credit for both renters and owners and federal incentives to create more affordable housing in areas where housing is expensive. This credit would be available to families whose earnings exceed $10,000 but are less than $49,000 and would vary with the cost of decent housing in the community. The researchers suggest reducing the credit gradually as income rises so it encourages work and earning. Expanding the current tax credit incentives for state and local jurisdictions to increase moderate-cost housing production in geographic areas with the greatest need would complement the proposed changes to the housing incentives.

Guaranteeing Health Insurance

Health insurance arguably serves as a linchpin for any package of supports for low-income families trying to stay afloat or work themselves into better positions. Cynthia D. Perry and Linda J. Blumberg call for comprehensive health insurance reform that extends coverage to everyone. These researchers argue that limiting coverage to low-income working families would create a significant incentive to hold earnings below the maximum eligibility level and, thus, to limit work. Also, with universal coverage in force, uncompensated care payments currently going to health care providers could be redirected to help finance a new, more efficient system of coverage. These health economists acknowledge, however, that a politically viable, practical first step would be phasing in comprehensive reform by initially targeting the low-income uninsured.

Perry and Blumberg advocate moving to an "individual mandate," a legal requirement that everyone enrolls in health insurance coverage that meets the minimum standards set in the law. This system would require new state-designed purchasing pools to offer health insurance to all nonelderly persons, including those with public or state employee coverage. State participation would be voluntary, but strong federal financial incentives would make participation attractive to most states. Subsidies would be available to cover 100 percent of costs for those with incomes below 150 percent of the poverty level and would gradually require families to pay a greater share of their incomes until families at 301 to 400 percent of the federal poverty level would pay 12 percent of their incomes. Families with incomes above four times the poverty level would not receive subsidies. Families that qualify for subsidies and have employer-sponsored insurance would bring their employer's contribution to the pool to offset the government cost. Eventually the purchasing pools would be open to everyone (including employers on the same terms).

Under this individual mandate, Perry and Blumberg argue that most workers would continue getting insurance through their employment (even though many employers might purchase insurance through the new pools). The researchers also recommend strategies to reduce health care costs, including research to identify effective cost-saving strategies.

Supporting Children's Development in Working Families

Shelley Waters Boots, Jennifer Macomber, and Anna Danziger suggest policies for enabling parents to improve prospects for their children and combine work with child rearing. The costs of guaranteed child care assistance for low-income families would be shared by states and federal government and by families, whose co-payment would vary with income level as determined annually. The researchers propose instituting a child care quality rating system to help parents identify the best child care choices. They also recommend making the Early Head Start program a hub that links parents of infants and toddlers to such services as child care, nutrition programs, and health care.

Augmenting direct help with child care, the national sick leave policy proposed by Waters Boots, Macomber, and Danziger would require employers to provide at least seven days of paid sick leave for employees working at least half time. With a national policy, businesses would not be put at a competitive disadvantage because of the state in which they do business. Meanwhile, the federal government should support state efforts to provide employee-financed paid parental leave as well as encourage more employers to permit flexible schedules, as Great Britain recently did.

Moving Ahead in the Labor Market

New proposals are also needed to help parents advance to better-paying jobs and support parents finding it difficult to move into the labor market. Harry J. Holzer and Karin Martinson suggest competitive federal matching block grants that reward states for developing new *advancement systems*. Holzer and Martinson would link new systems to today's state workforce development structures and require partnerships with training providers (such as community colleges), employers, and support services that would allow parents to get training. These arrangements would make it easier for disadvantaged populations to participate in skill-building activities. The new systems would be selected competitively, with states required to evaluate their effectiveness annually.

Pamela Loprest and Karin Martinson suggest a parallel initiative: offering states competitive matching grants to try to integrate programs that alleviate barriers to work (such as mental health and substance abuse services) with employment services and to evaluate these initiatives so policymakers can better understand what works. The researchers also recommend some short-run changes to current programs that would serve that same end—extending the amount of time that state welfare programs can allow recipients to spend in services designed to address barriers (such as mental health counseling or substance abuse treatment) and providing financial incentives to workforce development programs to serve more parents facing steep challenges.

In the longer run, Loprest and Martinson contend, policymakers should consider launching financial aid programs for adults with partial or temporary disabilities. That said, while the need for such programs seems apparent, a host of issues—including assessment and definition of partial disability and maintenance of incentives to work—would have to be addressed in program design. And, a new program would have to be integrated with current programs for adults with disabilities, especially vocational rehabilitation services—a potentially difficult task.

Bridging Gaps in Employment

As family breadwinners, parents must be able to weather inevitable short-term gaps in employment. Margaret Simms recommends adopting the changes advanced in the Unemployment Modernization Act (UMA, now part of the pending Trade and Globalization Assistance Act of 2007) along with some additional measures to address unemployed parents' needs. The UMA would give states federal financial incentives to extend benefits to more workers, such as those with shorter work histories, those seeking part-time work, and those leaving jobs due to domestic violence, illness, disability of a family member, or relocation to accompany a spouse. The UMA also would provide extended payments for workers enrolled in approved training programs, thus complementing the increased training advocated by Holzer and Martinson. Many states have already adopted some of the initiatives Simms suggests. If more did, children in low-income working families would not have to suffer short-term deprivation and the workers would have time to seek jobs that might provide better long-term prospects for them and their families.

To shore up big holes in the safety net for working families, Simms recommends increasing the share of wages that unemployment insurance replaces—currently about 35 percent of wages, on average—and providing benefits to more low-wage parents. All states should, she suggests, provide a uniform minimum of 26 weeks of benefits and add a small payment for dependents of low-wage workers. Another wise move would be switching from total wages earned to time worked in order to estimate workers' eligibility for UI. Simms also recommends providing benefits to job-seeking women who have taken time out for childbearing/rearing or other family responsibilities, provided that these workers were eligible when they left the workplace. Echoing recommendations by Blumberg and Perry, Simms also points out that comprehensive health insurance coverage is necessary to eliminate gaps in health insurance during periods of unemployment.

Families also need savings to finance emergency needs and build their family's long-term economic security. Signe-Mary McKernan and Caroline Ratcliffe suggest a cluster of policies that would improve financial markets and savings opportunities for low-income families across the life cycle. One is increasing competition and regulation in the small loan market, as a few pioneering credit unions and banks have already done. Another is initiating savings accounts for all children at birth with an initial government deposit of $500 and allowing families to add to the tax-free accounts. These economists argue that only a universal program will prompt financial institutions to offer savings accounts with small balances but recommend that only low-income families have tax-free accounts. McKernan and Ratcliffe would restrict use of the funds until the child reaches age 18. At that point, it could be used for any purpose. This approach reduces the administrative burden compared with proposals that restrict the use of savings and require certification documenting its use.

Under the McKernan and Ratcliffe proposal, savings would increase for all low-income families through a dollar-for-dollar federal match on savings from EITC refunds deposited into long-term savings accounts (e.g., Individual Retirement Accounts [IRAs] and Individual Development Accounts [IDAs]) or used to buy U.S. savings bonds. To avoid subprime auto loans that can carry annual interest rates of 25 to 30 percent, they would allow IDA funds be used for vehicle purchase. Under a complementary proposal, a national competitive grants program would be set up to fortify current state and local programs that help low-income families purchase and repair their vehicles. Another related asset-building initiative would make homeownership tax subsidies more progressive and increase oversight of "nonbanks" that provide mortgages to low- and moderate-income families, thus removing some of the excessive risk of homeowning. Finally, automatic IRAs could be used to promote retirement savings by requiring employers that do not offer a pension plan to directly deposit a small percentage of individuals' earnings unless the employee opts out.

What Would It Take to Implement New Policies?

This is a difficult moment to suggest new initiatives requiring additional federal and state expenditures and compelling employers to play a stronger role in supporting low-income families through broader health insurance coverage, retirement savings, and some paid sick leave. Already large, the federal budget deficit appears poised to expand rapidly as the baby boom generation enters retirement. The economy is weak. Employers are facing higher costs even as demand slackens.

Yet, postponing additional investments in low-income working families will cost even more. Families cannot pay their bills, and without health insurance they go too long without care. Investments in families' financial stability through a stronger safety net will improve outcomes for children. For the nation's youngest children, the payoff includes improved cognitive development, which ultimately benefits our economy and society as fewer children end up as poor adults and more are able to meet the labor market demands of the future.

No matter how necessary, the cost of these new investments cannot be taken lightly, so the Urban Institute researchers who developed the proposals presented here have also estimated their costs and suggested ways—primarily through phase-in provisions but, in cases like asset-building and health insurance, also through co-pays by some beneficiaries—to make them affordable. For the same reason, the researchers also point out opportunities to redirect current spending—primarily tax expenditures for the mortgage interest deduction and employer-provided health insurance—to partially or fully fund the new initiatives.

In the short run, achieving the goals behind the proposals put forth here would fulfill the promise of the new social contract introduced in the 1990s. In the longer run, the benefits of implementing these initiatives will reach far beyond helping low-income families. Increasing the number of families on a solid economic footing will strengthen the nation's competitive advantage in the global economy. Surely, parents with health care, with jobs that provide benefits, and with just enough government support to make them confident that they can meet their families' basic needs will be more productive workers and more successful. Their children—nurtured in supportive families and positive learning environments—will contribute more to our future economy. These results more than justify the cost of the investments proposed here.

NOTES

1. The basic family budgets and self sufficiency standards vary substantially by geographic location. The median values across the United States, however, come to approximately two times poverty for a family of four (two parents and two children) and 2.2 times poverty for a family of three (one parent and two children).
2. This categorization generally follows that used in other papers in the Institute's Low-Income Working Families series (Acs and Nichols 2005).
3. A full-time worker is defined as working 35 hours or more a week, and full year is defined as working 50 weeks or more in a year. Families that rely on self-employment are categorized separately because they fall outside the employment-based safety net; 73 percent of these families report working high-intensity hours.
4. On average, low-income families have 2.0 children, including 2.3 children for married parents and 1.8 children for single parents (authors' tabulations of the March 2007 Current Population Survey).
5. Andersson, Holzer, and Lane (2005) analyze advancement rates of prime-age workers who were persistently low earners during the 1993–95 period and report advancement by the years 1999–2001. These authors use a sample of administrative earnings data linked by individual across time, providing a very accurate picture of earnings over time.
6. Connolly, Gottschalk, and Newman (2003) base these conclusions on analysis of wage growth among food service workers in the Survey of Income and Program Participation over the 1993 through 2000 period. They find that 13 percent of families and 17 percent of men achieve significant wage gains over a four-year period (defined as $5/hour increase over four years). They also complement these findings with ethnographic data to document how different family experiences tend to affect earnings growth.

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